Absa Bank Limited

Annual consolidated and separate financial statements for the reporting period ended 31 December 2020

Contents

Absa Bank Limited

(1986/004794/06)

Annual consolidated and separate financial statements for the reporting period ended 31 December 2020

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

Directors' approval

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditor's responsibility statement set out on page 19, is made to distinguish, for the benefit of shareholders, the respective responsibilities of the Board of Directors (the Board) and of the auditor in relation to the consolidated and separate financial statements of Absa Bank Limited and its subsidiaries (the Bank).

The Board is responsible for overseeing the preparation, integrity and objectivity of the financial statements that fairly present the state of the affairs of the Bank and Absa Bank 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 Board 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 Bank'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 Bank 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 Bank's internal audit and compliance functions, which operate unimpeded and independently from operational management and have unrestricted access to the Group Audit and Compliance Committee (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 auditor is 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 Bank's systems and processes appropriately reflect the current legal and regulatory environment, refer to note 45.
- The Bank 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 Board is 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 Bank and the Company have been prepared in accordance with the provisions of the Companies Act and the Banks Act, 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 Board has no reason to believe that the Bank 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 auditor to report on the financial statements. Their report to the shareholders of the Bank and the Company is set out on page 13 of this report.

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

W E Lucas-Bull
Group Chairman

D Mminele
Group Chief Executive

Johannesburg
14 March 2021

Chief Executive Officer and Chief Financial Officer Responsibility Statement

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

a) the annual financial statements set out on pages 1 to 228, 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.

D Mminele
Group Chief Executive

J Quinn
Group Chief Financial Officer

Johannesburg
14 March 2021

Group Audit and Compliance Committee report

This report, issued by the Committee, provides stakeholders with a summary of activities for 2020 while taking into account, the requirements of section 94(7)(f) 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) and other regulatory requirements.

As a whole, the members have the necessary financial literacy, skills and experience to execute their duties effectively. Further information on the membership and composition of the Committee, are set out in the Committee's mandate on the Group's website.

The Committee, all independent non-executive board members, held six meetings in 2020. The management team is regularly engaged and the Chief Internal Auditor and the external auditor have direct access to the Committee, including closed sessions without management, on any matters that they regard as relevant to the fulfilment of the Committee's responsibilities.

Member	Meeting attendance
Colin Beggs[1]	3/3
Alex Darko	6/6
Daisy Naidoo	6/6
Mohamed Husain[2]	3/3
Tasneem Abdool-Samad (Chairman)[3]	6/6
Swithin Munyantwali[4]	5/6

Significant matters considered by the Committee included:

Matter	Committee action, discussions and decisions
1. Expected credit losses	• The committee reviewed and challenged management's approach and analysis of IFRS 9 expected credit losses in light of the Covid-19 pandemic. • Careful consideration was given to key judgements and assumptions used in the calculation of the expected credit losses, including the forward looking macroeconomic assumptions used and the reasonableness of management adjustments. • Discussions were held with the external auditor to assess the reasonableness of management's assumptions and expected credit losses against their understanding of the factors based on independent data. • The committee assessed the governance process over the approval of macro-economic forecasts and related ECL impacts. • The committee focused on the additional disclosures in the financial statements to allow for better understanding of the management adjustments applied.
2. Valuation of complex financial instruments	• The committee reviewed the fair values and valuation methods of the significant assets and liabilities held by the Group, including unlisted equities, other hybrid securities and investment properties. • Particular attention was given to assumptions that may have been affected by Covid-19.
3. Separation	• The committee received regular updates on Separation activities. • Separation assurance work continued as per normal despite the emergence of the Covid-19 pandemic and its resulting impact on business. The separation program has been significant and was completed. • The committee reviewed the significant assumptions and judgements that underpin the recognition of intangible assets; as well as any indicators for impairment due to separation as well as the emergence of the Covid-19 pandemic.
4. Control environment	• A Covid-19 impact combined assurance plan was formulated to monitor and respond to the heightened risks caused by the pandemic. The elevated impact on Credit, Conduct, Operational, Insurance, Technology and Market risks were considered in the plan. Key risks reviewed as part of the plan include Fraud, Conduct, Credit, Supplier, Data, Privacy and Management, Resilience, Cyber, Process Management, Information security, Market, Payments, Regulatory and People management and employee wellness. • Resources were allocated in line with risk based priorities. The committee closely monitored the execution risk of the plan. • The committee monitored the Group's operational risk and its response thereto, underpinned by the following: ◦ Bespoke daily Covid-19 governance across the Group ◦ Active Internal, industry and regulatory engagement across the Group ◦ Use of internal and external specialists ◦ Intensifying monitoring of key metrics • The Group's control environment remained stable and the additional control measures taken during the period mitigated the increased control risk introduced by the Covid-19 pandemic. • The committee received 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. • The committee confirmed that the finance function meets the King IV requirements to fulfil all financial reporting and control functions.

[1] Colin Beggs has stepped down as chairman and became an attendee of the GACC upon becoming a non-independent non-executive director on 4 June 2020. He has attended 3 meetings in the capacity as chairman and 3 meetings as an attendee.

[2] Mohamed Husain retired as Board and GACC member on 4 June 2020.

[3] On the 4th June 2020, Tasneem Abdool-Samad was appointed as chairman. She has attended 3 meetings as the Chairman and 3 meetings as a member of the GACC.

[4] Swithin Munyantwali was appointed as a member on 1 March 2020.

Significant matters considered by the Committee included: (continued)

Matter	Committee action, discussions and decisions
5. Audit tender process	• Following a robust tender process, in anticipation of Mandatory Audit Firm Rotation (MAFR) and to meet the joint auditor requirement, KPMG was identified as the proposed joint auditor with EY for the reporting period ending 31 December 2021, subject to regulatory and shareholder approval (at the upcoming AGM). EY will rotate off on conclusion of the 2021 audit. As part of the tender process, PWC was identified as the proposed joint auditor with KPMG for the reporting period ending 31 December 2022, once EY's term ends and will follow the required regulatory and shareholder approval in due course.
6. Compliance	• The Committee approves the Compliance coverage plan which forms part of the three lines of defence model. Reviews are defined as independent assessments that required outcomes are being achieved through effective controls, cultures and behaviours. Testing results provide assurance that business activities comply with laws, regulations, compliance policies and supervisory requirements of various local jurisdictions in which the Group operates. Review results also provide management and the Compliance function with a view as to how the control environment, attitudes and behaviours are supporting the Group in achieving outcomes that mitigate Conduct risk.
7. Fraud management	• In anticipation of increased threats due to the Covid-19 pandemic, the Group has put measures in place to strengthen the fraud infrastructure, ensure consistency in the treatment of known and emerging risks, bolster the analytics and monitoring capability, and ensure consistent communication to customers and staff. • Additional reviews have been implemented in order to monitor insider fraud and cyber management in the current work from home environment. The fraud operating model is continuously amended and expanded to ensure sufficient coverage of insider fraud in the context of fraud overall. • The committee continuously monitors the effectiveness of the Group's fraud risk operating model.

External audit

The Committee is responsible for the appointment, compensation and oversight of the external auditors, including assessment of independence. In 2020, the Committee:

- Ensured that the external auditor appointment complied with the Companies Act, the JSE Listings Requirements and all other applicable legal and regulatory requirements.
- Approved the:
  - External audit plan to address significant focus areas, which similarly receive focus by the Committee and specifically considered the external auditor's findings in this regard.
  - Budgeted fee for the current reporting period and the terms of engagement of the external auditor.
  - Group's policy on allowable non-audit services permitted to be provided by the external auditor.
  - Proposed engagements, including proposed fees, with the external auditor for the provision of non-audit services taking into account the non-audit services policy. These engagements were evaluated by either the Committee Chairman or the Committee as a whole who, before confirming any approval, assured themselves that there was justifiable reason for engaging the auditor and that its independence and objectivity would not be threatened.
- Assessed the quality and effectiveness of the external audit function, including receiving confirmation that there was no restriction on scope or access, and concluded that the process had been satisfactory.
- Ensured that adequate time was set aside for private discussions with the external auditor.
- Confirmed that the external auditor would attend and address queries at any general shareholders' meeting.
- 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.
- Reviewed the findings and recommendations of the external auditor and confirmed that no unresolved issues of concern exist between the Group and the external auditor in relation to the Group or any of its business units and subsidiaries.

The Committee is satisfied that EY is independent of the Group. This conclusion was arrived at by taking, inter alia, the following factors into account:

- Conducted an accreditation review as requested by the JSE on the quality processes of EY, including the review of reports of the Independent Regulatory Board for Auditors (IRBA) relating to the firm and the Group reporting auditor and verified credentials of the reporting auditor to conduct audits of listed companies;
- Criteria specified for independence by the IRBA;
- A submission from EY setting out the terms and conditions on which EY agrees to act as independent auditor of the Group for the 2020 year, including the respective responsibilities of directors and auditors;
- Confirmation from the external auditors that they were not aware of any relationships during the year that may reasonably be thought to bear on their independence in respect of the statutory audit; and
- Representations from EY confirming their independence and that nothing had taken place which would impair this at any time, including obtaining confirmation that no restrictions had been placed upon EY that limited their scope or access.

The Committee confirmed that:

- The auditor did not, except as external auditor or in providing permitted non-audit services, receive any other remuneration or benefit from the Group.
- The auditor's independence was not impaired by any consultancy, advisory or other work undertaken by the auditor.
- The auditor's independence was not prejudiced as a result of any previous appointment as auditor.

Group Audit and Compliance Committee report

Financial statements and accounting practices

The Committee is responsible for ensuring that the Group's financial reporting information is valid, accurate and complete and that the interim financial results and annual financial statements fairly present the financial position of the Group and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and Interpretations of IFRS, and the SAICA Reporting Guides. During the reporting period the Committee:

- Satisfied itself on the appropriateness of the going concern assumption as the basis of preparation of the interim and annual financial statements.
- Confirmed, through consultation with Internal Audit, that the Group's internal controls support the preparation of consolidated financial reporting information.
- Recommended to the Board for approval:
  - Interim financial results and annual financial statements and reporting thereon on the Stock Exchange News Services (SENS).
  - Reporting changes announced on the SENS in respect of the current year.
  - The interim and final preference share dividend proposals for approval by the Board.
- Considered:
  - That the effects of the Barclays PLC separation to the reported results for the year ended 31 December 2020 have been opined on in terms of ISAE 3402 by the External auditor as per the JSE requirements.
  - The accounting policies and practices and the controls of the Group to ensure they are adhered to.
- Reviewed:
  - Significant accounting and reporting issues, sustainability of the control environment, significant judgmental areas, and recent professional and regulatory pronouncements, and ascertained their impact on the financial statements.
  - The tax governance, tax philosophy and significant tax matters arising during the reporting period. Significant matters which are not a normal part of the Group's business, but which are referred to the Committee by the Board or management.

Solvency and liquidity tests

- The GACC considered (a) the compliance of Absa Bank Limited (Bank or the Company) with sections 45 and 46 of the Companies Act, No 71 of 2008 (the Companies Act) in respect of the granting of financial assistance, and the distribution of a preference dividend; and
- (b) sections 4 and 45 of the Companies Act pertaining to solvency and liquidity, and recommended to the Bank Board the passing of a resolution that Absa Bank's assets, as fairly valued, equal or exceed the liabilities of the Company, fairly valued; and it appears that the Company will be able to pay its debts as they become due in the ordinary course of business for a period of 12 months and in the case of a dividend distribution, for 12 months following the date of actual distribution.

Internal Audit and the internal control environment

The Committee utilises the skills and expertise of Internal Audit to review the Group's internal control environment and thus must monitor and review the effectiveness of Internal Audit and ensure that the function is free to work independently and objectively. The Committee:

- Approved the Group's Internal Audit charter, noting the changes to the purpose, authority and responsibility of Internal Audit.
- Reviewed:
  - Internal Audit's strategy, which specifically focuses on Separation as well as the Group's new corporate strategy.
  - The adequacy of Internal Audit's skills, resources and budget.
  - Management's actions in remedying control deficiencies reported by Internal Audit.
- Confirmed that there was no restriction on scope or access, and noted the completion of the current reporting period's internal audit plan. The risk-based audit plan included several audits to test financial reporting internal controls as well as business monitoring activities to support the Group's control environment assessment and inform Internal Audit's planning activities.
- Considered a special report on the fraud risk management capability across the Group including the converged security strategy adopted by the Group.
- Assessed the competency of the Internal Audit function and the then Acting Chief Internal Auditor to be appropriate.

Compliance, legal and regulatory requirements, to the extent they may have an impact on the financial results

The Committee monitors the Group's compliance with legal mandates and applicable regulatory requirements. During the reporting period the Committee:

- Approved:
  - The Group's compliance monitoring plan, methodology and structure, as well as the Group's compliance coverage plan and compliance charter.
  - The regulatory compliance risk control framework and applicable compliance policies, which include the requirements for the Group to comply with applicable laws, rules, codes and standards.
- Ensured that:
  - The Group has the necessary infrastructure in place to risk score the customer base, allowing effective and appropriate due diligence standards, and ensuring that the Group's risk-based approach methodology has been successfully implemented into this solution.
  - Procedures are in place for receiving reports from internal lawyers (and, where relevant, external lawyers) relating to breaches of laws and regulations.
  - Adequate time was set aside for private discussions with the Acting Chief Internal Auditor and Chief Compliance officer.

Group Audit and Compliance Committee report

Compliance, legal and regulatory requirements, to the extent they may have an impact on the financial results (continued)

- Reviewed:
  - Compliance practices and procedures for enabling the directors of the Group to discharge their regulatory responsibilities.
  - The Banks Act, No. 94 of 1990 (the Banks Act) section 64B (2)(e) statement as to the Directors' Affairs Committee, and recommended this to the Board for approval.
  - Monitored the Group's approach to risk assessment to ensure the integrity of the Group's internal controls.
  - The overall status of compliance in the Group and any significant breakdowns that could cause material loss or penalty.
- Considered:
  - Compliance with Regulation 40(4) of the Banks Act, including the annual review of material malfunction, and recommended this to the Board for approval.
  - The adequacy of resources and budget available to Group Compliance.
  - Any significant compliance risk matters reported by Group Compliance and monitored progress in rectifying these matters.
- Satisfied itself that the functioning of Group Compliance is in line with relevant regulatory requirements, including without limitation, section 60A and regulation 49 of the Banks Act; Financial Advisory and Intermediary Services Act, No. 37 of 2002 (FAIS), section 17 and regulation 4, regulation 5 and Board Notice 126 and 127, Financial Intelligence Centre Act, No. 38 of 2001 (FICA), section 42 and King IV, Principle 6.
- Assessed the adequacy and effectiveness of Group Compliance's performance, including receiving confirmation that there was no restriction on scope or access.
- Received confirmation that all significant control issues, are reported in a timely manner to the relevant Group governance structures.

Governance, risk management and control effectiveness

The Committee satisfied itself with the degree to which management has assumed ownership for risk and control and that the key business risks are identified, evaluated and managed. It also monitored whether controls are fit for purpose and that they are working as intended and that a rigorous and comprehensive review process is in place. During the reporting period the Committee:

- Received a statement (in accordance with King IV requirements) from Internal Audit on the effectiveness of the Group's governance, risk management and control processes. The statement confirmed that:
  - The Group has an established risk and control governance structure and a formally approved risk management framework in place which is reviewed and refreshed to respond to developments in the Group's business environment;
  - Clear lines of defence are defined, with primary ownership of risks and controls in the first line of defence, while the second line of defence own policies and responsibility for independent oversight of the first line of defence; and
  - The Group has a combined assurance model in place, which is continuously refined in conjunction with Internal Audit and External Audit to optimise assurance activities.
- Confirmed that, where the need for improvement was identified, corrective actions have been taken by management or are in process, with progress being tracked to completion. These required improvements are not indicative of any pervasive breakdown in the effectiveness of the Group's governance, risk management and control processes.
- Confirmed that management's remedial actions implemented throughout the reporting period have benefited the Group's governance, risk management and control processes.
- Reviewed the Chief Risk Officer's report, the key risk and combined assurance assessments, as well as the risk and control assessments

Quality and integrity of the integrated report

The Committee is responsible for evaluating the integrated report to ensure that it complies in all material respects to laws and regulatory requirements. During the reporting period the Committee:

- Reviewed stakeholder feedback on the Group's 2019 Integrated Report.
- Reviewed the integrated reporting process which includes reporting on sustainability matters, having regard for all factors and risks, including significant legal and tax matters and any other concerns identified which may impact on the integrity of the Integrated report or that could have a material impact on the financial statements.

Group Audit and Compliance Committee report

Regulatory and corporate governance requirements

In accordance with the provisions of the JSE Listings Requirements, the Committee:

- Completed the annual assessment of the suitability for re-appointment of the Group's current audit firm, EY, and designated individual partner including confirmation that the appointed external auditor is duly accredited on the JSE's list of auditors, subject to approval of shareholders;
- Completed the assessment of the suitability for appointment of KPMG as joint auditor for the year ending 31 December 2021; both as audit firm and designated individual partner, including confirmation that the appointed external auditor is duly accredited on the JSE's list of auditors; This appointment is pending final appointment by the shareholders of the company in annual general meeting.
- Determined that the Group Financial Director, J P Quinn, has appropriate expertise and experience; and
- Is satisfied that the composition, experience and skills set of the finance function are adequate to fulfil all financial, control and reporting requirements of the Group.

The separate audit committees of material subsidiaries are overseen by the Group Committee, and together with the chairmen of these audit committees, determine that the control environment of material subsidiaries is satisfactory.

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 took place that resulted in material loss to the Group.

The Committee reviewed the Group and separate Company financial statements for the year ended 31 December 2020 and recommended them to the Board for approval on 14 March 2021.

On behalf of the Committee

T Abdool-Samad
Chairman of the Committee

Johannesburg
14 March 2021

Directors' report

General information and nature of activities

Absa Bank Limited (the Company) is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, and wealth management products and services. The Company and its subsidiaries (the Bank) operate primarily in South Africa and employ 27 160 people. The address of the registered office of the Bank is 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001. The Company has preference shares listed on the JSE Limited.

The Bank is a subsidiary of Absa Group Limited.

The Bank is one of South Africa's largest financial services organisations, serving retail, business and corporate customers and clients in South Africa. The Bank also provides products and services to selected markets in Nigeria and Namibia.

The Bank 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 Absa Group Limited Board, on 14 March 2021.

The financial statements present the financial positions, results of operations and cash flows of the Bank and the Company for the reporting period ended 31 December 2020.

Absa Group Audit and Compliance Committee report

Refer to page 3.

Bank results

Main business and operations

The Bank recorded a decrease of 81% in headline earnings to **R1 402m** (2019: R7 320m) for the reporting period. Headline earnings per share (HEPS) and fully diluted HEPS decreased by 81% to **312.7 cents** (2019: 1 632.8 cents). Refer to note 34 for the headline earnings note.

Some segmental comparative information contained in this set of financial statements has been restated due to business portfolio changes, refer to note 1.19 of the accounting policies and note 49.1 for further details.

Headline earnings was derived from the following activities:

	Bank	
	2020 Rm	2019 Rm
Retail and Business Banking South Africa (RBB SA)	**2 891**	7 900
Corporate and Investment Bank South Africa (CIB SA)	**2 405**	2 487
Head office, Treasury and other operations in South Africa	**(2 642)**	(1 747)
Barclays PLC separation	**(1 252)**	(1 320)
Headline earnings (refer to note 34)	**1 402**	7 320

Details of the members of the Board:

Name	Position as director	Current reporting period
W E Lucas-Bull	Independent non-executive director, Chairman	
C Beggs	Independent non-executive director	Retired 4 June 2020
R van Wyk[1]	Chief Executive Officer	Appointed 1 March 2019, resigned 14 January 2020
D Mminele	Group Chief Executive	Appointed 15 January 2020
J P Quinn	Financial director	
M J Husain	Lead independent director	Retired 4 June 2020
S M Pityana	Lead independent director	Appointed 4 June 2020
T Abdool-Samad	Independent non-executive director	Appointed 4 June 2020
A B Darko	Independent non-executive director	Resigned 31 August 2020
M S Merson	Independent non-executive director	
F Okomo-Okello	Independent non-executive director	Appointed 4 June 2020

[1] René van Wyk was an independent non-executive director until 31 January 2019, and became an executive on 1 February 2019, prior to his appointment as Chief Executive Officer, on an interim basis, from 1 March 2019 up until 14 January 2020.

Directors' report

Re-election of retiring directors

In line with international best practice, the Company has a requirement in terms of which all directors on the Board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting (AGM).

In terms of the Company's Memorandum of Incorporation (MOI), one-third of the directors are required to retire at each AGM and may offer themselves for re-election.

Directors' interests in Absa Bank Limited preference shares

As at the reporting date, no director held any preference shares in the Company.

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 share awards (Absa Group ordinary shares), the details of which are included in note 57.

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

Directors' and prescribed officers' emoluments

The emoluments and services of executive directors are determined by the Absa Group Limited Remuneration Committee (Remco) as disclosed in note 57.

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 40 to the consolidated financial statements.

Acquisitions and disposals during the current and prior reporting periods

Apart from non-current assets/liabilities held for sale disposed of (refer to note 7) there were no other disposals of businesses that were finalised during the current reporting period. The cash consideration received on disposals included in non-current assets/liabilities held for sale was **R3 706m**.

Covid-19 response

The Board oversaw the Bank's response to the Covid-19 pandemic and focused on supporting our customers, clients and stakeholders, protecting the health and wellbeing of our workforce 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.

Barclays Separation

The Separation Programme was completed within agreed timelines. All 273 projects achieved Separation and 198 service schedules were terminated. The final Separation Forum was held on 15 December 2020, where all formal closures were approved. The South African Reserve Bank (SARB), Absa Regional Operations (ARO) as well as the United Kingdom (UK) regulators have since been informed that Barclays PLC and Absa Group Limited have concluded and closed the Separation Programme.

Dividends

- On 10 March 2020, a final dividend of 3 469.32 cents per preference share was approved. The dividend was announced on 11 March 2020 to preference shareholders registered on 17 April 2020. The dividend was payable on 20 April 2020.
- On 10 March 2020, a final dividend of 446.129 cents per ordinary share was approved. The dividend was announced on 11 March 2020 to ordinary shareholders registered on 17 April 2020. The dividend was payable on 20 April 2020.
- On 24 August 2020, an interim dividend of 2 741.03 cents per preference share was approved. The dividend was announced on 25 August 2020 to preference shareholders registered on 18 September 2020. The dividend was paid on 21 September 2020.
- On 14 March 2021, a final dividend of 2 429.86 cents per preference share was approved. The dividend was announced on 15 March 2021 to preference shareholders registered on 16 April 2021. The dividend is payable on 19 April 2021.
- In line with previous guidance, no ordinary dividend was declared for the period, given our focus on capital preservation in the current environment.
- Refer to Note 37 for the Common Equity Tier 1 distribution.

Directors' report

Special resolutions

The following special resolutions were passed by the Bank's ordinary shareholders at the AGM held on 03 June 2020, 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 for their services as directors of the Company for the period 1 June 2020 to and including the last day of the month preceding the date of the next AGM thereafter.

- **Special resolution number 2 – 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

Auditor

Ernst & Young Inc was appointed as auditor of the Group for the 2020 reporting period, effective 1 January 2020. E van Rooyen is the individual registered auditor that has undertaken the audit. Ernst & Young Incorporated (EY) will remain the sole auditor for the 2020 financial year and will act as joint auditors with KPMG for the 2021 financial year. 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.

Authorised and issued share capital

Authorised

The authorised ordinary share capital of the Company of **R322 500 000** (2019: R322 500 000) consists of:

- **320 000 000** (2019: 320 000 000) ordinary shares of R1.00 each;
- **250 000 000** (2019: 250 000 000) 'A' ordinary shares of R0.01 each.

The authorised preference share capital of the Company of **R300 000** (2019: R300 000) consists of:

- **30 000 000** (2019: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each.

Issued

No additional 'A' ordinary shares were issued in the current reporting period (2019: 16 983 265).

The total issued ordinary share capital at the reporting date, consists of:

- **302 609 369** (2019: 302 609 369) ordinary shares of R1.00 each;
- **145 691 959** (2019: 145 691 959) 'A' ordinary shares of R0.01 each.

The total issued preference share capital at the reporting date, consists of:

- **4 944 839** (2019: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0.01 each.

Shareholder information

	2020			2019		
	Number of shareholders/ note holders	Number of shares/notes	% held	Number of shareholders/ note holders	Number of shares/notes	% held
Non-public shareholders						
Ordinary shares		302 609 369	100.0		302 609 369	100.0
Absa Group Limited		302 609 369	100.0		302 609 369	100.0
'A' ordinary shares		145 691 959	100.0		145 691 959	100.0
Absa Group Limited		145 691 959	100.0		145 691 959	100.0
Public shareholders						
Preference shares	4 525	4 944 839	100.0	4 354	4 944 839	100.0
Standard Chartered Bank	11	253 178	5.1	12	219 884	4.4
Standard Bank	400	1 007 221	20.4	374	1 141 643	23.1
Nedbank Investor Services	34	796 898	16.1	37	705 548	14.3
Other preference shareholders	4 080	2 887 542	58.4	3 931	2 877 764	58.2

The additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Bank 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 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 **R7 004 000 000** (2019: R5 795 000 000).

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

In accordance with the provisions of the Companies Act, I certify that, in respect of the reporting period ended 31 December 2020, 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
14 March 2021

Independent auditors' report to the shareholders of Absa Bank Limited

Independent Auditor's Report

To the Shareholders of Absa Bank Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Absa Bank Limited and its subsidiaries ('the group') and company set out on pages 20 to 228, which comprise of the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies however excluding the sections marked as 'unaudited' in Impact of Covid-19 note, note 44, 54.5.2 for consolidated statements and note 39 for company statements.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group and company as at 31 December 2020, 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 and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated and separate financial statements* section of our report. We are independent of the group and company in accordance with the 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 of the group and company and 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 of the group and company and 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

The Key Audit Matters apply to the audit of the consolidated and separate financial statements.

Level	Key audit matter
Absa Bank Limited Absa Bank Company	**Expected credit losses** The disclosure associated with Credit Risk 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 35) • Note 8 – Loans and advances to customers (page 65) • Note 54.2 – Credit risk (page 141) • Impact of Covid-19 note (excludes any numbers marked as unaudited) (page 20)

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td></td><td>We identified the audit of expected credit losses (ECL) as a key audit matter considering the following:
• Absa's loan and advances to customers are material to the consolidated financial statements;
• The high degree of estimation uncertainty, significant judgements and assumptions applied in estimating ECL on loans and advances to customers; and
• The Covid-19 pandemic has created significant economic volatility and uncertainty, requiring increased subjective management judgement in developing its economic forecasts and the estimation of ECL on loans and advances to customers.

In particular we have focussed on the following areas of significant judgement and estimation which required the use of specialists, additional audit effort and increased discussions with management during the course of the audit:</td><td>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.</td></tr>
<tr><td></td><td>• Modelled ECL provisions
A significant portion of ECL is calculated on a modelled basis. 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.

Significant increases in credit risk (SICR) are assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment incorporates judgement and estimation by management, including the impact of Covid-19.</td><td>• Modelled ECL provisions
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: Expected Credit Loss methodology (IFRS 9).

We 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.

Our quantitative specialists have reperformed the model calculations using assumptions as per the model documentation, and our independently reperformed PD, EAD and LGD parameters, to test accuracy of ECL calculations. We have assessed the appropriateness of Absa's significant increases in credit risk (SICR) methodologies and calibrations of the models and have tested the stage allocations including the SICR for a sample of portfolios and individual exposures. The reperformed ECL numbers have been compared to Absa's ECL numbers per stage and per portfolio.

We have tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs back to the information sourced by management from internal systems and external data providers.</td></tr>
<tr><td></td><td>• Estimation and incorporation of multiple forward-looking macro-economic scenarios
These scenario forecasts are developed by Absa's group economics unit and have required increased levels of management judgement, given the Covid-19 pandemic is an unprecedented event with material impacts on economic activity and incomes.</td><td>• Estimation and incorporation of multiple forward- looking macro-economic scenarios
We have tested controls over the approval of updated macro-economic forecasts and related ECL impacts.

With assistance from our economics specialists, we have assessed the appropriateness of the macro-economic forecasts and scenario weightings by benchmarking these against external evidence and economic data.

With the assistance of our quantitative and economics specialists, we have assessed the design and application of the macro-economic analytical models and sensitivity approaches adopted by management. 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 considering third party and our own data, to assess the reasonability of the macro- economic management adjustments.</td></tr>
</table>

Independent auditors' report to the shareholders of Absa Bank Limited

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td></td><td>

- **Management adjustments**
Management adjustments are applied to ECL model outputs where the existing models do not fully incorporate factors which impact on the ECL.

In the current year, management have recognised that Covid-19 is an extraordinary event. Absa's ECL models are not calibrated to cater for the full impact of the current levels of economic volatility and complexity.

Within the Retail portfolios, management thus developed new macro-economic analytical models to determine appropriate adjustments to modelled PDs and LGDs when recognising ECL. Within the Wholesale portfolios existing model approaches were adjusted for the impacts of Covid-19, supplemented by industry sector adjustments.

These adjustments are subject to a high degree of subjective management judgement.

</td><td>

- **Management adjustments**
We reperformed a sample of the management adjustments, challenged the appropriateness of the assumptions and inputs used and have assessed management's governance processes over the management adjustments.

We have assessed management's rationale for the macro-economic variable (MEV) adjustments and evaluated them against our understanding of the factors used based on independent data.

Where there is a range of uncertain potential outcomes, we have considered a range of possible outcomes, formed an independent view using independent data and discussed with management regarding our views.

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- **Stage 3 ECL provisions 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 Corporate, Investment Bank, and Relationship Banking portfolios which requires specific audit effort. Significant judgements, estimates and assumptions are applied by management to:
◦ Determine if the financial asset is 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.

</td><td>

- **Stage 3 ECL provisions assessed on an individual basis**
We have 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 Absa 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 management has utilised specialists, we have assessed controls related to their competence and objectivity.
◦ 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.
◦ We have utilised our valuation specialists for a sample of more complex valuation assessments.

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- **Additional disclosures related to credit risk**
The increased level of economic uncertainty as a result of Covid-19 increases the subjectivity and materiality of management judgements applied to estimate ECL. Additional disclosure was required in the financial statements in order to allow users of the financial statements to understand the additional level of judgement applied by management, this included additional disclosure with regards to management adjustments and sensitivity analyses. Due to the extensive nature of these disclosures which are non- routine and very specific to the environmental conditions, this required significant audit effort to assess the reasonability thereof.

</td><td>

- **Additional disclosures related to credit risk**
We have focused on the additional disclosures in the current year to ensure the appropriateness and accuracy of these disclosures with the assistance of our financial reporting specialists. Specifically, we assessed the reasonability of the disclosures in light of the audit work performed and disclosures made elsewhere in the financial statements.

We have assessed management's credit disclosures including those related to the ECL impact of Covid-19 against IFRS 7: *Financial Instruments: Disclosures requirements.*

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Independent auditors' report to the shareholders of Absa Bank Limited

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td rowspan="2">Absa Bank Limited

Absa Bank Company</td><td colspan="2">Valuation of complex financial instruments
The disclosure associated with the valuation of complex financial instruments is set out in the financial statements in the following notes:
• Note 1.2.3 – Fair value measurement (page 41)
• Note 52 – Fair value disclosures (page 130)</td></tr>
<tr><td>We have identified the valuation of complex financial instruments as a key audit matter, this required significant management judgement relating to the complex valuation methodologies and key assumptions relating to inputs to these valuations.

These financial instruments include unlisted equity investments, loans and advances, investment securities and various derivative financial instruments.

Significant judgement is required with respect to unobservable inputs specifically level 3 financial instruments measured at fair value for which there are no quoted market prices as well as other judgements relating to the counterparty valuation adjustments, bid offer spreads and funding valuation adjustments. These inputs are dependent on various sources of external and internal data and on the use of modelling techniques.

This is further compounded by the uncertain economic and market conditions arising from the Covid-19 pandemic and resultant lockdown which has increased market volatility impacting the availability of data in the market to support the above-mentioned inputs and therefore resulted in increased management judgement.</td><td>Our audit procedures included, among others, the following procedures which were performed with the assistance of our valuation experts:
• We obtained an understanding, evaluated the design, and tested the operating effectiveness of key controls identified in the valuation process, including financial reporting, the governance structures and the oversight on valuation inputs and models.
• We tested the IT general controls and application controls relating to the IT systems that support valuation of complex instruments.
• Our valuation specialists were involved in assessing the appropriateness of the valuation model and methodologies applied by management with reference to common market practice.
• For a sample of complex financial instruments, using an independent model, we compared the fair value results to management's valuation to assess the reasonableness of management's model methodology and the output of model calculations.
• For both observable and unobservable valuation inputs, we used our valuation specialists to assess the reasonability of the valuation inputs based on supportable and comparable independent information and compared these to management's valuation inputs.
• We have assessed the appropriateness of the significant inputs into management's valuation and assessed their judgements against our understanding of the impact of Covid-19 and resulting market volatility on bid offer and counterparty credit spreads, against reasonable factors which impact the reported exit values.
• For unlisted equity instruments, where there is a range of uncertain potential outcomes, we considered a range of possible outcomes, and performed an independent calculation and discussed the outliers with management where our view was different to Absa's.
• We assessed the appropriateness of the fair value disclosures with reference to the requirements of IFRS 13: Fair Value Measurement and due consideration of the historic illiquidity of certain markets on the fair value hierarchy.</td></tr>
</table>

Independent auditors’ report to the shareholders of Absa Bank Limited

<table>
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<tr><td rowspan="2">Absa Bank Limited

Absa Bank Company</td><td colspan="2">

- **Separation from Barclays Plc**

The disclosure associated with the separation from Barclays Plc is set out in the financial statements in the following notes:

- Note 1.2.2 – Capitalisation, amortisation and impairment of internally generated intangible assets, and impairment of goodwill (page 41)
- Note 13 – Goodwill and Intangible assets (page 70 and page 199)
- Note 30 – Operating expenses (page 81 and page 209)

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<tr><td>

The impact of the separation from Barclays Plc continued to be a significant area of audit focus during the current financial year with 2 key areas of focus:

Impact of changes to many financial and operational systems and processes and outputs on the audit.
Absa Group concluded the Separation programme from Barclays Plc during the current period.

The key changes include:

- Changes in the policies and standards in respect of the business processes and control environment;
- Changes of IT – platforms and/or migration to new IT – platforms and the related changes in the processes, control environment and key controls;
- Migration of data to new systems/platforms;
- Impact on IT general controls with introduction of new systems and tools; and
- Changes in outsourcing arrangements and agreements with third parties.

Several separation projects were strategic long-term transformation projects, with important IT components.

Several separation projects were designed to increase the operating effectiveness and efficiency of IT infrastructure and enhance data quality. Through the period of change there was a risk that general IT controls may not operate as intended, and data would not be migrated accurately and completely. Effective general IT controls are required for reliance on application controls in the Group’s operations and in our audit approach.

This is further complicated by the Covid-19 pandemic and the associated increase in remote working and social distancing which, tested the resilience of the process and elevated the cyber risk profile as processes needed to be changed/adapted with the new ways of working. The change in working also impacted the provisioning of IT services not only within an Absa environment but also with third party vendors.

The degree of changes to systems and processes requires significant auditor attention and large audit effort to assess and implement changes to the audit strategy. Effort was also required to understand, document and test the controls to mitigate the risk of material misstatement in the financial statements due to the changes in processes as well as for the testing migration of data between systems and processes.

</td><td>

Response on the impact of changing systems and processes:

- Our specialists assisted in identifying and testing the impact of Absa Group’s separation on the financial statements. The specialist team consists of individuals with experience in data and IT audit as well as large-project management skills.
- We obtained an understanding, evaluated the design, and tested the operating effectiveness of the controls over key financial statement processes that have changed or have been enhanced with new controls.
- We obtained an understanding, evaluated the design, and tested the operating effectiveness of key controls of legacy systems still in operation during the audit period.
- Programme assurance reviews were conducted to test the completeness and accuracy of data migrated (as and when data migrations took place) from legacy systems to new systems implemented during the audit period.
- Our response includes testing general IT controls over IT applications which produce transactional and financial information, this includes testing IT change controls, system interface controls, systems access controls and Absa’s resilience program ensuring continuity of IT services. We conducted a review of the ServiceNow application that manages IT changes and evaluated the entire population of changes during the year by utilising data analytics.
- With the assistance of our cyber risk specialists we performed threat and vulnerability risk assessments, and assessed the impact on the overall IT environment, with a focus on the risk to the financial statements.
- We obtained an understanding of significant outsourced services, including the nature of the relationship between the Group and the 3rd party service organisation. We obtained and reviewed ISAE3402 reports on third party controls (where available) and assessed conclusions on the key controls, that have an impact on the financial systems.

For identified deficiencies, we tested the design and operating effectiveness of compensating controls and, where necessary, extended the scope of our audit procedures.

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Independent auditors' report to the shareholders of Absa Bank Limited

Level	Key audit matter	How the matter was addressed in the audit
	Intangible assets arising out of separation • The separation from Barclays PLC continued to result in significant costs being incurred and capitalised to develop internally generated intangible assets in accordance with IAS 38: *Intangible Assets*. • Management applied their judgement in determining the future economic benefits of costs incurred in relation to new systems, and changes to existing systems and processes. This included considering which costs relating to a system should meet the capitalisation criteria, and which costs should be expensed. Management applied judgement in determining whether any indicators of impairment exist, and in the subsequent estimation of the recoverable amount of intangible assets already in use. • The business interruptions experienced as a result of Covid-19 has resulted in several IT projects being halted and reprioritised. This impacted the applicability of on-going capitalisation of expenses and also the impairment assessments of existing intangibles in the current year. • This is an area of significance to the audit due to the value of costs capitalised, the judgement in determining which costs meet the capitalisation criteria, and the degree of estimation involved in assessing the future economic benefit to be derived from new or enhanced systems.	**Response on the impact of intangible assets arising out of separation** We have performed the following procedures on the intangible assets relating to separation: • We obtained an understanding, evaluated the design, and tested management's process and controls in place for identifying costs to be capitalised or expensed based on the requirements of IAS 38. • We performed analytical procedures and relevant tests of detail over the classification of costs as an expense or capitalised intangible asset by selecting a sample of additions. • Our specialist team assisted us in assessing management's rationale for the capitalisation of significant projects by obtaining an understanding of the project life cycle. • With the input of our specialist team we have assessed projects that were halted or reprioritised due to Covid-19 for potential impairment indicators. • We tested management's judgements and assumptions used to determine whether these systems have future economic benefits.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the 228 page document titled 'Absa Bank Limited Annual Consolidated and Separate Financial statements for the reporting period ended 31 December 2020', which includes the Group Audit and Compliance Committee Report, the Directors' Report and the Company Secretary's certificate to the shareholders of Absa Bank Limited, as required by the Companies Act of South Africa and the Directors' approval, which we obtained prior to the date of this report, as well as the Integrated Report, 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 financial statements and described in our Opinion paragraph above. Other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated 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 and 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 company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report to the shareholders of Absa Bank Limited

Auditor's 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 auditor's 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 and 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 and 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 auditor's 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 auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate 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 auditor's 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. has been the auditor of Absa Bank Limited for 26 years and the sole auditor of Absa Group Limited for three years.

Ernst & Young Inc.

Director: E van Rooyen CA(SA)
Registered Auditor

14 March 2021

102 Rivonia Road
Sandton

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 to banks (refer to Note 4).
- Loans and advances to customers (refer to Note 8).
- Goodwill and intangible assets (refer to Note 13).
- Impairment losses (refer to Note 29).
- Other impairments (refer to Note 31).
- Credit risk (refer to Note 54.2).

Impact on the use of estimates, judgements, and assumptions

The pandemic has, in turn, had a material impact on the risks that the Bank is exposed to and the output of financial models, most specifically those used to determine credit risk exposures. The high degree of uncertainty resulting from this has forced the Bank to reassess assumptions, and existing methods of estimation and judgements used in the preparation of these financial results. Furthermore, the temporary payment relief provided to eligible customers as part of the Bank'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. Management adjustments were therefore required, in addition to the model outputs, to provide a more appropriate assessment of risk for the financial year ended 31 December 2020. These additional management adjustments have required greater governance across the Bank and were robustly challenged and reviewed by the Group Credit Impairment Committee. A revised approach to the estimation of PDs, identification of significant increase in credit risk (stage 2 impairment), forward looking scenarios and the impact on estimated ECL allowances was employed.

Other areas of estimates, judgements and assumptions that have been affected by the Covid-19 pandemic include determination of fair values, impairments of non-financial assets, valuation of post-retirement benefits and determination of long-term and short-term insurance liabilities. Further detail on the application of the Bank's estimates and judgments 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 Note 54.

Covid-19 customer payment relief

The Bank implemented a payment relief programme across segments from March 2020 for eligible customers, allowing customers requiring short-term financial relief, to reduce or defer their monthly instalments to assist with cash flow needs. In anticipation of credit-risk induced pressure on banks' capital, temporary dispensation has been provided by the Prudential Authority at the South African Reserve Bank in relation to relief initiatives where those measures are regarded as short-term liquidity solutions. This dispensation provides that these restructures are not classified as distressed restructures for regulatory purposes, provided that the customers remain up to date once their relief period ends.

RBB: Given that most customers' credit profiles remained healthy, payment relief was offered to customers in good standing. Retail customers were able to opt in to receive payment relief with revised repayment terms on the full suite of retail lending products. In the second half of the year, additional, more tailored, payment relief was provided to customers through the launch of the 'Siyasizana' program, with a key requirement being that customers must make partial payments on any further deferrals. Interest and fees continued to accrue monthly and were capitalised to the customer's loan account. As at 31 December, the vast majority of Absa's payment relief program had been concluded and customers were required to recommence payment.

Business customers benefitted from payment relief measures that ranged from proactive payment relief offers to bespoke customer centric solutions.

CIB: Customers received tailored solutions specific to their individual circumstances, including interest and/or capital moratoriums, covenant concessions and extensions of maturity dates on expiring facilities.

Covid-19 customer payment relief (continued)

The table below provides the gross carrying value of loans and advances to customers that were granted payment relief during the financial period, together with an analysis of payment behaviour after the relief period ended 31 December 2020:

	2020			
	Total gross carrying amount of payment relief population as at 31 December 2020 Rm	Gross carrying amount at 31 December Rm	Percentage of portfolio %	Up-to date %
RBB South Africa	149 753	538 483	27.81	92.01
Home Loans	84 492	255 130	33.12	94.46
Vehicle and Asset Finance	25 892	94 876	27.29	88.01
Everyday Banking	14 587	60 573	24.08	82.28
Card	7 927	32 715	24.23	89.94
Personal Loans	6 607	23 786	27.78	73.30
Transactions and Deposits	53	4 072	1.30	54.90
Relationship Banking	24 782	127 851	19.38	93.59
RBB Other	—	53	—	—
CIB South Africa	39 793	306 111[1]	13.00	97.41
Head Office, Treasury and other operations in South Africa	—	520	—	—
Total loans and advances to customers	189 546	845 114	22.43	93.15

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 Absa 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, Absa 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 2020, Absa approved **R2 331m** of loans under the scheme.

[1] Includes the carrying amount of financial assets at fair value through profit and loss.

Impact of Covid-19

Impairment losses pre- and post-management adjustments

The table below provides a breakdown of the total ECL recognised at 31 December 2020 to reflect the impairment charge calculated using the Bank's approved models together with the macroeconomic variable management adjustment.

	December 2020		June (unaudited) 2020		December 2019
	Macroeconomic variables management adjustment Rm	Total Impairment losses including management adjustments Rm	Macroeconomic variables management adjustment Rm	Total Impairment losses including management adjustments Rm	Total Impairment losses including management adjustments Rm
RBB South Africa	3 368	13 876	3 367	9 506	5 862
Home Loans	950	2 189	950	1 750	182
Vehicle and Asset Finance	926	3 062	926	2 129	1 099
Everyday Banking	1 021	6 582	1 023	4 280	4 082
Card	472	3 128	475	2 070	1 965
Personal Loans	466	2 893	466	1 867	1 610
Transactional and Deposits	83	561	82	343	507
Relationship Banking	471	2 042	468	1 348	322
RBB Other	—	1	—	(1)	(3)
CIB South Africa	776	1 951	776	1 657	367
Head Office, Treasury and other operations in South Africa	—	2	—	(1)	(17)
Total	4 144	15 829	4 143	11 162	6 032

Sensitivity of expected credit losses

Given the level of uncertainty required in the determination of ECL, the Bank 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 a 100% and does not include management adjustments required to provide a more appropriate assessment of risk.

	Absa Bank Group Rm	% Change Rm
ECL allowance on stage 1 and stage 2 loans and advances to bank and customers	11 281	—
Baseline	11 178	(1)
Upside	9 952	(12)
Downside	12 768	13

In addition, the impact on expected credit losses were analysed should 5% of the gross carrying of the Banks' loans and advances to customers in stage 1 experience a SICR and move to stage 2 as at 31 December 2020. 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:

	Stage 2	
	Increase in gross carrying amount Rm	Increase in expected credit loss Rm
RBB	21 564	1 952
CIB	9 768	24

Impact of Covid-19

Single name impairments

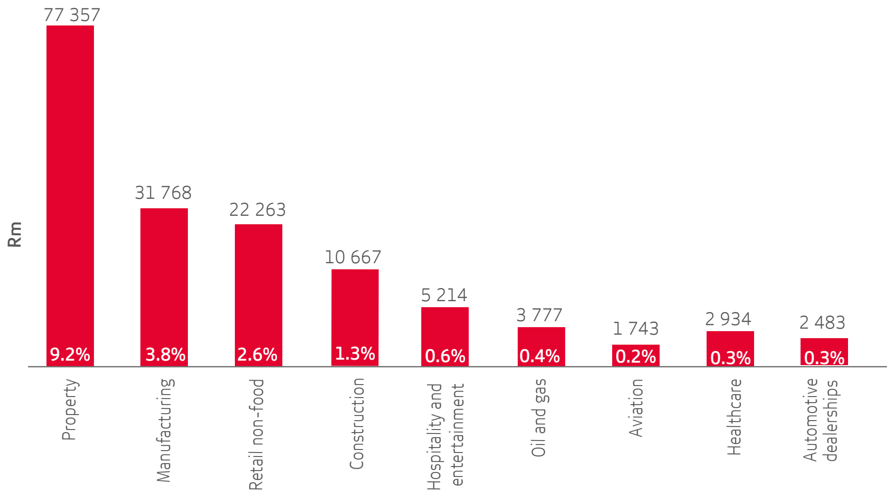
The impairment losses have been adversely impacted by increased level of risk for single name wholesale exposures that has specifically been affected by Covid-19. The Bank continuously monitored these exposures through the Group Distressed Assets Committee to ensure any potential risk was appropriately identified, mitigated, and/or adequately provided for. As at 31 December 2020 the following impairment losses were raised for single name exposures:

	December 2020 Rm	June (unaudited) 2020 Rm
Relationship Banking	287	246
CIB	1 040	662
Total	1 327	908

Wholesale lending in key Covid-19 impacted industries

In addition to the disclosure provided above, the graph below provides a view of the Bank's wholesale exposure (across CIB and Relationship Banking), in R'millions and as a percentage of total gross loans and advances, to industries that have been significantly impacted by the Covid-19 pandemic:

Concentration risk exposures (% of total loans)



Impact of Covid-19

Other estimates and judgements

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

Impairment of internally generated intangible assets, property and equipment and goodwill	The far-reaching effects of the pandemic indicate that the Bank's internally generated intangible assets, property and equipment, and goodwill may potentially be impaired, and the Bank therefore carried out impairment tests on these assets. The recoverable amount of each asset is the higher of the asset's fair value less costs to sell and its value in use or the value in use of the cash generating unit to which it belongs. The Bank uses approved projected cash flow forecasts for the period up until the end of 2023, with a terminal value thereafter. The long-term growth rate assumptions used in the impairment calculations were revised from 0.0% – 10.0% as at 31 December 2019 to **0.0% – 8.1%** at 31 December 2020. The discount rates used have been adjusted from 12.9% – 22.5% as at 31 December 2019 to **10.7% – 30%** at 31 December 2020. 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. At 31 December 2020, the Bank recognised impairment losses on internally generated intangible assets, property and equipment and goodwill of **R409m** (2019: R318m).
Post-retirement benefits	While the Absa Pension Fund meets the definition of a defined benefit pension plan, the majority of the Bank's employees are part of the defined contribution portion of the fund, and as a result the Bank's actuarial risk exposure is limited. Defined benefit pension plan valuations are determined using actuarial assumptions and due to the long-term nature of these plans, such estimates are subject to significant uncertainty. These include: inflation **5.2%** (2019: 5.2%) and future salary increases **6.2%** (2019: 6.2%). Furthermore, IAS 19 limits the recognition of any pension fund surpluses depending on the fund's statutory rules. Although the statutory valuation of the Absa Pension Fund continues to indicate that the value of pension fund assets exceeds the actuarially determined liability, the valuation indicated negative returns attributable to the employer. The above resulted in adjustments to the amounts recognised at 31 December 2020. The negative returns attributable to the employer for the Absa Pension Fund resulted in a decrease in other comprehensive income (after tax) of **R104m** (2019: R24m decrease).
Hedge accounting	Cash flow hedges are used by the Bank to protect against the potential cash flow variability arising from the Bank exposure to interest rate and foreign currency risk. The Bank's structural interest rate hedge in South Africa represents its most significant cash flow hedge. An assessment of the Bank's hedge accounting position and the applied risk management strategy showed no significant changes to the way the Bank manages its risk. At 31 December 2020, the Bank recognised a net increase (after tax) of **R3 997m** (2019: R913m) in other comprehensive income relating to its cash flow hedging activities following a reduction in the benchmark interest rates. The net increase is after a release of **R3 488m** (2019: R806m) 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 2020.

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Consolidated statement of financial position

as at 31 December

	Note	Bank 2020 Rm	2019 Rm
Assets			
Cash, cash balances and balances with central banks	2	**33 812**	25 485
Investment securities	3	**99 489**	75 230
Loans and advances to banks	4	**66 113**	44 993
Trading portfolio assets	5	**166 148**	111 592
Hedging portfolio assets	5	**10 998**	3 355
Other assets	6	**14 819**	21 728
Current tax assets		**273**	1 223
Non-current assets held for sale	7	**136**	3 706
Loans and advances to customers	8	**811 162**	794 382
Loans to group companies	9	**56 145**	50 460
Investments in associates and joint ventures	10	**1 601**	1 648
Property and equipment	12	**13 923**	15 588
Goodwill and intangible assets	13	**9 626**	8 863
Deferred tax assets	11	**2 030**	1 572
Total assets		**1 286 275**	1 159 825
Liabilities			
Deposits from banks	14	**96 033**	119 477
Trading portfolio liabilities	15	**105 967**	55 968
Hedging portfolio liabilities	15	**4 868**	1 379
Other liabilities	16	**22 475**	32 338
Provisions	17	**2 855**	2 622
Current tax liabilities		**3**	6
Deposits due to customers	18	**794 887**	677 809
Debt securities in issue	19	**144 159**	157 603
Borrowed funds	20	**20 621**	21 282
Deferred tax liabilities	11	**8**	16
Total liabilities		**1 191 876**	1 068 500
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Ordinary share capital	21	**304**	304
Ordinary share premium	21	**36 879**	36 879
Preference share capital	21	**1**	1
Preference share premium	21	**4 643**	4 643
Additional Tier 1 capital	21	**7 004**	5 795
Retained earnings	22	**38 507**	39 075
Other reserves	22	**7 058**	4 625
		94 396	91 322
Non-controlling interest – ordinary shares		**3**	3
Total equity		**94 399**	91 325
Total liabilities and equity		**1 286 275**	1 159 825

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Bank 2020 Rm	Bank 2019 Rm
Net interest income		**33 184**	31 772
Interest and similar income	23	**73 886**	81 652
Effective interest income		**72 113**	79 871
Other interest income		**1 773**	1 781
Interest expense and similar charges	24	**(40 702)**	(49 880)
Non-interest income		**20 503**	20 985
Net fee and commission income		**17 690**	19 060
Fee and commission income	25	**19 486**	20 661
Fee and commission expense	25	**(1 796)**	(1 601)
Gains and losses from banking and trading activities	26	**2 284**	1 485
Gains and losses from investment activities	27	**3**	3
Other operating income	28	**526**	437
Total income		**53 687**	52 757
Impairment losses	29	**(15 829)**	(6 032)
Operating income before operating expenses		**37 858**	46 725
Operating expenses	30	**(33 202)**	(35 116)
Other expenses		**(1 798)**	(1 456)
Other impairments	31	**(437)**	(318)
Indirect taxation	32	**(1 361)**	(1 138)
Share of post-tax results of associates and joint ventures	10	**(36)**	221
Operating profit before income tax		**2 822**	10 374
Taxation expense	33	**(750)**	(2 488)
Profit for the reporting period		**2 072**	7 886
Profit attributable to:			
Ordinary equity holders		**1 176**	7 098
Non-controlling interest – ordinary shares		**0**	1
Preference equity holders		**307**	352
Additional Tier 1 capital		**589**	435
		2 072	7 886
Earnings per share:			
Basic earnings per share (cents)	42	**262.3**	1 583.3
Diluted earnings per share (cents)	42	**262.3**	1 583.3

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Bank 2020 Rm	Bank 2019 Rm
Profit for the reporting period		**2 072**	7 886
Other comprehensive income			
Items that will not be reclassified to profit or loss		**(162)**	(59)
Movement on equity instruments designated at fair value through other comprehensive income (FVOCI)		**(5)**	9
Fair value (losses)/gains		**(7)**	11
Deferred tax		**2**	(2)
Movement of liabilities designated at fair value through profit or loss (FVTPL) due to changes in own credit risk		**(82)**	(44)
Fair value movement		**(116)**	(61)
Deferred tax		**34**	17
Movement in retirement benefit fund assets and liabilities		**(75)**	(24)
Decrease in retirement benefit surplus	36	**(104)**	(34)
Deferred tax	11	**29**	10
Items that are or may be subsequently reclassified to profit or loss		**2 964**	449
Movement in cash flow hedging reserve		**3 997**	916
Fair value gains		**9 039**	2 078
Amount removed from other comprehensive income and recognised in profit or loss		**(3 488)**	(806)
Deferred tax		**(1 554)**	(356)
Movement in fair value of debt instruments measured at FVOCI		**(1 033)**	(467)
Fair value losses		**(1 400)**	(629)
Release to profit or loss	27	**(32)**	(20)
Deferred tax	14	**399**	182
Total comprehensive income for the reporting period		**4 874**	8 276
Total comprehensive income attributable to:			
Ordinary equity holders		**3 978**	7 488
Non-controlling interest – ordinary shares		**0**	1
Preference equity holders		**307**	352
Additional Tier 1 capital		**589**	435
		4 874	8 276

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Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares[1] '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Additional Tier 1 capital Rm
Balance at the end of the previous reporting period	**448 301**	**304**	**36 879**	**1**	**4 643**	**5 795**
Total comprehensive income	—	—	—	—	307	589
Profit for the period	—	—	—	—	307	589
Other comprehensive income	—	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	(307)	—
Distributions paid during the reporting period	—	—	—	—	—	(589)
Issuance of additional Tier 1 capital	—	—	—	—	—	1 209
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—	—
Value of employee services	—	—	—	—	—	—
Deferred tax	—	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—	—
Other movements[2]	—	—	—	—	—	—
Balance at the end of the reporting period	**448 301**	**304**	**36 879**	**1**	**4 643**	**7 004**
Note	21	21	21	21	21	21

All movements are reflected net of taxation.

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

[2] This relates to an equity distribution to a subsidiary of Absa Group Limited.

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Bank 2020										
	Retained earnings Rm	Total other reserves Rm	Fair value through other compre-hensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Total equity attributable to equity holders Rm	Non-controlling interest – ordinary shares Rm	Total equity Rm
	39 075	4 625	(480)	1 318	1	1 422	831	1 533	91 322	3	91 325
	1 014	2 964	(1 033)	3 997	—	—	—	—	4 874	—	4 874
	1 176	—	—	—	—	—	—	—	2 072	—	2 072
	(162)	2 964	(1 033)	3 997	—	—	—	—	2 802	—	2 802
	(2 000)	—	—	—	—	—	—	—	(2 307)	—	(2 307)
	—	—	—	—	—	—	—	—	(589)	—	(589)
	—	—	—	—	—	—	—	—	1 209	—	1 209
	424	—	—	—	—	—	—	—	424	—	424
	—	(495)	—	—	—	—	(495)	—	(495)	—	(495)
	—	(863)	—	—	—	—	(863)	—	(863)	—	(863)
	—	355	—	—	—	—	355	—	355	—	355
	—	13	—	—	—	—	13	—	13	—	13
	36	(36)	—	—	—	—	—	(36)	—	—	—
	(42)	—	—	—	—	—	—	—	(42)	—	(42)
	38 507	7 058	(1 513)	5 315	1	1 422	336	1 497	94 396	3	94 399
			22	22	22	22	22	22			

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares[1] '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Additional Tier 1 capital Rm
Balance at the end of the previous reporting period	448 301	304	36 879	1	4 643	2 741
IFRS 16	—	—	—	—	—	—
Adjusted balance at the beginning of the reporting period	448 301	304	36 879	1	4 643	2 741
Total comprehensive income	—	—	—	—	352	435
Profit for the period	—	—	—	—	352	435
Other comprehensive income	—	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	(352)	—
Transactions with Non-controlling interest holders	—	—	—	—	—	—
Distributions paid during the reporting period	—	—	—	—	—	(435)
Issuance of additional Tier 1 capital	—	—	—	—	—	3 054
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—	—
Value of employee services	—	—	—	—	—	—
Deferred tax	—	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—	—
Balance at the end of the reporting period	448 301	304	36 879	1	4 643	5 795
Note	21	21	21	21	21	21

All movements are reflected net of taxation.

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

Consolidated statement of changes in equity

for the reporting period ended 31 December

2019

Retained earnings Rm	Total other reserves Rm	Fair value through other compre-hensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Total equity attributable to equity holders Rm	Non-controlling interest – ordinary shares Rm	Total equity Rm
35 209	3 918	(13)	402	1	1 422	794	1 312	83 695	(9)	83 686
(198)	—	—	—	—	—	—	—	(198)	—	(198)
35 011	3 918	(13)	402	1	1 422	794	1 312	83 497	(9)	83 488
7 039	449	(467)	916	—	—	—	—	8 275	1	8 276
7 098	—	—	—	—	—	—	—	7 885	1	7 886
(59)	449	(467)	916	—	—	—	—	390	—	390
(2 500)	—	—	—	—	—	—	—	(2 852)	—	(2 852)
—	—	—	—	—	—	—	—	—	11	11
—	—	—	—	—	—	—	—	(435)	—	(435)
—	—	—	—	—	—	—	—	3 054	—	3 054
(254)	—	—	—	—	—	—	—	(254)	—	(254)
—	37	—	—	—	—	37	—	37	—	37
—	(372)	—	—	—	—	(372)	—	(372)	—	(372)
—	430	—	—	—	—	430	—	430	—	430
—	(21)	—	—	—	—	(21)	—	(21)	—	(21)
(221)	221	—	—	—	—	—	221	—	—	—
39 075	4 625	(480)	1 318	1	1 422	831	1 533	91 322	3	91 325
		22	22	22	22	22	22			

Consolidated statement of cash flows

for the reporting period ended 31 December

	Note	Bank 2020 Rm	Bank Restated 2019[1] Rm
Cash flow from operating activities			
Profit before tax		**2 824**	10 374
Adjustment of non-cash items			
Depreciation and amortisation (refer to note 30)		**4 971**	4 107
Other impairments (refer to note 31)		**420**	318
Share of post-tax results of associates and joint ventures		**36**	(221)
Other non-cash items included in profit and before tax		**(29)**	(15)
Dividends received from investing activities		**(3)**	(3)
Cash flow from operating activities before changes in operating assets and liabilities		**8 219**	14 560
Net increase in trading and hedging portfolio assets		**(62 199)**	(11 269)
Net increase in loans and advances to customers and banks		**(38 258)**	(66 767)
Net increase in investment securities		**(25 298)**	17 820
Net (increase)/decrease in other assets		**(7 503)**	(15 994)
Net increase in trading and hedging portfolio liabilities		**57 486**	10 640
Net increase in amounts due to customers and banks		**93 316**	63 680
Net decrease in other liabilities[2]		**(23 190)**	(1 119)
Income taxes paid		**(258)**	(3 326)
Net cash generated from operating activities		**2 315**	5 435
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale		**3 601**	50
Proceeds from disposal of investment properties		**—**	180
Purchase of property and equipment	12	**(1 048)**	(2 624)
Proceeds from disposal of properties and equipment		**177**	176
Purchase of intangible assets	13	**(2 774)**	(2 881)
Dividends received from investing activities		**3**	3
Investment in associates		**—**	(117)
Net cash utilised in investing activities		**(41)**	(5 213)
Cash flow from financing activities			
Purchase of Group shares in respect of equity-settled share-based payment schemes		**424**	(254)
Issue of additional Tier 1 capital		**1 209**	3 054
Equity distribution to a subsidiary of Absa Group Limited		**(42)**	—
Proceeds from borrowed funds		**2 676**	1 580
Repayment of borrowed funds		**(3 733)**	(500)
Repayment of IFRS 16 lease liability		**(975)**	(938)
Distribution to Tier 1 capital holders		**(589)**	(435)
Dividends paid		**(2 307)**	(2 841)
Net cash utilised in financing activities		**(3 337)**	(334)
Net decrease in cash and cash equivalents		**(1 063)**	(112)
Cash and cash equivalents at the beginning of the reporting period		**9 846**	9 958
Cash and cash equivalents at the end of the reporting period	46	**8 783**	9 846

As part of operating activities, interest income amounting to **R71 843m** (2019: 80 069m); and interest expense amounting to **R40 275m** (2019: R46 817m) were received and paid in cash respectively.

[1] For further details of the impact of the change refer to note 1.19.

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

Accounting policies

for the reporting period ended 31 December

1. Summary of significant accounting policies

1.1 Introduction

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)

The amendments, which are applicable for financial reporting periods beginning on or after 1 January 2020, focus on hedge accounting issues related to uncertainties arising in the period leading up to the replacement of IBORs with alternative nearly risk-free rates, and provide reliefs to allow hedge accounting to continue during the period of uncertainty before an IBOR is replaced. The amendments are mandatory for all hedge relationships directly affected by interest rate benchmark reform, and are required to be applied on a retrospective basis.

The adoption of the amendments had no impact on the financial performance and financial position of the Bank, however additional disclosures have been provided in 1.19.2.

Amendment to IFRS 3 Business Combinations regarding the definition of a business

The amendments, which apply to business combinations for which the acquisition date is on or after 1 January 2020, revise the definitions included in the appendix to IFRS 3 in order to assist entities in determining whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.

These amendments had no impact on the consolidated financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

Revised Conceptual Framework for Financial Reporting

The purpose of the Framework for Financial Reporting (Conceptual Framework) is to assist the IASB in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place, and to assist all parties to understand and interpret the standards. The Conceptual Framework issued in March 2018 is effective immediately for the IASB and the IFRS Interpretations Committee. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of the revised conceptual framework had no impact on the Group.

1.1.2 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

1.2.1 Approach to credit risk and impairment of loans and advances

The Bank has an established framework, and related processes, which govern its approach to credit risk management and any resultant impairment of financial assets. The governance process includes the existence of the Absa Group Limited Models Committee (MC) (a board committee), Relationship Banking Models Forum, Corporate and Investment Bank Models Forum, Home Loans Models Forum, Retail Unsecured Models Forum and AVAF Portfolio Quality Review Committee whose remit includes:

- the development, implementation and evaluation of risk and impairment models;
- periodic assessment (at least annually) of the accuracy of the models against actual results; and
- the approval of new models or changes to models, in line with the model validation framework.

The aforementioned committees also approve post model adjustments applied to models. 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 Bank 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. 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)

1.2.1.1 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 Bank 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 Bank 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 Bank'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 Bank's credit risk profile.

1.2.1.2 Validation of models

Models undergo independent validation when new models have been developed (initial validation) and on an annual basis (ongoing validation). Models are approved by the respective Chief Risk Officers supported by either the Relationship Banking Models Forum or the CIB Credit Models Forum. Where a model is expected to have a material impact on the financial results, this is approved by the Bank's Models Committee (MC).

1.2.1.3 Default grades

The Bank uses two types of PDs, namely:

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

Both types of PDs are used extensively in the Bank's decision-making processes. For communication and comparison purposes, the Bank'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.
- 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 Bank will sustain some loss when default occurs.

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)

1.2.1.4 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 Bank 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 Bank 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.
- 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 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 Bank'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).

IFRS 9 provides that financial assets should be written off, and accordingly derecognised, when the Bank believes there to be no reasonable expectation of recovery. The Bank 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 Bank'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 Bank applies the write-off assumptions consistently at both an individual account level and on a collective modelling basis. This means that the Bank'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 the cash is received.

In calculating LGD, losses are discounted to the reporting date using the 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 point 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 Bank has a robust policy framework which is applied in the estimation and approval of management adjustments.

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)

1.2.1.4 Approach to impairment of credit exposures (continued)

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.
- LGD estimates depend on the key drivers of recovery such as collateral value, seniority 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

- PDs and LGDs are adjusted for current and forward-looking information, either on an individual client basis, or by portfolio. The resultant management adjustment is further updated by applying a scaling factor, where applicable, to the modelled PDs and LGDs. The scaling factor is in turn tested against various qualitative factors including impacted industry exposures. Appropriate sense checks are performed on the quantitative outcomes.
- These PD and LGD scaling factors are reassessed as the impacts of Covid-19 pandemic become known and the level of customer distress becomes evident within the models.
- As a result of the above process a management adjustment of R4 146m was included in expected credit losses recognised in the Statement of Comprehensive Income.

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

Definition of a significant increase in credit risk:

The Bank uses various quantitative, qualitative and back stop 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 Bank 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 certain portfolios a more conservative arrears rule is applied where this is found to be indicative of increased credit risk (e.g. 1 day in arrears);
- Accounts in the Retail portfolio which meet the portfolio's impairment high risk criteria; and
- The Bank'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. As payment arrears are a significant input into the retail credit models, 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. This methodology is tested against international guidelines and those issued by the South African Prudential Authority to ensure that the Group's approach is appropriate.

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 Bank'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 Bank. 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).

Default within Wholesale and Retail is aligned with the regulatory definition, and therefore assets are classified as defaulted when:

- The Bank considers that the obligor is unlikely to pay its credit obligations without recourse by the Bank to actions such as realising security. Elements to be taken as indications of unlikeliness to pay include the following:
  - The Bank 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; or,
  - Advice is received of customer insolvency or death; or
  - The obligor is past due 90 days or more on any credit obligation to the Bank.

In addition, within the Retail portfolios:

- All forms of forbearance are treated as in default, regardless of whether the restructure has led to a diminished financial obligation or not; and
- The Bank requires an exposure to reflect at least 12 consecutive months of performance, in order to be considered to have been cured from Stage 3. This probation period applies to all exposures, including those that may have been classified as defaulted for reasons other than forbearance and debt review (e.g. owing to the fact that they become more than 90 days past due).

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, but for which the ECL would not be mitigated by the entity's normal credit risk management actions, the Bank considers factors such as historical information and experience about:

- the period over which the entity was exposed to credit risk on similar financial instruments;
- 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 and this is normally greater than contractual 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.

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)

Incorporation of forward looking information into the IFRS 9 modelling:

The Bank'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 determined by evaluating a range of possible macroeconomic outcomes. Whilst economic activity across South Africa has started to recover due to the easing of lock-down restrictions, economic concerns remain due to high levels of unemployment and the risk of a possible resurgence of the virus. Such risks have been incorporated in the scenarios used to calculate the Bank's ECL charge at 31 December 2020.

A 40% probability weighting was applied to the baseline scenario; with a 30% probability weighting applied to both the upside and downside scenarios.

In the normal course of events the macroeconomic scenarios used to calculate the Bank's ECL charge are refreshed semi-annually by Group Economics. Primary forecasts are updated more regularly. Unexpected large changes in primary forecasts may warrant a revision of the macroeconomic scenarios. Although the Bank revised its 2020 real GDP forecast for South Africa to -7.1% (2021: 3.1%) in January 2021, an improvement over the -9.4% (2021: 3.2%) forecast used for December 2020; the December 2020 macroeconomic scenarios were not revised for the purposes of the financial statements due to the high level of uncertainty in the outlook.

The following table shows the key forecast assumptions for the three economic scenarios for South Africa as at 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 South Africa as at 31 December 2019:

	Baseline					Mild upside					Mild downside				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Real GDP (%)	1.5	1.7	1.8	1.6	1.6	2.9	2.6	1.8	1.4	1.5	(1.4)	1.2	2.4	2.2	1.7
CPI (%)	5.2	5.0	5.0	4.9	5.0	3.5	3.1	3.4	4.0	4.7	8.2	6.6	5.9	5.6	5.4
Average repo rate (%)	6.5	6.5	6.5	6.5	6.5	4.6	5.0	4.9	5.4	5.8	9.0	8.0	8.2	7.6	7.2

The narrative below explains the basis of these economic variables for each of the scenarios.

Base scenario as at 31 December 2020
South Africa

2020 witnessed the most difficult economic environment since the early 1930s, both in South Africa and globally. South Africa's economy shrunk by more than a sixth in Q2 as hard lockdown was imposed. An easing of pandemic-related restrictions has allowed some recovery to begin, but overall economic performance remains volatile. Extreme variations in performance between different sectors of the economy depending upon their proximity to the social distancing regulations is a particular feature of this environment, in sharp contrast to the normal business cycle, and as the evolution of the Covid-19 pandemic remains uncertain, the impact on public health, on the economy and on financial markets will each have an unusually high degree of uncertainty. Better understanding of Covid-19 transmission risks, and of the economic impact of various restrictions, and the speed at which vaccines can be rolled out and their efficacy, is expected to allow a better balance between public health and broader economic imperatives even as further outbreaks of the pandemic remain likely.

The rollout of mass vaccination during 2021 is a key assumption of our baseline view that the economy will begin a sustained recovery in 2021. Our expectation is that the economy will recover to 2019 levels of activity only in 2023. The emergence of more virulent strains of the virus raises the potential of an even longer period of heightened uncertainty and strain. Eskom electricity supply poses another downside risk to the forecast. For the economy to grow sustainably faster the government will need to make progress with the implementation of structural reforms. Job losses are likely to be large, while pay restraint and reduced working hours will also weigh on disposable income. Household leverage, as measured by debt to disposable income, rose significantly in 2020 (as income plummets) and is expected to be remain above pre-pandemic levels throughout the forecast horizon. Both investment and discretionary spending are expected to remain constrained.

During 2020 short-term interest rates fell to levels last seen in the 1960s. Recent splits in votes of Monetary Policy Committee (MPC) members indicate that the risks are finely balanced. Our base case is for the next move to be up, but only gradually and only from 2022. The housing market surprised with its resilience during 2020, but current House Price Index (HPI) buoyancy is hard to reconcile over the longer term with the likely big hit to household finances.

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)

Upside scenario as at 31 December 2020

South Africa

For 2020, the upside scenario is based on an economy that is somewhat more resilient to the pandemic-related constraints in 2020, where subsequent waves of infection are met with more targeted social distancing measures in 2021, and where vaccine rollout is more comprehensive in 2021. National Treasury is able to announce a credible path of fiscal consolidation, whilst government makes demonstrated progress on some structural reforms. Together, these help to improve market confidence, easing long-end funding costs somewhat, and firming business and consumer confidence help generate a more robust improvement in investment, thereby boosting medium-term growth. Improving risk premia allow the SARB to reduce the policy rate somewhat further and leave the policy rate lower for longer than in the baseline scenario. GDP recovers its 2019 levels by late 2023.

Downside scenario as at 31 December 2020

South Africa

Significant outbreaks of Covid-19 persist through 2021 with a slower than baseline rollout of vaccines, leaving consumers and businesses tentative, and requiring frequent, albeit targeted, tightening of pandemic restrictions. Load shedding remains a large and persistent constraint on production throughout 2021 and into 2022. Hamstrung by a lack of political consensus within the ruling party, credible fiscal consolidation remains elusive, causing debt dynamics to worsen further and pushing long-term yields even higher, whilst little progress on structural reforms contributes to trend growth for the economy that is even lower than in baseline. Short-term interest rates are expected to rise from 2021 on the sharply higher risk premia that this scenario would generate.

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 Bank uses approved projected cash flow forecasts for a period of 3 – 5 years, with a terminal value thereafter. The long-term growth rate assumptions used in the impairment calculations were revised from 0.0% – 10.0% as at 31 December 2019 to 0.0% – 8.1% at 31 December 2020. The discount rates used have been adjusted from 12.9% – 22.5% as at 31 December 2019 to 10.7% – 30% at 31 December 2020. 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 Bank as goodwill and intangible assets.

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* 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.

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)

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.

The current market and economic conditions arising as a result of the impact of Covid-19 have resulted in increased volatilities of Level 1 fair values, which have been experienced at both a local and global level. The effects thereof have further had a knock on-effect on the valuation inputs used in the determination of the fair value of Level 2 and Level 3 assets and liabilities. The use of non-observable inputs (in the case of Level 2 and Level 3 balances), has resulted in the Group's re-assessment of the assumptions and judgements applied, which have been updated to take into account uncertainties arising as a result of the global pandemic, through the adjustment of expectations of future cash flows, discount rates, and other significant valuation inputs.

Financial assets and financial liabilities

The Bank has an established control framework with respect to the measurement of fair values. The framework includes a Traded Risk and 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.

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 Bank's investment properties is determined through valuations performed by independent external valuators. When the Bank'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.

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)

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

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

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

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 Bank 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 Bank 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 Bank's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependent on the size of portfolio, complexity of the model, whether the model is market standard and to what extent it incorporates all known risk factors. All models and model valuation adjustments are subject to review 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
Loans and advances to banks	Future cash flows are discounted using market-related interest rates, adjusted for credit inputs, over the contractual period of the instruments (that is, discounted cash flow models)	Interest rates and/or money market curves, as well as credit spreads
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discounted cash flow models	Underlying price of market instruments and/or interest rates
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 to customers	Discounted cash flow models	Interest rates and/or money market curves
Investment securities	Listed equities: market bid price	Underlying price of market traded instruments and/or interest rate curves
Deposits from banks	Discounted cash flow models	Interest rates and/or money market curves
Deposits due to customers	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 measurements (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:

Category of asset/liability	Valuation techniques applied	Significant unobservable inputs	2020 Range of unobservable inputs applied	2019 Range of unobservable inputs applied
Loans and advances to banks and customers	Discounted cash flow and/or dividend yield models	Credit spreads	**0.07% to 3.21%**	0.1% to 2.9%
Investment securities	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Risk adjusted yield curves, future earnings, marketability discounts and/or comparator multiples	**Discount rate of 7.75% to 8%**	Discount rate of 7.75% to 8%
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	**0.2% to 13%**	0.5% to 12.8%
Derivative assets				
Credit derivatives	Discounted cash flow and/or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	**0.03% to 26.5%** **15% to 93%** **60% to 90%**	0.02% to 26%, 15% to 93.2%, 60% to 90%
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Volatility and/or dividend streams (greater than 3 years)	**16.9% to 58.3%**	9.3% to 67.3%
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	African basis curves (greater than 1 year)	**0.56% to 26.5%**	1.4% to 26%
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	**0.25% to 4.15%**	0.3% to 8.5%
Deposits due to customers	Discounted cash flow models	Absa Africa Group Limited's funding spreads (greater than 5 years)	**1.075% to 1.550%**	1.13% to 1.7%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	**1.075% to 1.550%**	1.13% to 1.7%
Investment properties	Discounted cash flow models	Estimates of the periods in which rental units will be disposed	**1 to 6 years**	1 to 6 years
		Annual selling price escalations	**6% to 8%**	6%
		Annual rental escalations	**n/a**	6%
		Income capitalisation rates	**7.75% to 8%**	7.75% to 8%
		Risk adjusted discount rates	**10% to 15%**	10% to 15%

For assets or liabilities held at amortised cost and disclosed in Levels 2 or 3 of the fair value hierarchy, the discounted cash flow valuation technique is 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 53.7.

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.

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 Bank consolidates entities over which it has control. This is considered to be the case when the Bank 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 second, whether the Bank controls such entity. The key judgements are set out as follows:

Definition of a structured entity

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 Bank. Judgement is required in assessing whether an entity is an SE, as well as in determining whether the Bank 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 Bank is primarily engaged to act on behalf and for the benefit of other parties. When assessing whether the Bank 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 Bank is entitled.

Assessment of sponsored entities

In addition to the unconsolidated SEs in which the Bank 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 Bank 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 40 and 43.

1.2.5 Post-retirement benefits

The valuations of and contributions towards defined benefit pension plan 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.

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

Exposure to actuarial risks

The defined benefit fund exposes the Bank 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 Bank.

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 part of the 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)

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 South Africa. 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 36 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 Bank 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 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 Bank's legal counsel.

Refer to note 17 for details of provisions recognised and refer to note 45 for details of contingencies disclosed.

1.2.7 Income taxes

The Bank is subject to income taxes in numerous jurisdictions and the calculation of the Bank'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 Bank's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority.

The Bank 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 Bank'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 Bank 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 Bank 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 Bank'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 47 includes details of the Bank'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 Offsetting financial assets and financial liabilities

The Bank 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 Bank has a legally enforceable right to offset financial assets and financial liabilities, the Bank 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 Bank'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 41.

1.3 Consolidated financial statements of the Bank

1.3.1 Subsidiaries

The Bank 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 Bank 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 Bank consolidates certain investees in which it holds less than half of the voting rights, 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 Bank 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 Bank is exposed to some or all of those risks.

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

Intragroup transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Bank 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 Bank has significant influence, but not control, over its operating and financial policies. Generally the Bank 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 Bank's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each reporting period by the Bank'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.

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

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 Bank. Such interests include but are not limited to holdings of debt or equity securities, derivatives that transfer financial risks to the Bank, 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 Bank'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 Bank 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 Bank (continued)

1.3.4 Common control

Common control transactions are considered as transactions between entities under common control. That is to say, the Bank 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 Bank has therefore made a policy election to apply the 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 Bank'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 Bank 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 Bank'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 OCI are translated into Rand at the rate on the date of the transactions. Exchange differences arising on the translation of foreign operations are included in the foreign currency translation reserve. The amount recognised in such reserve is transferred to profit or loss when the Bank loses control, joint control or significant influence over the foreign operation or upon partial disposal of the operation.

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 are reported using the closing rate;
- non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction;
- non-monetary items carried at fair value are 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. 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 Bank 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.

1.7.2 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.

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. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.3 Classification and measurement of financial instruments (continued)

On initial recognition, the Bank 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 Bank manages the financial assets in order to generate cash flows and returns. The Bank 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 Bank 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 Bank 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 Bank'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 Bank 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 Bank 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.

1.7.3.2 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 Bank'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. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.3 Classification and measurement of financial instruments (continued)

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 Bank'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 Bank's interest rate risk which are recognised as 'Other interest income', or 'Other interest expense and similar charges' in profit or loss.

1.7.4 Expected credit losses on financial assets

The Bank 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 Bank 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 allowance for impairment losses).

The stage allocation is required to be performed as follows:

The stage allocation is required to be performed as follows:

- **Stage 1:** This stage comprises exposures which are performing in line with the Bank'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 Bank'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 Bank.
- **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 Bank's credit risk management practices. These factors have been set out in section 1.2.1.5. 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 Bank'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.

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.4 Expected credit losses on financial assets (continued)

- **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 reflects:

- 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 months ECL and lifetime losses ECL) as a function of the exposure at default (EAD); probability of default (PD) and loss given default (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 Bank is exposed to credit risk. The Bank 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 Bank uses the remaining contractual term of the financial instrument.

Certain credit exposures include both a drawn and an undrawn component and the Bank'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 Bank is exposed to credit risk, even if that period extends beyond the maximum contractual period. Within the Bank, 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 macro-economic 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.

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.

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.4 Expected credit losses on financial assets (continued)

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 Bank can claim against (excluding suretyships);
- The debt has prescribed;
- The exposure would attract reputational risk should the Bank 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 Bank applies the write-off assumptions consistently at both an individual account level and on a collective modelling basis. This means that the Bank'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 Bank 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 Bank 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 Bank 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 Bank may retain an interest in it (continuing involvement) requiring the Bank 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 Bank 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.

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 Bank 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 Bank 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 indices 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 Bank applies fair value hedge accounting and cash flow hedge accounting as appropriate to the risks being hedged. The Bank 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.

1.7.9 Equity instruments

Equity instruments are instruments that represent a residual interest in the Bank'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 Bank 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 Bank 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.

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 Bank 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 Bank obtains such loans or cash collateral, in exchange for the transfer of collateral.

The Bank 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 Bank does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan asset. The Bank 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 Bank retains substantially all the risks and rewards of ownership. Consideration received (or cash collateral provided) is accounted for as a financial liability.

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.13 Loan commitments

The Bank 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 Bank 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 Bank 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 Bank'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 method is separately presented on the face of the statement of comprehensive income. Effective interest is calculated on loans and advances 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 Bank also presents as part of net interest income, other interest income and other interest charges, which are not calculated on the effective interest 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 Bank 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.

1.9.2 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 Bank'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. Summary of significant accounting policies (continued)

1.9 Revenue recognition (continued)

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 Bank is acting as an agent, amounts collected on behalf of the principal are not income. Only the net commission retained by the Bank 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 Commodities

The Bank 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 Bank 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.

1.11 Intangible assets

1.11.1 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:

- The aggregate of:
  - i. the consideration transferred measured in accordance with IFRS 3, which generally requires acquisition-date fair value;
  - ii. the amount of any non-controlling interest in the acquiree, also measured in accordance with IFRS 3; and
  - iii. in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- 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 impairment may have occurred. Impairment is tested by comparing the carrying amount of the cash-generating unit, including the goodwill, with the recoverable amount of the cash-generating unit. If the recoverable amount of the unit exceeds its carrying amount, the cash-generating unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the Bank recognises an impairment loss.

1.11.2 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 Bank 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 Bank 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.

Accounting policies

for the reporting period ended 31 December

1. Summary of significant accounting policies (continued)

1.11 Intangible assets (continued)

1.11.2 Intangible assets other than goodwill (continued)

	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

1.12 Property and equipment

1.12.1 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 economic 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 Bank 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.

1.12.2 Property and equipment subject to lease agreements

1.12.2.1 Property and equipment subject to lease agreements

As lessee

Where the Bank 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. 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 Bank 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 Bank recognises leased assets on the statement of financial position within property and equipment.

1. Summary of significant accounting policies (continued)

1.12 Property and equipment (continued)

1.12.3 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 Bank 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'.

1.13 Repossessed properties

Repossessed properties acquired in exchange for loans as part of an orderly realisation are reported in 'other assets' as inventory 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 Bank. The corresponding loans are derecognised when the Bank 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'.

1.14 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 Bank'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 Bank'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.

1.15 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.

1.16 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 Bank 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 Bank assesses whether there is a detailed formal plan to execute the restructuring and the Bank 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 Bank 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. Summary of significant accounting policies (continued)

1.17 Employee benefits

1.17.1 Post-retirement benefits

The Bank 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 Bank 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 Bank 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 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 Bank, using a methodology similar to that for defined benefit pension schemes.

1.17.2 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 Bank 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.

1.17.3 Share-based payments

The Bank 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 Bank 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. Bank 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)

1.18 Tax

1.18.1 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.

1.18.2 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.

1.18.3 Dividends withholding tax

The South African tax legislation provides that dividends are taxed at 15% 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 Bank, the Bank does not recognise dividends tax.

1.18.4 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.

1.19 Change in accounting policy – statement of cashflows

During the current reporting period, the Bank has voluntarily amended the basis on which the statement of cash flows is presented, from the direct to the indirect method. The indirect method allows stakeholders to reconcile the profit earned in the reporting period to the cash flows generated by the Bank, and allows for better comparison of performance to that of its competitors. The change in presentation has also resulted in a simpler collation of information, ensuring enhanced reliability. The change in accounting policy affects the presentation of the Bank's cash flows from operating activities within the statement of cash flows.

Accounting policies

for the reporting period ended 31 December

1. Summary of significant accounting policies (continued)

1.19 Change in accounting policy – statement of cashflows (continued)

The statement of cash flows that was previously presented for the comparative financial period ended 31 December 2019 was as follows:

	2019 Rm
Cash flow from operating activities	
Interest received	80 069
Interest paid	(46 817)
Fees and commission received	20 661
Fees and commission paid	(1 601)
Net trading and other income	1 767
Cash payments to employees and suppliers	(32 698)
Dividends received from banking and trading activities	110
Income taxes paid	(3 326)
Cash flow from operating activities before changes in operating assets and liabilities	18 165
Net (increase)/decrease in trading and hedging portfolio assets	(11 295)
Net increase in loans and advances to customers	(66 611)
Net decrease/(increase) in investment securities	17 722
Net (increase)/decrease in other assets	(18 427)
Net increase/(decrease) in trading and hedging portfolio liabilities	10 739
Net increase in amounts due to customers and banks	60 145
Net (decrease)/increase in other liabilities	(5 003)
Net cash generated from operating activities	5 435
Cash flow from investing activities	
Proceeds from disposal of non-current assets held for sale	50
Proceeds from disposal of investment properties	180
Purchase of property and equipment	(2 624)
Proceeds from disposal of properties and equipment	176
Purchase of intangible assets	(2 881)
Dividends received from investing activities	3
Investment in associates	(117)
Net cash utilised in investing activities	(5 213)
Cash flow from financing activities	
Purchase of Group shares in respect of equity-settled share-based payment schemes	(254)
Issue of Additional Tier 1 capital	3 054
Proceeds from borrowed funds	1 580
Repayment of borrowed funds	(500)
IFRS 16 lease liability	(938)
Distribution to Tier 1 capital holders	(435)
Dividends paid	(2 841)
Net cash generated from/(utilised in) financing activities	(334)
Net decrease in cash and cash equivalents	(112)
Cash and cash equivalents at the beginning of the reporting period	9 958
Cash and cash equivalents at the end of the reporting period	9 846

1. Summary of significant accounting policies (continued)

1.20 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 Bank.

1.20.1 Amendment to IFRS 16 Leases – Covid-19-related Rent Concessions

The amendments to IFRS 16 provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic, so long as specific conditions are met. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted. The amendments are effective for annual reporting periods beginning on or after 1 June 2020, with earlier application permitted.

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

The amendments 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 have been included.

The amendments are effective for annual reporting periods beginning on or after 1 January 2021, with earlier application permitted.

1.20.3 Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract

The amendments to IAS 37 specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. Costs that are required to be included are those that relate directly to a contract to provide goods or services, and include both incremental costs, as well as an allocation of costs directly related to contract activities. The amendments are effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted.

1.20.4 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 PP&E 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.

1.20.5 Amendments to IFRS 3 Business Combinations

The Amendments to IFRS 3 intend 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.

1.20.6 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.

	Bank 2020 Rm	Bank 2019 Rm
2. Cash, cash balances and balances with central banks		
Balances with the SARB	**25 460**	16 587
Coins and bank notes	**8 352**	8 898
	33 812	25 485

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.

	Bank 2020 Rm	Bank 2019 Rm
3. Investment securities		
Government bonds	**65 157**	36 078
Listed equity instruments	**535**	1 119
Other debt securities	**23 686**	20 839
Treasury bills	**9 546**	16 638
Unlisted equity and hybrid instruments	**572**	556
Gross investment securities	**99 496**	75 230
Impairment losses	**(7)**	(0)
	99 489	75 230

Government bonds of **R4 074m** (2019: R4 673m) 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 **R36m** (2019: R7m) has been recognised on investment securities at FVOCI.

	Bank 2020 Rm	Bank 2019 Rm
4. Loans and advances to banks		
Gross loans and advances to banks	**66 135**	45 013
Impairment losses	**(22)**	(20)
	66 113	44 993

Included above are reverse repurchase agreements of **R33 569m** (2019: R26 783m) and other collateralised loans of **R59m** (2019: R372m) relating to securities borrowed.

	Bank 2020 Rm	Bank 2019 Rm
5. Trading and hedging portfolio assets		
Commodities	1 082	668
Debt instruments	57 102	41 727
Derivative assets (refer to note 50.3 and 50.4)	98 139	57 088
Commodity derivatives	627	302
Credit derivatives	159	155
Equity derivatives	4 994	5 490
Foreign exchange derivatives	22 534	12 611
Interest rate derivatives	69 825	38 530
Equity instruments	890	520
Money market assets	8 935	11 589
Total trading portfolio assets	166 148	111 592
Hedging portfolio assets (refer to note 50.3)	10 998	3 355
	177 146	114 947

Trading portfolio assets with carrying values of **R13 407m** (2019: R18 719m) and **R1 837m** (2019: R4 381m) 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.

	Bank 2020 Rm	Bank 2019 Rm
6. Other assets		
Accounts receivable and prepayments	8 714	8 671
Deferred costs	179	181
Inventories	43	150
Cost	43	150
Write-down	—	—
Retirement benefit fund surplus (refer to note 36)	393	466
Settlement accounts	5 490	12 260
Gross other assets	14 819	21 728
Impairment losses	0	0
	14 819	21 728

	Bank 2020 Rm	Bank 2019 Rm
7. Non-current assets and non-current liabilities held for sale		
Non-current assets held for sale		
Balance at the beginning of the reporting period	**3 706**	50
Disposals	**(3 685)**	(50)
Impairment of an NCAHFS (refer to note 31)	**(17)**	—
Transfer from loans and advances to customers	**—**	3 685
Transfer from property and equipment (refer to note 12)	**132**	21
Balance at the end of the reporting period	**136**	3 706

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

- RBB South Africa disposed of the Edcon loan book with a carrying amount of **R3 685m**.
- Head Office, Treasury and other operations in South Africa 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.

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

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

	Bank 2020 Rm	Bank 2019 Rm
8. Loans and advances to customers		
Corporate overdrafts and specialised finance loans	**13 778**	11 920
Credit cards	**34 060**	32 866
Foreign currency loans	**39 274**	39 075
Instalment credit agreements	**99 651**	89 925
Finance lease receivables (refer to note 8.1)	**3 892**	4 467
Loans to associates and joint ventures (refer to note 40.5)	**26 869**	28 490
Micro loans	**4 241**	4 595
Mortgages	**325 050**	308 477
Other advances	**13 552**	12 723
Overdrafts	**43 845**	50 035
Overnight finance	**21 286**	19 717
Personal and term loans	**54 497**	47 481
Preference shares	**25 100**	20 986
Reverse repurchase agreements (Carries)	**37 001**	43 222
Wholesale overdrafts	**103 018**	102 466
Gross loans and advances to customers	**845 114**	816 445
Impairment losses	**(33 952)**	(22 063)
	811 162	794 382

The Bank has securitised certain loans and advances to customers, the total value of these securitised assets is **R6 545m** (2019: R6 056). Included above are collateralised loans of **R1 376m** (2019: 1 404m) 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.

Other advances include working capital solutions and collateralised loans.

Included in both gross loans and advances to customers, and in the total allowance for impairment losses, is accrued interest in suspense of **R4 091m** (2019: 3 277m).

8. Loans and advances to customers (continued)

	Bank					
	2020			2019		
	Gross advances Rm	Unearned finance charges Rm	Net advances Rm	Gross advances Rm	Unearned finance charges Rm	Net advances Rm
8.1 Finance lease receivables						
Maturity analysis						
Less than one year	**1 007**	**(15)**	**992**	966	(28)	938
Between one and five years	**3 153**	**(312)**	**2 841**	3 906	(479)	3 427
More than five years	**86**	**(27)**	**59**	148	(46)	102
Gross carrying amount	**4 246**	**(354)**	**3 892**	5 020	(553)	4 467

The Bank 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 of the lease entered into is five years.

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

Unguaranteed residual values of finance lease receivables at the reporting date are **R1 972m** (2019: R2 169m).

	Bank	
	2020 Rm	2019 Rm
9. Loans to group companies		
Gross loans to group companies	**56 347**	50 621
Impairment losses	**(202)**	(161)
	56 145	50 460

	Bank	
	2020 Rm	2019 Rm
10. Investments in associates and joint ventures		
Unlisted investments	**1 601**	1 648
10.1 Movement in carrying value of associates and joint ventures accounted for under the equity method		
Balance at the beginning of the reporting period	**1 648**	1 310
Share of current reporting period post-tax results	**(36)**	221
Share of current reporting period results before taxation	**(44)**	288
Taxation on reporting period results	**8**	(67)
Net movement resulting from additional acquisitions/capital contributions	**—**	117
Impairment of investments (refer to note 31)	**(11)**	—
Balance at the end of the reporting period	**1 601**	1 648

10. Investments in associates and joint ventures (continued)

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	
Bank share	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm
Post-tax profit/(losses) from continuing operations	**25**	25	**(61)**	196
Total comprehensive income	**25**	25	**(61)**	196

	Bank	
	2020 Rm	2019 Rm
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**	100
Share of post-acquisition reserves	**1 395**	1 431
Additional capital contribution	**117**	117
	1 601	1 648

	Bank					
	2020			2019		
	Associates Rm	**Joint ventures Rm**	**Total Rm**	Associates Rm	Joint ventures Rm	Total Rm
10.4 Carrying value of associates and joint ventures						
Equity accounted	**402**	**1 199**	**1 601**	376	1 272	1 648
Designated at fair value through profit or loss	**—**	**275**	**275**	30	299	329
	402	**1 474**	**1 876**	406	1 571	1 977

The investments in associates and joint ventures designated at fair value through profit and loss are presented within listed equity instruments under 'Investment Securities' (note 3).

Refer to note 40.5 for additional disclosure of the Bank's investments in associates and joint ventures.

	Bank 2020 Rm	Bank 2019 Rm
11. Deferred tax		
11.1 Reconciliation of net deferred tax (asset)/liability		
Balance at the beginning of the reporting period	**(1 556)**	(1 580)
Effects of adopting IFRS 16	**—**	(77)
Deferred tax on amounts charged directly to other comprehensive income and equity	**1 077**	170
Charge to profit and loss (refer to note 33)	**(1 549)**	(110)
Tax effect of translation and other differences	**6**	41
Balance at the end of the reporting period	**(2 022)**	(1 556)
11.2 Deferred tax (asset)/liability		
Tax effects of temporary differences between tax and book value for:		
Deferred tax liability	**8**	16
Prepayments, accruals and other provisions	**8**	17
Impairment of loans and advances	**—**	(1)
Deferred tax asset	**(2 030)**	(1 572)
Prepayments, accruals and other provisions	**(1 101)**	(403)
Capital allowances	**966**	1 080
Cash flow hedge and financial assets at fair value through other comprehensive income reserve	**1 449**	236
Own credit risk	**(112)**	(75)
Impairment of loans and advances	**(3 203)**	(1 907)
Lease and rental debtor allowances	**(98)**	(272)
Property allowances	**234**	208
Retirement benefit fund asset and liabilities	**99**	128
Fair value adjustments on financial instruments	**(129)**	(263)
Share-based payments	**(135)**	(304)
Net deferred tax (asset)/liability	**(2 022)**	(1 556)

	Bank 2020 Cost Rm	Bank 2020 Accumulated depreciation and/or impairments Rm	Bank 2020 Carrying value Rm	Bank 2019 Cost Rm	Bank 2019 Accumulated depreciation and/or impairments Rm	Bank 2019 Carrying value Rm
12. Property and equipment						
Computer equipment	**7 580**	**(5 286)**	**2 294**	7 863	(4 712)	3 151
Freehold property	**4 875**	**(337)**	**4 538**	5 543	(413)	5 130
Furniture and other equipment	**8 973**	**(4 412)**	**4 561**	8 716	(3 933)	4 783
Motor vehicles	**4**	**(3)**	**1**	4	(2)	2
Right-of-use assets	**4 297**	**(1 768)**	**2 529**	3 412	(890)	2 522
	25 729	**(11 806)**	**13 923**	25 538	(9 950)	15 588

12. Property and equipment (continued)

Bank

2020

Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals[1] Rm	Transfers Rm	Transfers to/(from) in-tangible assets Rm	Transfer to non-current assets held for sale Rm	Foreign exchange move-ments Rm	Depre-ciation Rm	Im-pairment Rm	Closing balance Rm
Computer equipment	3 151	535	(9)	(1)	40	—	—	(1 271)	(151)	2 294
Freehold property	5 130	230	(109)	(559)	—	(124)	—	(9)	(21)	4 538
Furniture and other equipment	4 783	283	(4)	560	—	(8)	1	(1 008)	(46)	4 561
Motor vehicles	2	—	(1)	—	—	—	—	0	—	1
Right-of-use assets	2 522	885	—	—	—	—	—	(878)	—	2 529
	15 588	1 933	(123)	—	40	(132)	1	(3 166)	(218)	13 923
Note		35			13	7		30	31	

2019

Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals[1] Rm	Transfers Rm	Transfers to intangibles Rm	Transfer to non-current assets held for sale Rm	Foreign exchange move-ments Rm	Depre-ciation Rm	Im-pairment Rm	Closing balance Rm
Computer equipment	3 411	1 013	(96)	1	—	—	—	(1 106)	(72)	3 151
Freehold property	5 228	744	(70)	(680)	—	(21)	—	(7)	(64)	5 130
Furniture and other equipment	4 969	160	(4)	679	—	—	—	(970)	(51)	4 783
Motor vehicles	1	2	—	—	—	—	—	(1)	—	2
Right-of-use assets	—	3 412	—	—	—	—	—	(880)	(10)	2 522
	13 609	5 331	(170)	—	—	(21)	—	(2 964)	(197)	15 588
Note		35				7		30	31	

Included in the above additions is **R226m** (2019: R722m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction.

R559m (2019: 680m) of assets under construction relating to computer equipment and furniture and other equipment was brought in to use during the reporting period. **R2m** (2019: R8m) of assets under construction relating to freehold property was brought in to use during the reporting period.

R132m (2019: R21m) of certain property and equipment was transferred to non-current assets held for sale due to a change in the use of the assets.

During the prior reporting period, a decision was made to impair certain property and equipment.

[1] An amount of **R559m** (2019: R680m) of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' **R1m** (2019: R1m) and 'Furniture and other equipment' **R558m** (2019: R679m) in accordance with the nature of these assets.

13. Goodwill and intangible assets

	Bank 2020 Cost Rm	Bank 2020 Accumulated amortisation and/or impairments Rm	Bank 2020 Carrying value Rm	Bank 2019 Cost Rm	Bank 2019 Accumulated amortisation and/or impairments Rm	Bank 2019 Carrying value Rm
Computer software development costs	**12 296**	**(2 807)**	**9 489**	10 895	(2 173)	8 722
Customer lists and relationships	**—**	**—**	**—**	410	(410)	—
Goodwill	**149**	**(37)**	**112**	149	(37)	112
Other	**70**	**(45)**	**25**	70	(41)	29
	12 515	**(2 889)**	**9 626**	11 524	(2 661)	8 863

Bank

2020

Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Amortisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	**8 722**	**2 774**	**35**	**(10)**	**(1 798)**	**(191)**	**(43)**	**9 489**
Goodwill	**112**	**—**	**—**	**—**	**—**	**—**	**—**	**112**
Other	**29**	**—**	**—**	**—**	**(7)**	**—**	**3**	**25**
	8 863	**2 774**	**35**	**(10)**	**(1 805)**	**(191)**	**(40)**	**9 626**
Note			48		30	31	12	

2019

Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Amortisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	7 098	2 881	—	—	(1 136)	(121)	—	8 722
Goodwill	112	—	—	—	—	—	—	112
Other	36	—	—	—	(7)	—	—	29
	7 246	2 881	—	—	(1 143)	(121)	—	8 863
Note					30	31		

The majority of computer software development costs were internally generated with the remainder externally acquired. Included in computer software development costs is **R3 171m** (2019: R5 016m) relating to assets under construction.

R3 788m (2019: R3 075m) 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.

	Bank 2020 Rm	Bank 2019 Rm
Composition of goodwill		
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
	112	112

In performing the annual impairment test on goodwill, when considering reasonably, possible changes to key assumptions, even if the estimated discount rate and/or growth rate was changed by **2%** (2019: 2%), no additional impairment loss would be recognised (2019: Rnil).

14. Deposits from banks

	Bank 2020 Rm	Bank 2019 Rm
Call deposits	16 610	12 056
Fixed deposits	13 423	26 502
Foreign currency deposits	24 988	33 329
Notice deposits	—	2 453
Other	2 185	2 225
Repurchase agreements	38 827	42 912
	96 033	119 477

15. Trading and hedging portfolio liabilities

	Bank 2020 Rm	Bank 2019 Rm
Derivative liabilities (refer to notes 50.3 and 50.4)	86 761	45 567
Commodity derivatives	765	475
Credit derivatives	141	132
Equity derivatives	3 152	1 832
Foreign exchange derivatives	19 921	11 916
Interest rate derivatives	62 782	31 212
Short positions	19 206	10 401
Total trading portfolio liabilities	105 967	55 968
Hedging portfolio liabilities (refer to note 50.3)	4 868	1 379
	110 835	57 347

16. Other liabilities

	Bank 2020 Rm	Bank 2019 Rm
Accruals	2 189	1 608
Audit fee accrual	120	142
Cash-settled share-based payment liability (refer to note 47)	138	282
Creditors	8 141	8 481
Deferred income	293	220
Lease liabilities	3 147	3 220
Settlement balances	8 447	18 385
	22 475	32 338

	Bank			
	2020			
	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	1 439	584	599	2 622
Additions	1 013	1 123	—	2 136
Amounts used	(1 441)	(385)	—	(1 826)
Reversals	(79)	(2)	—	(81)
Movement in provisions for financial guarantees, undrawn committed facilities and letters of credit (refer to note 54)	—	—	4	4
Balance at the end of the reporting period	932	1 320	603	2 855

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 54.2 for detailed reconciliations of the expected credit losses).

Provisions expected to be recovered or settled within 12 months after the reporting date amount to **R1 572m** (2019: R1 451m).

Sundry provisions include amounts with respect to fraud cases and litigation, claims and card incentive schemes.

	Bank	
	2020 Rm	2019 Rm
18. Deposits due to customers		
Call deposits	75 785	52 406
Cheque account deposits	218 268	160 138
Credit card deposits	2 033	1 862
Fixed deposits	198 861	193 395
Foreign currency deposits	30 022	23 975
Notice deposits	74 139	68 997
Other deposits	936	722
Repurchase agreements	10 991	19 884
Savings and transmission deposits	183 852	156 430
	794 887	677 809

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

	Bank	
	2020 Rm	2019 Rm
19. Debt securities in issue		
Commercial paper	4 504	5 290
Credit linked notes	11 151	9 464
Floating rate notes	48 722	57 028
Negotiable certificates of deposit	40 868	44 007
Other	1 616	1 481
Promissory notes	49	1 120
Senior notes	37 149	39 111
Structured notes and bonds	100	102
	144 159	157 603

20. Borrowed funds

			Bank 2020 Rm	Bank 2019 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
10.05%	5 February 2025	ii	**—**	807
11.365%	4 September 2025	iii	**—**	508
11.40%	29 September 2025	iv	**—**	288
11.74%	20 August 2026	v	**140**	140
11.81%	3 September 2027	vi	**737**	737
12.43%	5 May 2026	vii	**200**	200
Three-month JIBAR + 2.13%	17 May 2030	viii	**2 676**	—
Three-month JIBAR + 2.40%	11 April 2029	ix	**1 580**	1 580
Three-month JIBAR + 2.45%	29 November 2028	x	**1 500**	1 500
Three-month JIBAR + 3.50%	5 February 2025	xi	**—**	1 693
Three-month JIBAR + 3.50%	4 September 2025	xii	**—**	437
Three-month JIBAR + 3.60%	3 September 2027	xiii	**30**	30
Three-month JIBAR + 4.00%	5 May 2026	xiv	**31**	31
Three-month JIBAR + 4.00%	20 August 2026	xv	**1 510**	1 510
Three-month JIBAR + 4.00%	3 November 2026	xvi	**500**	500
Three-month JIBAR + 3.78%	17 March 2027	xvii	**642**	642
Three-month JIBAR + 3.85%	25 May 2027	xviii	**500**	500
Three-month JIBAR + 3.85%	14 August 2029	xix	**390**	390
Three-month JIBAR + 3.15%	30 September 2027	xx	**295**	295
Three-month JIBAR + 3.45%	29 September 2029	xxi	**1 014**	1 014
USD 6.25%	25 April 2028	xxii	**4 952**	4 952
Other				
Accrued interest			**1 104**	1 162
Fair value adjustments			**418**	245
Foreign exchange movements			**902**	621
			20 621	21 282

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 10.05% fixed rate notes were redeemed in full on 5 February 2020.

iii. The 11.365% fixed rate notes were redeemed in full on 4 September 2020.

iv. The 11.40% fixed rate notes were redeemed in full on 29 September 2020.

v. The 11.74% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 20 August 2021. Interest is paid semi-annually in arrears on 20 August and 20 February. Absa Bank Limited has an option to exercise the redemption on any interest payment date after 20 August 2021. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

vi. The 11.81% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 3 September 2022. Interest is paid semi-annually in arrears on 3 March and 3 September. Absa Bank 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 Bank Limited not exercise the redemption option.

vii. The 12.43% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

20. Borrowed funds (continued)

viii. The three month JIBAR plus 2.13% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 17 May 2025. Interest is paid quarterly in arrears on 17 February, 17 May, 17 August and 17 November. Absa Bank 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 Bank Limited not exercise the redemption option.

ix. The three month JIBAR plus 2.40% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 11 April 2024. Interest is paid quarterly in arrears on 11 January, 11 April, 11 July and 11 October. Absa Bank 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 Bank Limited not exercise the redemption option.

x. The three month JIBAR plus 2.45% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 29 November 2023. Interest is paid quarterly in arrears on 28 February, 29 May, 29 August and 29 November. Absa Bank 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 Bank Limited not exercise the redemption option.

xi. The three month JIBAR plus 3.50% floating rate notes were redeemed in full on 5 February 2020.

xii. The three month JIBAR plus 3.50% floating rate notes were redeemed in full on 4 September 2020.

xiii. The three month JIBAR plus 3.60% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Absa Bank 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 Bank Limited not exercise the redemption option.

xiv. The three month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

xv. The three month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 20 August 2021. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

xvi. The three month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 3 November 2021. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

xvii. The three month JIBAR plus 3.78% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 17 March 2022. Interest is paid quarterly in arrears on 17 March, 17 June, 17 September and 17 December. Absa Bank 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 Bank Limited not exercise the redemption option.

xviii. The three month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 25 May 2022. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August and 25 November. Absa Bank 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 Bank Limited not exercise the redemption option.

xix. The three month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 14 August 2024. Interest is paid quarterly in arrears on 14 February, 14 May, 14 August and 14 November. Absa Bank 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 Bank Limited not exercise the redemption option.

xx. The three month JIBAR plus 3.15% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 30 September 2022. Interest is paid quarterly in arrears on 30 March, 30 June, 30 September and 30 December. Absa Bank 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 Bank Limited not exercise the redemption option.

xxi. The three month JIBAR plus 3.45% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 29 September 2024. Interest is paid quarterly in arrears on 29 March, 29 June, 29 September and 29 December. Absa Bank 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 Bank Limited not exercise the redemption option.

xxii. The 6.25% fixed rate reset callable USD notes with a nominal amount of USD 400m may be redeemed in full at the option of Absa Bank Limited on 25 April 2023. Interest is payable semi-annually in arrears on 25 April and 25 October of each year. Absa Bank Limited has the option to exercise the redemption on 25 April 2023. If Absa Bank 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.

Note i is listed on the Johannesburg Stock Exchange Debt Market.

Notes ii to xxii have been issued to Absa Group Limited.

In accordance with its memorandum of incorporation, the borrowing powers of Absa Bank Limited are unlimited.

	Bank 2020 Rm	Bank 2019 Rm
21. Share capital and premium		
21.1 Ordinary share capital		
Authorised		
320 000 000 (2019: 320 000 000) ordinary shares of R1.00 each	**320**	320
250 000 000 (2019: 250 000 000) 'A' ordinary shares of R0.01 each	**3**	3
	323	323
Issued		
302 609 369 (2019: 302 609 369) ordinary shares of R1.00 each	**303**	303
145 691 959 (2019: 145 691 959) 'A' ordinary shares of R0.01 each	**1**	1
	304	304
Total issued capital		
Share capital	**304**	304
Share premium	**36 879**	36 879
	37 183	37 183

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.

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

	Bank 2020 Rm	Bank 2019 Rm
21.2 Preference share capital and premium		
Authorised		
30 000 000 (2019: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each	**1**	1
Issued		
4 944 839 (2019: 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 preference shares have a dividend rate of 70% of the prime overdraft lending rate. The holders of such 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 a resolution is proposed by the Company which directly affects the rights attracted to the preference shares or the interest of the holders thereof.

21.3 Directors' interests in Absa Bank Limited preference shares
As at the reporting date, no director held any preference shares of Absa Bank Limited.

21. Share capital and premium (continued)

21.4 Additional tier 1 capital

		Bank	
		2020 Rm	2019 Rm
Subordinated callable notes issued by Absa Bank 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**	—
		7 004	5 795

The additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Bank 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.

22. Other reserves

22.1 Fair value reserve

The fair value reserve comprises of 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 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 Bank recognises the cumulative net change in fair value in retained earnings.

22.2 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.

22.3 Foreign currency translation reserve

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

22.4 Capital reserve

The capital reserve arose on the amalgamation of the founding banks of Absa Bank Limited.

22.5 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 or if the options lapse after vesting, the reserve related to the specific options 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.

22.6 Associates' and joint ventures' reserve

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

22.7 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 including changes in OCI with respect to the following:

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

	Bank 2020 Rm	Bank 2019 Rm
23. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	1	4
Interest on hedging instruments	1 557	331
Investment securities	6 900	7 342
Loans and advances to banks	2 297	1 739
Loans and advances to customers	62 106	70 691
Corporate overdrafts and specialised finance loans	767	1 003
Credit cards	4 389	4 846
Foreign currency loans	760	1 468
Instalment credit agreements and finance lease receivables	8 640	9 801
Loans to associates and joint ventures	1 662	2 031
Microloans	726	663
Mortgages	22 854	26 822
Other advances	1 040	840
Overdrafts	4 711	4 136
Overnight finance	1 180	2 050
Personal and term loans	5 732	6 182
Preference shares	1 453	1 570
Wholesale overdrafts	8 192	9 279
Other interest	1 025	1 545
	73 886	81 652

	Bank 2020 Rm	Bank 2019 Rm
Classification of interest and similar income		
Interest on hedging instruments	1 557	331
Cash flow hedges (refer to note 50.6)	2 705	671
Fair value hedges	(1 148)	(340)
Interest on financial assets held at amortised cost	68 134	76 593
Interest on financial assets measured at FVOCI	2 422	2 947
Interest on financial assets measured at FVTPL	1 773	1 781
Investment securities	43	158
Loans and advances to customers	1 730	1 623
	73 886	81 652

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

Other interest includes items such as overnight interest on contracts for difference.

	Bank	
	2020 Rm	2019 Rm
24. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	2 159	2 134
Debt securities in issue	11 376	12 540
Deposits due to customers	26 427	32 864
Call deposits	3 898	4 972
Cheque account deposits	3 361	3 158
Credit card deposits	6	7
Fixed deposits	7 825	12 484
Foreign currency deposits	87	189
Notice deposits	3 485	4 986
Other deposits	39	369
Savings and transmission deposits	7 726	6 699
Deposits from banks	1 089	2 105
Call deposits	55	472
Fixed deposits	856	1 290
Foreign currency deposits	178	343
Interest on hedging instruments	(738)	(187)
Interest incurred on finance leases	274	286
Other	115	138
	40 702	49 880
Classification of interest expense and similar charges		
Interest on hedging instruments	(738)	(187)
Cash flow hedges (refer to note 50.6)	(471)	(100)
Fair value hedges	(267)	(87)
Interest on financial liabilities held at amortised cost	41 440	50 067
	40 702	49 880

Other interest and similar charges include items such as overnight interest on contracts for difference.

25. Net fee and commission income

	Bank 2020 Rm	Bank 2019 Rm
Consulting and administration fees	414	303
Credit-related fees and commissions	15 921	17 275
Cheque accounts	5 079	5 471
Credit cards	1 712	2 276
Electronic banking	5 200	5 397
Other	2 296	2 136
Savings accounts	1 634	1 995
Insurance commission received	612	593
Asset management, markets execution and investment banking fees	382	396
Merchant income	1 925	1 902
Other	146	120
Trust and other fiduciary services	86	72
Portfolio and other management fees	79	63
Trust and estate income	7	9
Fee and commission income	19 486	20 661
Fee and commission expense	(1 796)	(1 601)
Brokerage fees	—	(1)
Cheque processing fees	(90)	(120)
Clearing and settlement charges	(921)	(755)
Notification fees	(250)	(216)
Other	(449)	(431)
Valuation fees	(86)	(78)
	17 690	19 060

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

25.1 Included above are net fees and commissions linked to financial instruments not at fair value

	Bank 2020 Rm	Bank 2019 Rm
Cheque accounts	5 079	5 471
Credit cards	1 712	2 276
Electronic banking	5 200	5 397
Other	2 296	2 136
Savings accounts	1 634	1 995
Fee and commission income	15 921	17 275
Fee and commission expense	(1 477)	(1 312)
	14 444	15 963

Credit cards include acquiring and issuing fees.

Other credit-related fees and commission income include service and credit-related fees and commissions on mortgage loans and foreign exchange transactions.

	Bank 2020 Rm	Bank 2019 Rm
26. Gains and losses from banking and trading activities		
Net (losses)/gains on investments	(264)	37
Debt instruments held at FVTPL	1	(2)
Equity instruments mandatorily measured at FVTPL	(297)	19
Unwind from reserves for debt instruments at FVOCI	32	20
Net trading result	2 684	1 559
Net trading income excluding the impact of hedge accounting	2 107	1 318
Ineffective portion of hedges	577	241
Cash flow hedges (refer to note 50.6.2)	566	225
Fair value hedges (refer to note 50.6.1)	11	16
Other losses	(136)	(111)
	2 284	1 485
Net trading result and other losses on financial instruments		
Net trading income excluding the impact of hedge accounting	2 107	1 318
Gains/(losses) on financial instruments designated at FVTPL	10 039	(7 178)
Net gains on financial assets designated at FVTPL	3 543	9 173
Net gains/(losses) on financial liabilities designated at FVTPL	6 496	(16 351)
(Losses)/gains on financial instruments mandatorily measured at FVTPL	(7 932)	8 496
Other (losses)/gains	(136)	(111)
Gains/(losses) on financial instruments designated at FVTPL	842	(63)
Losses on financial instruments mandatorily measured at FVTPL	(978)	(48)

	Bank 2020 Rm	Bank 2019 Rm
27. Gains and losses from investment activities		
Other gains	3	3

	Bank 2020 Rm	Bank 2019 Rm
28. Other operating income		
Foreign exchange differences, including amounts recycled from other comprehensive income	30	(6)
Income arising from contracts with customers	94	64
Income from maintenance contracts	36	33
Profit on disposal of property and equipment	54	6
Profit on sale of repossessed properties	4	25
Gross sales	22	57
Cost of sales	(18)	(32)
Rental income	16	22
Sundry income[1]	386	357
	526	437

[1] Sundry income includes profit on disposal of non-core assets.

	Bank 2020 Rm	Bank 2019 Rm
29. Impairment losses		
Impairment losses raised during the reporting period	**16 094**	6 571
Stage 1 expected losses	**1 659**	(454)
Stage 2 expected losses	**3 749**	1 535
Stage 3 expected losses	**10 686**	5 490
Losses on modifications	**33**	118
Recoveries of loans and advances previously written off	**(298)**	(657)
	15 829	6 032

	Bank 2020 Rm	Bank 2019 Rm
30. Operating expenses		
Administration fees	**453**	1 082
Amortisation of intangible assets (refer to note 13)	**1 805**	1 143
Auditors' remuneration	**310**	280
Audit fees – current reporting period	**280**	236
Audit fees – Under provision	**—**	9
Audit-related fees	**20**	19
Other services	**10**	16
Cash transportation	**1 071**	1 195
Depreciation (refer to note 12)	**3 166**	2 964
Equipment costs	**163**	182
Maintenance	**94**	114
Rentals	**69**	68
Information technology	**3 664**	3 334
Marketing costs	**1 046**	1 322
Other (includes fraud losses, travel, entertainment costs and recoveries from fellow subsidiaries)	**(333)**	377
Printing and stationery	**161**	206
Professional fees	**2 194**	1 889
Property costs	**1 432**	1 380
Staff costs	**17 179**	18 462
Bonuses	**1 015**	1 461
Deferred cash and share-based payments (refer to note 47)	**402**	588
Other	**215**	344
Salaries and current service costs on post-retirement benefit funds	**15 176**	15 710
Training costs	**371**	359
Straight line lease expenses on short term leases and low value assets	**95**	90
Telephone and postage	**683**	741
TSA direct costs	**113**	469
	33 202	35 116

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies. Professional fees include research and development costs totalling **R250m** (2019: R78m). 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.

	Bank 2020 Rm	Bank 2019 Rm
31. Other impairments		
Intangible assets (refer to note 13)[1]	191	121
Investments in associates and joint ventures (refer to note 10)[2]	11	—
Non-current assets held for sale[3]	17	—
Property and equipment (refer to note 12)[4]	218	197
	437	318

	Bank 2020 Rm	Bank 2019 Rm
32. Indirect taxation		
Training levy	105	153
VAT net of input credits	1 256	985
	1 361	1 138

	Bank 2020 Rm	Bank 2019 Rm
33. Taxation expense		
Current		
Foreign and other taxation	177	152
South African current tax	1 681	2 873
South African current tax – previous reporting period	441	(427)
	2 299	2 598
Deferred		
Deferred tax (refer to note 11)	(1 549)	(110)
Capital allowances	161	(32)
Expected credit losses/allowances for loan losses	(1 081)	(127)
Provisions	(207)	(89)
Movements in prepayments, accruals and other provisions	(483)	130
Fair value and similar adjustments through profit and loss	(49)	(37)
Fair value and similar adjustments in relation to prior year	(74)	57
Share-based payments	184	(12)
	750	2 488
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	2 822	10 374
Share of post-tax results of associates and joint ventures (refer to note 10)	36	(221)
	2 858	10 153
Tax calculated at a tax rate of 28%	800	2 843
Effect of different tax rates in other countries	133	152
Expenses not deductible for tax purposes[5]	256	295
Dividend income	(440)	(538)
Non-taxable interest[6]	(165)	(122)
Other income not subject to tax	(14)	(17)
Non-taxable portion of capital gain	108	(18)
Other	72	(107)
	750	2 488

1 The Bank has impaired certain software assets totaling **R191m** (2019: R121m) for which the value in use is determined to be zero.

2 As a result of the SARB decision to no longer allow for cheques as a form of payment in South Africa, the Board of Directors of Integrated Processing Solutions Proprietary Limited have approved the dissolution of IPS. As a result, an impairment of the investment in the joint venture of **R11m** (2019: Rnil) has been recognised.

3 The Bank has impaired certain fixed assets totalling **R17m** (2019: Rnil) which have been classified as held for sale under IFRS 5.

4 The Bank has decided to dispose of certain property and equipment classified as held for sale under IFRS 5 resulting in an impairment of **R19m** (2019: R64m). As the property and equipment will be disposed of, the impairment was calculated based on fair value less costs to sell prior to transferring to non-current assets held for sale. In addition, property and equipment amounting to **R199m** (2019: R133m) was impaired without a related transfer to non-current assets held for sale.

5 This includes donations, non-deductible expenses.

6 This relates to interest earned on certain capital instruments, which is exempt from tax.

	Bank			
	2020		2019	
	Gross Rm	Net Rm	Gross Rm	Net Rm
34. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders of the Bank		1 176		7 098
Total headline earnings adjustment:		226		222
IFRS 3 – Gain on bargain purchase (refer to note 48)	(86)	(86)	—	—
IFRS 5 – Re-measurement of non-current assets held for sale (refer to note 31)	17	13	(9)	(6)
IAS 16 – (Profit)/loss on disposal of property and equipment (refer to note 28)	(54)	(42)	(6)	(4)
IAS 28 – Impairment of investments in associates and joint ventures (refer to note 31)	11	11	—	—
IAS 36 – Impairment of property and equipment (refer to note 31)	218	158	197	145
IAS 36 – Impairment of intangible assets (refer to note 31)	191	172	121	87
Headline earnings/diluted headline earnings		1 402		7 320
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		312.7		1 632.8

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

	Bank	
	2020 Rm	2019 Rm
35. Leases		
The following amounts have been recognised in the statement of comprehensive income in respect of leases in which the Bank is the lessee:		
Depreciation charge for right-of-use assets (refer to note 12)	878	880
Property	878	880
Interest expense on lease liabilities (refer to note 24)	274	286
Expenses related to short-term leases	154	146
Expenses related to low-value assets	9	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)	2 529	2 522
Property	2 529	2 522
Total additions to right-of-use assets recognised during the year (refer to note 12)	885	3 412
Total cash outflow included in the statement of cash flows related to leases	1 249	1 224
Maturity analysis of lease liabilities – contractual undiscounted cash flows:		
Less than one year	1 063	1 055
Between one and five years	2 107	2 318
More than five years	730	633
Total undiscounted lease liabilities	3 900	4 006
Lease liabilities included in the statement of financial position (refer to note 16)	3 147	3 220

The Bank'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 Bank. Leases are negotiated for an average term of three to five years although this differs depending on the 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 Bank will exercise the extension option. Most leases in the Bank have fixed escalations.

36. Retirement benefit fund obligations

36.1 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 2019 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 retirement benefit fund obligations.

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 plans assets relating to these pensioners that have elected to receive a living annuity, amount to **R3 541m** (2019: R3 742m).

	Bank Absa Pension Fund	
	2020	2019
Categories of the Fund		
Defined benefit active members	**14**	15
Defined benefit deferred pensioners	**2**	2
Defined benefit pensioners	**8 225**	8 198
Defined contribution active members	**19 544**	21 490
Defined contribution pensioners	**2 942**	2 865
Duration of the scheme – defined benefit (years)	**9.0**	8.8
Duration of the scheme – defined contribution (years)	**19.6**	20.4
Duration of the scheme – defined contribution option (years)	**15.2**	15.2
Expected contributions to the Fund for the next 12 months (Rm)	**1 162.0**	1 218.5

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.

36. Retirement benefit fund obligations (continued)

36.1 Absa Pension Fund (continued)

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.

The Fund investments are managed on a Liability Driven Investment (LDI) mandate. The primary objective of the portfolio manager for the defined benefit section of the Fund to achieve is a net real return of 4.5% per annum, measured over rolling 36-month periods.

	Bank	
	2020 Rm	2019 Rm
36.1.1 Reconciliation of the net defined benefit plan surplus		
Reconciliation of the net surplus		
Present value of funded obligations	(26 100)	(26 710)
Defined benefit portion	(7 319)	(7 149)
Defined contribution portion	(18 781)	(19 561)
Fair value of the plan assets	27 124	28 832
Defined benefit portion	8 343	9 271
Defined contribution portion	18 781	19 561
Funded status	1 024	2 122
Irrecoverable surplus (effect of asset ceiling)	(631)	(1 656)
Net surplus arising from the defined benefit obligation	393	466
36.1.2 Reconciliation of movement in the funded obligation		
Balance at the beginning of the reporting period	(26 710)	(26 529)
Defined benefit portion	(7 149)	(7 055)
Defined contribution portion	(19 561)	(19 474)
Reconciling items – defined benefit portion	(170)	(94)
Actuarial gains – financial	22	14
Actuarial gains – experience adjustments	137	149
Benefits paid	794	800
Current service costs	(13)	(13)
Interest expense	(667)	(694)
Defined contribution member transfers	(443)	(350)
Reconciling items – defined contribution portion	780	(87)
Increase in obligation linked to plan assets return	(1 213)	(792)
Employer contributions	(692)	(799)
Employee contributions	(546)	(584)
Disbursements and member transfers	3 231	2 088
Balance at the end of the reporting period	(26 100)	(26 710)

	Bank 2020 Rm	Bank 2019 Rm
36. Retirement benefit fund obligations (continued)		
36.1 Absa Pension Fund (continued)		
36.1.3 Reconciliation of movement in the plan assets		
Balance at the beginning of the reporting period	**28 832**	28 601
Defined benefit portion	**9 271**	9 127
Defined contribution portion	**19 561**	19 474
Reconciling items – defined benefit portion	**(928)**	144
Benefits paid	**(794)**	(800)
Employer contributions	**1**	1
Interest income	**867**	902
Return on plan assets in excess of interest	**(1 445)**	(309)
Defined contribution member transfers	**443**	350
Reconciling items – defined contribution portion	**(780)**	87
Return on plan assets	**1 213**	792
Employer contributions	**692**	799
Employee contributions	**546**	584
Disbursements and member transfers	**(3 231)**	(2 088)
Balance at the end of the reporting period	**27 124**	28 832
36.1.4 Reconciliation of movement in the irrecoverable surplus		
Balance at the beginning of the reporting period	**(1 656)**	(1 606)
Interest on irrecoverable surplus	**(157)**	(162)
Changes in the irrecoverable surplus in excess of interest	**1 182**	112
Balance at the end of the reporting period	**(631)**	(1 656)

	Bank 2020 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
36.1.5 Nature of the pension fund assets				
Plan assets relating to the defined benefit plan				
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

36. Retirement benefit fund obligations
(continued)

36.1 Absa Pension Fund (continued)

36.1.5 Nature of the pension fund assets (continued)

	2019 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Defined benefit portion	3 224	5 403	644	9 271
Quoted fair value	3 015	5 390	98	8 503
Unquoted fair value	182	5	430	617
Own transferable financial instruments	27	8	—	35
Investments in listed property entities/funds	—	—	116	116
Defined contribution portion	3 477	12 486	3 598	19 561
Quoted fair value	3 288	12 468	1 359	17 115
Unquoted fair value	132	—	1 538	1 670
Own transferable financial instruments	57	18	103	178
Investments in listed property entities/funds	—	—	598	598
	6 701	17 889	4 242	28 832

	Bank 2020 Rm	Bank 2019 Rm
36.1.6 Movements in the defined benefit plan presented in the statement of comprehensive income		
Recognised in profit or loss:		
Net interest income	**(43)**	(46)
Current service cost	**13**	13
	(30)	(33)
Recognised in other comprehensive income:		
Actuarial gains – financial	**(22)**	(14)
Actuarial adjustments gains – experience	**(137)**	(149)
Return on plan assets in excess of interest	**1 445**	309
Changes in the irrecoverable surplus in excess of interest	**(1 182)**	(112)
	104	34
36.1.7 Actuarial assumptions used:		
Discount rate (%) p.a.	**10.5**	9.5
Inflation rate (%) p.a.	**5.2**	5.2
Expected rate on the plan assets (%) p.a.	**9.2**	9.2
Future salary increases (%) p.a.	**6.2**	6.2
Average life expectancy in years of pensioner retiring at 60 – male	**21.8**	22.8
Average life expectancy in years of pensioner retiring at 60 – female	**26.7**	27.6

36. Retirement benefit fund obligations (continued)

36.1 Absa Pension Fund (continued)

36.1.8 Sensitivity analysis of the significant actuarial assumptions

	Bank 2020 Reasonable possible change	Bank 2020 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**

	2019 Reasonable possible change	2019 Increase/ (decrease) on defined benefit obligation Rm
Increase in discount rate (%)	0.5	(255)
Increase in inflation (%)	0.5	295
Increase in life expectancy (years)	1	220

36.1.9 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 319m** (2019: R7 149m).

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 **R18 781m** (2019: R 19 561m) 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.

	Bank 2020 Rm	Bank 2019 Rm
37. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend[1] **(2020: 0 cents per share (cps)** (13 August 2019: 446.12851 cps)	—	2 000
Final dividend[1] **(15 March 2021: 0 cps)** (11 March 2020: 446.129 cps)	—	2 000
	—	4 000
Dividends declared to preference equity holders		
Interim dividend **(31 August 2020: 2 741.0274 cps)** (13 August 2019: 3 595.89 cps)	135	178
Final dividend **(15 March 2021: 2 429.86301 cps)** (11 March 2020: 3 469.31507 cps)	120	172
	255	350
Distributions declared to additional Tier 1 capital note holder		
Distribution		
10 January 2020: 29 049.32 Rands per note (rpn); 10 January 2019: 29 981.67 rpn	36	37
28 February 2020: 28 502.36 rpn	47	—
05 March 2020: 27 569.26 rpn	38	—
14 March 2020: 31 039.73 rpn; 14 March 2019: 31 561.64 rpn	47	47
14 April 2020: 30 061.64 rpn; 10 April 2019: 29 342.47 rpn	37	36
28 May 2020: 27 143.01 rpn	46	—
05 June 2020: 27 075.73 rpn	37	—
12 June 2020: 30 392.77 rpn; 12 June 2019: 32 263.01 rpn	46	49
10 July 2020: 24 669.86 rpn; 10 July 2019: 29 688.43 rpn	31	37
28 August 2020: 21 487.67 rpn; 28 August 2019: 29 344.21 rpn	36	49
07 September 2020: 21 138.41 rpn	29	—
14 September 2020: 24 702.68 rpn; 12 September 2019: 32 031.12 rpn	37	48
12 October 2020: 22 212.33 rpn; 10 October 2019: 29 659.28 rpn	28	37
30 November 2020: 20 453.37 rpn; 28 November 2019: 28 525.04 rpn	34	48
07 December 2020: 19 177.32 rpn	26	—
14 December 2020: 22 500.68 rpn; 12 December 2019: 31 059.67 rpn	34	47
	589	435
Dividends paid to ordinary equity holders		
Final dividend **(20 April 2020: 446.129 cps)** (15 April 2019: 111.532 cps)	2 000	500
Interim dividend[1] **(2020: 0 cps)** (16 September 2019: 446.12851 cps)	—	2 000
	2 000	2 500
Dividends paid to preference equity holders		
Final dividend **(20 April 2020: 3 469.31507 cps)** (15 April 2019: 3 518.6986 cps)	172	174
Interim dividend **(21 September 2020: 2 741.0274 cps)** (16 September 2019: 3 595.89 cps)	135	178
	307	352
Distributions paid to Additional Tier 1 capital note holder		
Distributions		
10 January 2020: 29 049.32 Rands per note (rpn); 10 January 2019: 29 981.67 rpn	36	37
28 February 2020: 28 502.36 rpn	47	—
05 March 2020: 27 569.26 rpn	38	—
14 March 2020: 31 039.73 rpn; 14 March 2019: 31 561.64 rpn	47	47
14 April 2020: 30 061.64 rpn; 10 April 2019: 29 342.47 rpn	37	36
28 May 2020: 27 143.01 rpn	46	—
05 June 2020: 27 075.73 rpn	37	—
12 June 2020: 30 392.77 rpn; 12 June 2019: 32 263.01 rpn	46	49
10 July 2020: 24 669.86 rpn; 10 July 2019: 29 688.43 rpn	31	37
28 August 2020: 21 487.67 rpn; 28 August 2019: 29 344.21 rpn	36	49
07 September 2020: 21 138.41 rpn	29	—
14 September 2020: 24 702.68 rpn; 12 September 2019: 32 031.12 rpn	37	48
12 October 2020: 22 212.33 rpn; 10 October 2019: 29 659.28 rpn	28	37
30 November 2020: 20 453.37 rpn; 28 November 2019: 28 525.04 rpn	34	48
07 December 2020: 19 177.32 rpn	26	—
14 December 2020: 22 500.68 rpn; 12 December 2019: 31 059.67 rpn	34	47
	589	435

[1] In the current economic climate, capital conservation, including proactive and appropriate management thereof, is regarded paramount to the Bank's sustainability over the short to medium term. The Prudential Authority (PA) has encouraged the boards of directors of banks to ensure that capital conservation takes ultimate priority over any distributions of dividends on ordinary shares. As a result, no dividend was declared for the period ended 31 December 2020. The 2019 year-end dividend was declared before this guidance was issued and paid out to shareholders post-consultation with the PA.

38. Securities borrowed/lent and repurchase/reverse repurchase agreements

38.1 Reverse repurchase agreements and securities borrowed

As part of the reverse repurchase agreements and securities borrowing agreements, the Bank 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 **R97 274m** (2019: R92 320m) of which **R55 577m** (2019: R55 248m) have been sold or repledged.

38.2 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:

	Bank				
	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**
	2019				
	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	23 393	(22 775)	23 393	(22 775)	618
Equity instruments	4 381	(1 102)	4 381	(1 102)	3 279

The transferred assets are presented in the 'Trading portfolio assets' and 'Investment securities' lines on the statement of financial position.

39. Transfer of financial assets

39.1 Transfer of financial assets involving structured entities

In the ordinary course of its normal banking activities the Bank 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 Bank 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.

39.2 Transfer of financial assets that does not result in derecognition

	Bank				
	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**
	2019				
	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	892	(619)	892	(619)	273
Loans and advances to customers	7 485	(5 197)	7 485	(5 197)	2 288

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 Bank.

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.

39. Transfer of financial assets (continued)

39.3 Continuing involvement in financial assets that have been derecognised in their entirety

The instance may arise where the Bank 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 2019, the Bank had no continuing involvement where financial assets have been derecognised in their entirety (2019: None).

40. Related parties

40.1 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). 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:

	Bank	
	2020 Rm	2019 Rm
Key management personnel compensation		
Directors		
Deferred cash payments	2	3
Non-deferred cash payments	—	12
Post-employment benefit contributions	1	—
Salaries and other short-term benefits	16	20
Share-based payments	14	9
	33	44
Other key management personnel		
Deferred cash payments	3	9
Non-deferred cash payments	3	27
Post-employment benefit contributions	2	2
Salaries and other short-term benefits	55	55
Share-based payments	27	50
	90	143

40. Related parties (continued)

40.1 Transactions with key management personnel (continued)

	Bank			
	2020		2019	
	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	44	11	87	20
Inception/(discontinuance) of related-party relationships[1]	(7)	7	(48)	—
Loans issued and interest earned	35	1	21	—
Loans repaid	(35)	(3)	(16)	(9)
Balance at the end of the reporting period	37	16	44	11
Interest income	(3)	(1)	(4)	—
Deposits				
Balance at the beginning of the reporting period	2	—	27	6
Inception/(discontinuance) of related-party relationships[1]	0	—	(20)	(6)
Deposits received	158	8	98	—
Deposits repaid and interest paid	(138)	(8)	(103)	—
Balance at the end of the reporting period	22	—	2	—
Interest expense	1	—	1	—
Guarantees	92	24	88	12
Other investments				
Balance at the beginning of the reporting period	54	42	134	44
(Discontinuance)/inception of related-party relationships[1]	6	—	(48)	—
Value of new investments/contributions	3	1	56	—
Value of withdrawals/disinvestments	(3)	(8)	(70)	(2)
Fees and charges	0	—	—	—
Investment returns	30	—	(18)	—
Balance at the end of the reporting period	90	35	54	42

Loans include mortgages, asset finance transactions, overdrafts and other credit facilities. Loans to key management personnel are provided on the same terms and conditions as loans to employees of the Bank, including interest rates and collateral requirements. No loans to key management personnel or entities controlled by key management personnel were written off as irrecoverable.

In addition to the specific guarantees, a number of key management personnel and entities controlled by key management personnel have unlimited surety with the Bank.

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R1m** (2019: R1.3m) and received claims of **R0m** (2019: R0m).

[1] Includes balances relating to key management personnel who resigned during the reporting periods.

40. Related parties (continued)

40.2 Balances and transactions with the parent company, fellow subsidiaries, and associates and joint ventures of the parent company

	Bank[1] 2020 Parent company Rm	2020 Fellow subsidiaries and associates and joint ventures of the parent Rm	2019 Parent company Rm	2019 Fellow subsidiaries and associates and joint ventures of the parent Rm
Balances				
Cash and cash balances with central banks	—	—	—	—
Loans and advances to banks	—	401	—	57
Trading portfolio assets	—	(116)	—	7
Other assets	—	1 057	—	—
Loans to Absa group companies	—	56 346	—	50 460
Deposits from banks	—	(6 303)	—	(8 553)
Other liabilities	—	(60)	—	—
Borrowed funds	—	(17 756)	—	(18 649)
Transactions				
Dividends paid	2 000	—	2 500	—
Distributions paid to Tier 1 capital holders	589	—	435	—
Interest and similar income	—	(884)	—	(1 324)
Interest expense and similar charges	—	1 684	28	2 200
Fee and commission income	—	(575)	—	(547)
Fee and commission expense	—	3	—	11
Gains and losses from banking and trading activities	—	1 355	—	(1 170)
Gains and losses from investing activities	—	(2)	—	—
Other operating income	—	(2)	—	(2)
Operating expenditure/(recovered expenses)	—	(1 391)	—	(1 403)
Equity Distribution[2]	—	(42)	—	—

40.3 Subsidiaries and consolidated structured entities

The following information provided is in respect of the Bank'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 Bank'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.

Name	Nature of business	Country of incorporation	Bank 2020 % holding	Bank 2019 % holding
Absa Representative Office Nigeria Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	100	100
Absa Technology Finance Solutions Proprietary Limited	Financial broker/executive finance company.	South Africa	100	100
Absa Vehicle and Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	100	100
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	100	100

[1] Debit amounts are shown as positive, credit amounts are shown as negative.
[2] This relates to an equity distribution to a subsidiary of Absa Group Limited.

40. Related parties (continued)

40.3 Subsidiaries and consolidated structured entities (continued)

Name	Nature of business	Country of incorporation	Bank 2020 % holding	Bank 2019 % holding
Structured entities				
Absa Foundation Trust	Fund used to invest in unit trusts. 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
Home Obligor Mortgages Enhanced Securities (RF) Limited	Securitisation vehicle for Absa Home Loans division.	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
Absa Home Loans 101 (RF) Limited	Securitisation vehicle.	South Africa	n/a	n/a
Commissioner Street No 10 (RF) 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 Bank.

40.4 Nature and extent of significant restrictions relating to investments in subsidiaries

There are significant restrictions on the ability of the Bank 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 Bank'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 Bank was **R73.6bn** (2019: R69.2bn).

Contractual requirements

Certain of the Bank'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 Bank 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 2020 was **R10.5bn** and **R10.4bn** respectively (2019: R10.6bn and R10.5bn respectively).

40. Related parties (continued)

40.5 Associates, joint ventures and retirement benefit fund

The Bank provides certain banking and financial services to associates and joint ventures. The Bank also provides a number of current and interest-bearing cash accounts to the Absa Pension Fund. These transactions are generally conducted on the same terms as third-party transactions.

In aggregate, the amounts included in the Bank's consolidated financial statements are as follows:

	Bank 2020 Associates and joint ventures Rm
Statement of financial position	
Other assets	6
Loans and advances to customers	26 885
Other liabilities	(12)
Deposit due to customer	(211)
Statement of comprehensive income	
Interest income	1 614
Interest expense	(14)
Fee and commission income	73
Fee and commission expense	(3)
Operating expenses	(1 182)
Operating income	1

	2019[2] Associates and joint ventures Rm
Statement of financial position	
Other assets	—
Loans and advances to customers	28 490
Other liabilities	—
Deposit due to customers	—
Statement of comprehensive income	
Interest income	2 031
Interest expense	—
Fee and commission income	158
Fee and commission expense	(114)
Operating expenses	(1 193)
Operating income	—

[1] The amounts in relation to our retirement benefit fund are included as part of the staff expense cost in the operating expenses note. Such amounts have no effect on the net interest income of the Bank

[2] Disclosure of defined benefit and defined contribution plan investments managed by the group has not been provided as Absa Consultants and Actuaries (Pty) Ltd is no longer a related party per IAS 24. The disclosure for 2019 has been updated accordingly.

40. Related parties (continued)

40.5 Associates, joint ventures and retirement benefit fund (continued)

The information provided below is in respect of the Bank'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 Bank's associates and joint ventures, on the Bank's consolidated financial statements. Despite these investments having the most significant impact relative to all the Bank's associates and joint ventures, none of the Bank's associates or joint ventures are considered to have an impact that is individually material. Materiality and the relative significance of the Bank's associates and joint ventures are judged from a qualitative and quantitative perspective and is assessed half-yearly.

		Bank	
Name	Nature of business	2020 Ownership %	2019 Ownership %
Equity-accounted associates			
SBV Services Proprietary Limited	Cash transportation services.	**25**	25
Documents Exchange Association (DEA)	Facilitates the electronic exchange of documents between the banks.	**25**	25
The 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**	50
MAN Financial Services (SA) (RF) Proprietary Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	**50**	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 Bank.

SBV Services Proprietary Limited and The South Africa Bankers Services Company Proprietary Limited have a reporting period of 30 June.

In light of the SARB's withdrawal of cheques as a form of payment from the National Payments System in South Africa, the Bank, as well as Standard Bank have given an official notice to exit cheque instruments with effect from 31 December 2020 and consequently no longer requires the services of cheque processing provided by Integrated Processing Solutions Proprietary Limited (IPS); a joint venture that the Bank holds with Standard Bank Group Limited.

The Board of Directors have approved the dissolution of IPS and processes to effect this decision are under way. As a result, an impairment loss of **R11m** has been recognised.

41. Offsetting financial assets and financial liabilities

Where relevant the Bank 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 did 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 Bank's actual credit exposure as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

41. Offsetting financial assets and financial liabilities (continued)

Bank

	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 arrangements[3] Rm	Total per statement of financial position[4] Rm
Derivative financial assets	122 766	(24 381)	98 385	(74 288)	(3 169)	20 928	10 752	109 137
Reverse repurchase agreements and other similar secured lending	72 005	—	72 005	—	(72 005)	—	—	72 005
Total assets	194 771	(24 381)	170 390	(74 288)	(75 174)	20 928	10 752	181 142
Derivative financial liabilities	(114 965)	24 893	(90 072)	74 288	—	(15 784)	(1 558)	(91 630)
Repurchase agreements and other similar secured borrowings	(52 373)	—	(52 373)	—	52 373	—	—	(52 373)
Total liabilities	(167 338)	24 893	(142 445)	74 288	52 373	(15 784)	(1 558)	(144 003)

[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'.

41. Offsetting financial assets and financial liabilities (continued)

	2019							
	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 arrangements[3] Rm	Total per statement of financial position[4] Rm
Derivative financial assets	67 838	(9 820)	58 018	(43 982)	(1 212)	12 824	2 425	60 443
Reverse repurchase agreements and other similar secured lending	71 781	—	71 781	—	(71 781)	—	—	71 781
Total assets	139 619	(9 820)	129 799	(43 982)	(72 993)	12 824	2 425	132 224
Derivative financial liabilities	(56 228)	10 221	(46 007)	43 982	—	(2 025)	(939)	(46 946)
Repurchase agreements and other similar secured borrowings	(63 968)	—	(63 968)	—	63 968	—	—	(63 968)
Total liabilities	(120 196)	10 221	(109 975)	43 982	63 968	(2 025)	(939)	(110 914)

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 Bank are further explained in the Credit risk mitigation, collateral and other credit enhancements section of note 54.

[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'.

42. 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, by the weighted average number of ordinary shares in issue during the reporting period. 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.

There are no instruments that would have a dilutive impact.

	Bank 2020 Rm	Bank 2019 Rm
Basic and diluted earnings attributable to ordinary equity holders	1 176	7 098
Weighted average number and diluted number of ordinary shares in issue (millions)	448.3	448.3
Issued shares at the beginning of the reporting period	448.3	448.3
Basic earnings per ordinary share/diluted earnings per ordinary share (cents)	262.3	1 583.3

43. 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 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 Bank will act in this capacity. The Bank may therefore hold a direct interest in the fund, but the magnitude of such interest will vary with sufficient regularity. Whether the Bank consolidates any of the funds depends on the magnitude of the interest held therein, as well as on the Bank's ability to direct the relevant activities of the fund, either directly or indirectly. The Bank, through its contractual undertaking to act as market maker, ensures that liquidity is always maintained. The Bank earns management fee income from its involvement in the funds. To the extent that the Bank holds participatory units in the funds, the Bank 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 Bank has used SEs in order to securitise loans that were originated by the Bank. These entities have minimal equity and therefore rely on funding in the form of notes in order to acquire the underlying loans. The Bank transfers the contractual right to receive cash flows on the underlying loans, but in many instances, does not relinquish exposure to substantially all the risks and rewards of ownership. Exposures to credit risk, prepayment risk and/or interest rate risk are retained when the Bank 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 Bank, the Bank will not have power over the relevant activities of the vehicle. The Bank earns interest income on the notes issued by the vehicles, together with management fees from the Bank's ongoing involvement. To the extent that the notes are fair valued, unrealised gains and losses are generated, which are recognised by the Bank in profit or loss.

Structured investment vehicles

The Bank 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 Bank 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 Bank 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 Bank recognises interest income from its investments. Often the Bank subscribes for preference shares in these vehicles together with other financial institutions on a syndicated basis. The Bank 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 Bank of companies as the preference share funding vehicle, most commonly the parent company, writes the Bank a financial guarantee or a put option, so as to provide security in the event of default.

Funding vehicles

The Bank 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 Bank of companies. The Bank earns interest on the loans. The loans are either measured at amortised cost, or are designated as at fair value through profit or loss.

43. Structured entities (continued)

43.1 Consolidated structured entities

During the reporting period the Bank provided financial or other support to the following consolidated SEs despite not being contractually obliged to do so:

Name	Nature of support	Reason for providing support	Bank 2020 Rm	Bank 2019 Rm
The Absa Foundation Trust	Donation	The Trust was constituted to fund community upliftment and social welfare programmes.	46	81
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	3	4

The Bank has consolidated the Absa Foundation Trust since 2006 and new ETFs since 2017.

The Bank intends to provide financial support to the Absa Foundation Trust and any new ETFs in 2021.

43.2 Unconsolidated structured entities

The level of risk that the Bank 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 Bank holds an interest, information about such entities has been aggregated according to the purpose for which the entity was established.

	Bank 2020 Preference funding vehicles Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange-traded funds Rm	Funding vehicles Rm	Total Rm
Assets						
Investment securities	—	213	—	3 374	—	3 587
Debt securities	—	213	—	—	—	213
Equity securities	—	—	—	3 374	—	3 374
Loans and advances to customers	23 745	—	707	—	37	24 489
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	272	—	—	272
	23 745	213	979	3 374	37	28 348
Liabilities						
Derivatives held for trading	—	—	—	—	—	—
Interest rate derivatives (carrying value)	—	—	—	—	—	—
Interest rate derivatives (notional value)	—	—	—	—	—	—
Deposits due to customers	—	—	—	—	—	—
Maximum exposure to loss[2]	23 745	213	979	3 374	37	28 348
Total size of entities[3]	117 510	213	1 840	31 214	37	150 814

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 Bank'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.

43. Structured entities (continued)

43.2 Unconsolidated structured entities (continued)

	2019					
	Preference funding vehicles Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange-traded funds Rm	Funding vehicles Rm	Total Rm
Assets						
Investment securities	—	506	—	1 384	—	1 890
Debt securities	—	506	—	—	—	506
Equity securities	—	—	—	1 384	—	1 384
Loans and advances to customers	20 660	—	767	—	32	21 459
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	341	—	—	341
	20 660	506	1 108	1 384	32	23 690
Liabilities						
Interest rate derivatives	—	—	—	—	—	—
Interest rate derivatives (notional value)	—	—	—	—	—	—
Deposits due to customers	—	—	—	—	—	—
Maximum exposure to loss[2]	20 660	506	1 108	1 384	32	23 690
Total size of entities[3]	128 375	506	1 998	29 346	32	160 257

The Bank did not incur any losses related to the Bank's interests in unconsolidated structured entities in the current financial reporting period (2019: Rnil).

43.3 Sponsored entities

The Bank did not earn material income from its involvement in the unconsolidated SEs which it sponsors.

Assets transferred to unconsolidated sponsored structured entities

The Bank did not transfer assets during the current reporting year (2019: Rnil) to its unconsolidated sponsored structured entities.

	Bank	
	(unaudited) 2020 Rm	(unaudited) 2019 Rm
44. Assets under management and administration		
Alternative asset management and exchange-traded funds	**30 231**	28 797
Other	**251 031**	1 910
Portfolio management	**2 866**	3 144
Unit trusts	**1 613**	1 823
	285 741	35 674

'Other' assets includes those for which custody and trustee services are provided. It includes assets managed on behalf of Absa Bank Limited.

[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 Bank'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.

	Bank 2020 Rm	Bank 2019 Rm
45. Contingencies, commitments and similar items		
Guarantees	**34 327**	33 523
Irrevocable debt facilities	**144 975**	134 154
Letters of credit	**5 777**	5 303
Other	**—**	1
	185 079	172 981
Authorised capital expenditure		
Contracted but not provided for	**427**	187

Guarantees include performance guarantee contracts and financial guarantee contracts.

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

Irrevocable facilities are commitments to extend credit where the 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 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 Bank has capital commitments in respect of computer equipment, software and property development. Management is confident that future net revenues and funding will be sufficient to cover these commitments.

Legal proceedings

The Bank has been party to proceedings against it during the reporting period. As at the reporting date the following material cases remain open:

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

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

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

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

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

45. Contingencies, commitments and similar items (continued)

Regulatory matters

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

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

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

Income taxes

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

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

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

	Bank	
	2020 Rm	2019 Rm
46. Cash and cash equivalents		
Cash, cash balances and balances with central banks[1]	8 352	8 898
Loans and advances to banks[2]	431	948
	8 783	9 846

[1] Includes coins and bank notes.

[2] Includes call advances, which are used as working capital for the Bank.

	Bank 2020 Rm	Bank 2019 Rm
47. Deferred cash and share-based payments		
Share-based payments expense	**341**	451
Equity-settled arrangements:		
Absa Group Share Incentive Plan Performance Award (SIPP)	**146**	194
Absa Group Limited Share Incentive Plan Retention Buyout Award (SIPRB)	**17**	25
Absa Group Limited Share incentive Plan Deferred Award (SIPD)	**195**	183
Absa Group Limited Share Incentive Awards (SIA)	**—**	(4)
Absa Group Limited Retention Share Value Plan (SVP Cliff)	**0**	0
Absa Group Limited Restricted Share Value Plan (RSVP)	**5**	23
Cash-settled arrangements:		
Absa Group Share Incentive Plan Performance Award (SIPP)	**(17)**	11
Absa Group Limited Share Incentive Plan Retention Buyout Award (SIPRB)	**1**	9
Absa Group Limited Share incentive Plan Deferred Award (SIPD)	**(1)**	(2)
Absa Group Limited Role Based Pay (RBP)	**0**	0
Absa Group Limited Restricted Share Value Plan (RSVP)	**(5)**	12
Deferred cash expense		
Absa Group Limited Cash Value Plan (CVP)	**61**	137
Total deferred cash and share-based payments (refer to note 30)	**402**	588
Total carrying amount of liabilities for cash-settled arrangements (refer to note 16)	**138**	282
Total carrying amount of equity settled share based payment arrangement (refer to the statement of changes in equity)	**336**	831

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 Bank 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 Bank 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.

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 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.

47. Deferred cash and share-based payments (continued)

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 conditions on vesting. The Bank 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 Share Incentive Awards

The Share Incentive Award (SIA) is a scheme for certain employees previously identified as code staff for Absa Group Limited. The award which is 50% of the participant's non-deferred annual incentive, will vest up to 12 months from the date on which it is granted.

Absa Group Limited Retention Share Value Plan

The Retention Share Value Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years or in equal tranches over three years, subject to their own independent non-market-related performance conditions on vesting. The Bank retains the obligation to settle in cash, certain historic SVP Cliff awards that were not converted to equity awards in 2015. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited's 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 Based 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 may accumulate and are reinvested over the vesting period.

	Number of awards '000									
	2020					2019				
	Opening balance	Granted/ trans- ferred	Forfeited	Exercised	Closing balance	Opening balance	Granted/ trans- ferred	Forfeited	Exercised	Closing balance
Equity-settled:										
SIPP	12 872	7 207	(3 310)	(4 159)	12 610	7 281	6 122	(528)	(3)	12 872
SIPRB	228	160	(27)	(157)	204	349	129	(56)	(194)	228
SIPD	2 489	3 603	(301)	(1 132)	4 659	2 679	1 281	(240)	(1 231)	2 489
SIA	—	—	—	—	—	74	—	(25)	(49)	—
RSVP	364	—	—	(293)	71	1 348	—	(106)	(878)	364
Cash-settled:										
SIPP	377	53	(143)	(225)	62	442	(65)	—	—	377
SIPRB	21	5	—	(10)	16	19	12	—	(10)	21
SIPD	18	15	(18)	(1)	14	21	—	—	(3)	18
RSVP	106	—	(35)	(71)	—	232	—	—	(126)	106
RBP	4	—	—	(4)	—	14	—	—	(10)	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.

47. Deferred cash and share-based payments (continued)

	Weighted average share price at exercise date during the reporting period (Rands)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (Rands)	
	2020	2019	**2020**	2019	**2020**	2019
Equity-settled:						
SIPP	**144.69**	144.69	**2.03**	1.55	**75.00**	156.24
SIPRB	**157.60**	152.23	**0.93**	0.84	**119.42**	161.94
SIPD	**173.76**	167.68	**1.08**	1.05	**75.12**	167.12
SIA	**—**	198.50	**—**	—	**—**	—
RSVP	**142.00**	144.22	**0.30**	0.92	**—**	—
Cash-settled:						
SIPP	**80.48**	—	**2.01**	0.71	**75.00**	153.69
SIPRB	**82.27**	166.68	**0.90**	1.39	**80.14**	155.94
SIPD	**119.62**	166.68	**1.08**	0.17	**75.00**	—
RSVP	**102.10**	160.78	**—**	0.75	**—**	—
RBP	**105.12**	165.25	**—**	0.30	**—**	—

Future cash flow affects associated with equity settled share payments

	Bank 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	**136**	**177**	**—**	**313**

	2019			
	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	453	107	—	560

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 includes a 10% service credit for the final anniversary of the CVP award date. The service credit for awards granted in 2020 is **10%** (2019: 10%) of the initial value of the award that vests.

48. Acquisitions and disposals of businesses and other similar transactions

48.1 Acquisitions of businesses during the current reporting period

Effective 1 March 2020, the Bank 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 Bank 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.

	Bank
	Fair value recognised on acquisition Rm
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and balances at central banks	220
Property and equipment	1
Loans and advances to customers	159
Intangible assets	35
Deposits due to customers	(317)
Provisions	(12)
Total identifiable net assets	86
Gain on bargain purchase	86

48.2 Disposals of businesses and similar transactions during the current reporting period

The Bank fully disposed of the Edcon loan book on 1 February 2020. The Bank received a cash consideration of **R3 601m** on disposal.

48.3 Acquisitions and disposals of businesses during the previous reporting period

There were no acquisitions and disposals during the previous reporting period.

49.1 Segment report

49.1 Summary of segments

The Bank 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 Bank's businesses are managed and reported to the Chief Operating Decision Maker (CODM).

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

The following summary describes the operations in each of the Bank's key divisions:

- RBB South Africa: offers retail and business banking products within South Africa.
- Corporate and Investment Banking South Africa (CIB South Africa)): offers corporate and investment banking solutions in South Africa
- Head Office, Treasury and other operations in South Africa: consists of various non-banking activities and includes investment income earned by the Bank, as well as income earned by Absa Manx Holdings and Corporate Real Estate Services.
- Barclay's separation effects: 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 will be 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 process will increase the capital base of the Bank in the near-term and generate endowment revenue thereon, with increased costs over time as the separation investments are concluded. The Bank has therefore included an additional reconciling stripe, 'Barclay's separation effects' in its segment results.

49.1 Segment report (continued)

49.1 Summary of segments (continued)

The reportable segments identified are broken down into smaller components to provide additional information of each. Discrete financial information is available for the following:

Reportable segments:

- **RBB South Africa:**
  RBB South Africa has aligned its operating model enable a more customer-centric approach which will offer more holistic product offerings. The business has now been arranged into the following units:
  - **Home Loans** – offers residential property-related finance solutions direct to customers through personalised services, a range of electronic channels, and intermediaries such as estate agents and mortgage originators.
  - **Vehicle and Asset Finance (VAF)** – offers funding solutions for passenger and light commercial vehicles to individual customers through the branch network, approved dealerships, and preferred suppliers. VAF's Joint Venture with Ford Financial Services is an extension of the business and reinforces the strategic intent of establishing and harnessing relationships with dealers and customers;
  - **Everyday Banking** – offers the day to day banking services for the retail customer and includes:
    - **Card**– offers credit cards via a mix of Absa-branded and 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.
  - **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.
- **CIB South Africa:** offers corporate and investment banking solutions. The business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients. CIB South Africa includes the following sub-divisions:
  - **Corporate SA:** offers 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 and corporate client base.
  - **Investment Banking SA:**
    - 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;
    - Banking: structures innovative solutions delivering to meet clients' strategic advisory, financing and risk management requirements across industry sectors;
    - Commercial Property Finance – specialises in financing commercial, industrial, retail and residential development property (with a focus on affordable housing) across our African footprint as well as cross border financing in other jurisdictions; and
    - Infrastructure Investments and Private Equity – Infrastructure Investments acts 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

Other reconciling stripes

- Head Office, Treasury and other operations in South Africa: consists of various non-banking activities
- Barclay's separation effects: as part of Barclays PLC divestment Barclays PLC contributed R12.1 billion primarily in recognition of the investments required for the Bank to separate from Barclays PLC. Investments will be made 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 overtime

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	RBB South Africa		CIB South Africa	
	2020 Rm	2019 Rm	2020 Rm	2019[1] Rm
49. Segment report (continued)				
Statement of comprehensive income				
Net interest income	25 790	24 605	8 244	7 213
Non-interest income	16 795	18 284	3 500	2 780
Total income	42 585	42 889	11 744	9 993
Impairment losses	(13 880)	(5 707)	(1 946)	(341)
Operating expenses	(23 513)	(25 473)	(6 429)	(6 436)
Depreciation and amortisation	(1 817)	(1 805)	(157)	(160)
Other operating expenses	(21 696)	(23 668)	(6 272)	(6 276)
Other expenses	(520)	(627)	(117)	(109)
Other impairments	(118)	(147)	—	(6)
Indirect taxation	(402)	(480)	(117)	(103)
Share of post-tax results of associates and joint ventures	(61)	196	(3)	13
Operating profit before income tax	4 611	11 278	3 249	3 120
Tax expenses	(1 268)	(3 008)	(402)	(327)
Profit for the reporting period	3 343	8 270	2 847	2 793
Profit attributable to:				
Ordinary equity holders	2 803	7 794	2 491	2 483
Non-controlling interest – ordinary shares	—	—	—	—
Non-controlling interest – preference shares	186	212	121	140
Non-controlling interest – additional Tier 1 capital	354	264	235	170
	3 343	8 270	2 847	2 793
Headline earnings	2 891	7 900	2 405	2 487
Statement of financial position				
Loans and advances to customers	506 937	495 786	303 251	297 767
Loans and advances to banks	13 597	12 800	57 379	41 127
Investment securities	26 355	27 602	41 672	40 978
Other assets	369 039	325 898	404 425	271 184
Total assets	915 928	862 086	806 727	651 056
Deposits due to customers	416 395	372 564	282 773	207 464
Debt securities in issue	—	—	18 574	17 026
Other liabilities	493 700	479 135	502 260	422 667
Total liabilities	910 095	851 699	803 607	647 157

[1] The Corporate debt and structure Trade and Commodity finance portfolios, which were previously reported in corporate SA, have been moved to Investment Bank SA to align the segment report to the entity's internal reporting systems. The transfer of other assets from Corporate SA to Investment Bank SA has increased Corporate SA's excess cash placements with Group Treasury to R356 358m (previously reported as R324 085m) and simultaneously increased Investment Bank SA's reliance on funding from Group Treasury (other liabilities) to R665 878m (previously reported as R633 618m). The business portfolio changes have resulted in the restatement of financial results with the Corporate and Investment Bank (CIB) and Head office segment, but have not impacted the overall position or net earnings of the Bank.

Notes to the consolidated financial statements

for the reporting period ended 31 December

Head Office, Treasury and other operations in South Africa		Total before Barclays separation effects		Barclays separation effects		Bank	
2020 Rm	2019[1] Rm	2020 Rm	2019 Rm	2020 Rm	2019 Rm	2020 Rm	2019 Rm
(917)	(241)	33 117	31 577	67	195	33 184	31 772
52	(47)	20 347	21 017	156	(32)	20 503	20 985
(865)	(288)	53 464	52 594	223	163	53 687	52 757
(3)	16	(15 829)	(6 032)	—	—	(15 829)	(6 032)
(1 612)	(1 443)	(31 554)	(33 352)	(1 648)	(1 764)	(33 202)	(35 116)
(2 157)	(1 802)	(4 131)	(3 767)	(840)	(340)	(4 971)	(4 107)
545	359	(27 423)	(29 585)	(808)	(1 424)	(28 231)	(31 009)
(960)	(663)	(1 597)	(1 399)	(201)	(57)	(1 798)	(1 456)
(205)	(165)	(323)	(318)	(114)	—	(437)	(318)
(755)	(498)	(1 274)	(1 081)	(87)	(57)	(1 361)	(1 138)
28	12	(36)	221	—	—	(36)	221
(3 412)	(2 366)	4 448	12 032	(1 626)	(1 658)	2 822	10 374
648	509	(1 022)	(2 826)	272	338	(750)	(2 488)
(2 764)	(1 857)	3 426	9 206	(1 354)	(1 320)	2 072	7 886
(2 764)	(1 859)	2 530	8 418	(1 354)	(1 320)	1 176	7 098
0	1	0	1	—	—	0	1
—	—	307	352	—	—	307	352
—	1	589	435	—	—	589	435
(2 764)	(1 857)	3 426	9 206	(1 354)	(1 320)	2 072	7 886
(2 642)	(1 747)	2 654	8 640	(1 252)	(1 320)	1 402	7 320
974	829	811 162	794 382	—	—	811 162	794 382
(4 863)	(8 934)	66 113	44 993	—	—	66 113	44 993
31 462	6 650	99 489	75 230	—	—	99 489	75 230
(468 742)	(356 358)	304 722	240 724	4 789	4 496	309 511	245 220
(441 169)	(357 813)	1 281 486	1 155 329	4 789	4 496	1 286 275	1 159 825
95 719	97 781	794 887	677 809	—	—	794 887	677 809
125 585	140 577	144 159	157 603	—	—	144 159	157 603
(742 484)	(665 878)	253 476	235 924	(646)	(2 836)	252 830	233 088
(521 180)	(427 520)	1 192 522	1 071 336	(646)	(2 836)	1 191 876	1 068 500

50. Segment report (continued)

	Home Loans		Vehicle and Asset Finance		Everyday Banking	
	2020 Rm	2019 Rm	2020 Rm	2019 Rm	2020 Rm	2019 Rm
Statement of comprehensive income						
Net interest income	4 478	4 072	2 604	2 320	11 258	11 341
Non-interest income	457	467	540	530	10 506	11 352
Total income	4 935	4 539	3 144	2 850	21 764	22 693
Impairment losses	(2 189)	(182)	(3 062)	(1 099)	(6 584)	(4 167)
Operating expenses	(1 940)	(1 979)	(1 339)	(1 493)	(12 426)	(13 811)
Depreciation and amortisation	(8)	(6)	(13)	(25)	(44)	(77)
Other operating expenses	(1 932)	(1 973)	(1 326)	(1 468)	(12 382)	(13 734)
Other	(46)	(38)	(29)	(30)	(97)	(136)
Other impairments	(1)	—	(3)	(3)	(14)	(15)
Indirect taxation	(45)	(38)	(26)	(27)	(83)	(121)
Share of post-tax results of associates and joint ventures	—	—	(17)	179	—	—
Operating profit before income tax	760	2 340	(1 303)	407	2 657	4 579
Tax expenses	(181)	(636)	372	(55)	(730)	(1 266)
Profit for the reporting period	579	1 704	(931)	352	1 927	3 313
Profit attributable to:						
Ordinary equity holders	445	1 588	(995)	296	1 803	3 184
Non-controlling interest – preference shares	46	52	22	25	43	58
Non-controlling interest – additional Tier 1 capital	88	64	42	31	81	71
	579	1 704	(931)	352	1 927	3 313
Headline earnings	445	1 588	(993)	299	1 817	3 195
Statement of financial position						
Loans and advances to customers	247 679	237 391	89 129	83 740	47 727	50 701
Loans and advances to banks	641	417	—	—	12 456	11 955
Investment securities	12 369	12 311	4 284	4 267	3 395	3 714
Other assets	18 933	11 076	3 438	3 218	247 294	231 230
Total assets	279 622	261 195	96 851	91 225	310 872	297 600
Deposits due to customers	1 833	1 508	—	—	247 328	227 212
Other liabilities	276 508	257 613	96 770	90 027	61 735	67 182
Total liabilities	278 341	259 121	96 770	90 027	309 063	294 394

Relationship Banking 2020 Rm	Relationship Banking 2019 Rm	Retail and Business Banking Other 2020 Rm	Retail and Business Banking Other 2019 Rm	Retail and Business Banking South Africa 2020 Rm	Retail and Business Banking South Africa 2019 Rm
8 043	7 515	(593)	(643)	25 790	24 605
4 727	5 396	565	539	16 795	18 284
12 770	12 911	(28)	(104)	42 585	42 889
(2 044)	(261)	(1)	2	(13 880)	(5 707)
(7 026)	(7 357)	(782)	(833)	(23 513)	(25 473)
(316)	(277)	(1 436)	(1 420)	(1 817)	(1 805)
(6 710)	(7 080)	654	587	(21 696)	(23 668)
(108)	(93)	(240)	(330)	(520)	(627)
(75)	(17)	(25)	(112)	(118)	(147)
(33)	(76)	(215)	(218)	(402)	(480)
(45)	17	1	—	(61)	196
3 547	5 217	(1 050)	(1 265)	4 611	11 278
(1 024)	(1 404)	295	353	(1 268)	(3 008)
2 523	3 813	(755)	(912)	3 343	8 270
2 317	3 641	(767)	(915)	2 803	7 794
71	76	4	1	186	212
135	96	8	2	354	264
2 523	3 813	(755)	(912)	3 343	8 270
2 384	3 654	(762)	(836)	2 891	7 900
122 401	123 952	1	2	506 937	495 786
80	9	420	419	13 597	12 800
6 241	6 614	66	696	26 355	27 602
87 274	65 964	12 100	14 410	369 039	325 898
215 996	196 539	12 587	15 527	915 928	862 086
167 223	143 833	11	11	416 395	372 564
45 382	48 104	13 305	16 209	493 700	479 135
212 605	191 937	13 316	16 220	910 095	851 699

49. Segment report (continued)

49.2 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:

	2020 RBB South Africa Rm	CIB South Africa Rm	Head Office, Treasury and other operations in South Africa Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	17 221	2 272	(7)	—	19 486
Consulting and administration fees	307	15	92	—	414
Transactional fees and commissions	14 262	1 667	(8)	—	15 921
Cheque accounts	4 945	134	—	—	5 079
Credit cards	1 712	—	—	—	1 712
Electronic banking	4 185	1 015	—	—	5 200
Other[1]	1 787	516	(7)	—	2 296
Savings accounts	1 633	2	(1)	—	1 634
Merchant income	1 925	—	—	—	1 925
Trust and other fiduciary services fees	53	33	—	—	86
Other fees and commissions	45	193	(93)	—	145
Insurance commissions received	612	—	—	—	612
Investment banking fees	17	364	2	—	383
Other income from contracts with customers	60	—	35	—	95
Other non-interest income, net of expenses	(486)	1 228	25	155	922
Total non-interest income	**16 795**	**3 500**	**53**	**155**	**20 503**

	2019 RBB South Africa Rm	CIB South Africa Rm	Head Office, Treasury and other operations in South Africa Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	18 590	2 184	(113)	—	20 661
Consulting and administration fees	283	19	—	—	302
Transactional fees and commissions	15 660	1 634	(19)	—	17 275
Cheque accounts	5 334	138	(1)	—	5 471
Credit cards	2 276	—	—	—	2 276
Electronic banking	4 377	1 020	—	—	5 397
Other[1]	1 679	476	(19)	—	2 136
Savings accounts	1 994	—	1	—	1 995
Merchant income	1 902	—	—	—	1 902
Trust and other fiduciary services fees	67	4	1	—	72
Other fees and commissions	39	178	(96)	—	121
Insurance commissions received	593	—	—	—	593
Investment banking fees	46	349	1	—	396
Other income from contracts with customers	57	—	7	—	64
Other non-interest income, net of expenses	(363)	596	59	(32)	260
Total non-interest income	**18 284**	**2 780**	**(47)**	**(32)**	**20 985**

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

50. Derivatives

50.1 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 Bank's net interest income, net trading income, net fee and commission income and derivative assets and liabilities.

Some derivative financial instruments have been designated as hedging instruments in fair value or cash flow hedging relationships or hedges of net investments in foreign operations. At the reporting date, the Bank did not have any compound financial instruments with multiple embedded derivatives in issue.

The Bank trades the following derivative instruments:

Foreign exchange derivatives

The Bank'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 Bank'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.

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate debt securities held and highly probable forecast financing transactions and reinvestments.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers as well as investments in fixed rate debt securities held.

Credit derivatives

The Bank'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 Bank'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 Bank 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 Bank's principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are agricultural commodities and precious metals.

50. Derivatives (continued)

50.2 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 Bank'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 Bank's net exposure to, or position in any of the markets that the Bank trades in.

50.3 Derivative financial instruments

The Bank's total derivative asset and liability position as reported on the statement of financial position is as follows:

	Bank					
	2020			2019		
	Assets Rm	Liabilities Rm	Notional contract amounts Rm	Assets Rm	Liabilities Rm	Notional contract amounts Rm
Derivatives held for trading (refer to note 5 and note 15)	98 139	(86 761)	6 298 737	57 088	(45 567)	6 841 779
Derivatives designated as hedging instruments (refer to note 5 and note 15)	10 998	(4 868)	214 749	3 355	(1 379)	129 154
Total derivatives	109 137	(91 629)	6 513 486	60 443	(46 946)	6 970 933

50.4 Derivatives held for trading – detail by market and instrument type

Derivatives held for trading by the Bank related to the various markets and instrument types the Bank trades in are as follows:

	Bank					
	2020			2019		
	Assets Rm	Liabilities Rm	Notional contract amounts Rm	Assets Rm	Liabilities Rm	Notional contract amounts Rm
Foreign exchange derivatives	22 534	(19 921)	561 441	12 611	(11 916)	626 069
Forwards	2 771	(2 979)	81 809	1 938	(1 988)	76 757
Futures	0	—	7 065	0	0	40 393
Swaps	16 673	(15 869)	381 853	8 917	(9 306)	413 020
Options	3 090	(1 073)	90 714	1 756	(622)	95 899
Interest rate derivatives	69 825	(62 782)	5 592 093	38 530	(31 212)	5 946 541
Forwards	4 360	(4 897)	2 620 051	1 162	(1 278)	2 854 684
Futures	0	—	160 137	0	0	730 893
Swaps	65 362	(57 852)	2 808 935	37 280	(29 903)	2 353 673
Options	103	(33)	2 970	88	(31)	7 291
Equity derivatives	4 994	(3 152)	129 580	5 490	(1 832)	249 951
Forwards	1 630	(2 539)	27 597	314	(228)	11 827
Futures	0	—	31 577	0	0	80 098
Swaps	1 844	(524)	21 620	1 403	(627)	17 332
Options	1 520	(89)	34 694	3 773	(977)	42 568
Options – exchange traded	(0)	—	2 056	0	0	86 183
Other – OTC	0	—	12 036	0	0	11 943
Commodity derivatives	627	(765)	8 481	302	(475)	10 297
Forwards	294	(396)	8 318	216	(374)	7 354
Swaps	328	(367)	137	23	(40)	717
Options	5	(2)	26	63	(61)	2 226
Credit derivatives						
Default swaps	159	(141)	7 142	155	(132)	8 921
Derivatives held for trading	98 139	(86 761)	6 298 737	57 088	(45 567)	6 841 779
Note	5	15		5	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.

50. Derivatives (continued)

50.5 Counterparty netting and collateral

Derivative assets subject to counterparty netting agreements amounted to **R98 385m** (2019: R58 018m). Additionally, the Bank held **R3 169m** (2019: R1 212m) 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 Bank. 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.

50.6 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 Bank 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 Bank 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 to banks and customers, 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 to banks and customers 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 Bank 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 Bank 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 Bank'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.

50. Derivatives (continued)

50.6 Hedge accounting (continued)

50.6.1 Fair value hedge accounting

Fair value hedges are used by the Bank 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 to customers, debt securities and borrowed funds. The profile and timing of hedging instruments designated in fair value hedge relationships based on notional amounts are as follows:

	Bank						
	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 to customers	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

	2019						
	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	5 685	1 042	3 130	6 681	893	28 678	46 109
Hedge of investment securities	—	—	—	143	—	23 647	23 790
Hedge of loans and advances to customers	1 444	653	1 045	456	713	595	4 906
Hedge of debt securities in issue	2 715	50	1 720	125	180	4 436	9 226
Hedge of borrowed funds	1 526	339	365	5 957	—	—	8 187
Inflation risk – interest rate swaps							
Hedge of investment securities at FVOCI	200	60	736	600	155	479	2 230

The average rates or prices set out below relate to the hedging instruments designated in fair value hedging relationships:

	Bank	
	2020 Average price or rate %	2019 Average price or rate %
Interest rate risk		
Interest rate swaps		
Average fixed interest rate	8%	8%
Inflation risk		
Interest rate swaps		
Average fixed interest rate	3%	3%

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.

50. Derivatives (continued)

50.6 Hedge accounting (continued)

50.6.1 Fair value hedge accounting (continued)

The following amounts relate to items designated as hedging instruments in fair value hedge relationships:

	Bank				
	2020				
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2020 Rm	Ineffectiveness recognised in profit or 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 to customers	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)

	2019				
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2019 Rm	Ineffectiveness recognised in profit or loss Rm
Total	48 339	1 023	(1 288)	(541)	(16)
Interest rate risk	46 109	1 000	(967)	(473)	14
Interest rate swaps – hedge of investment securities	23 790	443	(734)	(858)	16
Interest rate swaps – hedge of loans and advances to customers	4 906	—	(233)	(51)	6
Interest rate swaps – hedge of borrowed funds	8 187	268	—	178	5
Interest rate swaps – hedge of debt securities in issue	9 226	289	—	258	(13)
Inflation risk					
Inflation linked swaps – hedge of investment securities classified as FVOCI	2 230	23	(321)	(68)	(30)

The hedging instruments of the Bank are presented within Hedging portfolio assets/liabilities on the Statement of Financial Position. 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 Bank are presented within and Hedging portfolio assets on the Statement of Financial Position.

50. Derivatives (continued)

50.6 Hedge accounting (continued)

50.6.1 Fair value hedge accounting (continued)

The following amounts relate to items that were designated as hedged items in fair value hedge relationships:

	Bank			
	2020	Accumulated fair value adjustment included in the carrying amount of the hedged item		
Hedged item statement of financial position classification and risk category	Carrying value Rm	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 to customers				
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)

	2019	Accumulated fair value adjustment included in the carrying amount of the hedged item		
Hedged item statement of financial position classification and risk category	Carrying value Rm	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	27 620	193	(2)	933
Interest rate risk	23 731	373	(2)	842
Inflation risk	3 889	(180)	—	91
Loans and advances to customers				
Interest rate risk	4 090	77	—	41
Financial liabilities				
Debt securities in issue				
Interest rate risk	(9 815)	(236)	—	(246)
Borrowed funds				
Interest rate risk	(8 409)	(245)	—	(183)

50. Derivatives (continued)

50.6 Hedge accounting (continued)

50.6.2 Cash flow hedge accounting

Cash flow hedges are used by the Bank to protect against the potential cash flow variability arising from the Bank exposure to; interest rate and foreign currency risk. The financial instruments designated as hedged items include loans and advances to customers, and highly probable forecast foreign denominated expenditure.

The profile and timing of hedging instruments designated in cash flow hedge relationships based on notional amounts are as follows:

	Bank						
	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 to customers	35 035	37 503	29 932	13 420	25 005	10 198	151 093
Foreign currency risk – forwards							
Hedge of highly probable forecast expenditure	1 880	1 381	—	27	—	109	3 397

	2019						
	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 to customers	44 254	20 795	17 532	23 320	13 402	8 223	127 526
Foreign currency risk – forwards							
Hedge of highly probable forecast expenditure	1 610	19	—	—	—	—	1 629

The average rates or prices set out below relate to the hedging instruments designated in cash flow hedging relationships:

	Bank	
	2020 Average price or rate	2019 Average price or rate
Interest rate risk		
Interest rate swaps	7%	8%
Foreign currency risk		
Currency swaps		
Average ZAR – EUR exchange rates	19.27	17.87
Average ZAR – GBP exchange rates	21.37	19.37
Average ZAR – USD exchange rates	16.28	15.07
Average ZAR – CZK exchange rates	1.36	1.49

50. Derivatives (continued)

50.6 Hedge accounting (continued)

50.6.2 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:

	Bank					
	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 ineffective-ness recognised in profit or loss Rm
Interest rate risk						
Interest rate swaps – hedge of loans and advances to customers	151 093	9 300	(0)	6 231	8 860	(560)
Foreign currency risk						
Forwards – hedge of forecast expenditure	3 397	155	(363)	(960)	179	(6)

	2019					
	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 ineffective-ness recognised in profit or loss Rm
Interest rate risk						
Interest rate swaps – hedge of loans and advances to customers	127 526	2 324	(9)	1 564	2 140	(228)
Foreign currency risk						
Forwards – hedge of forecast expenditure	1 628	8	(82)	88	(62)	3

The hedge ineffectiveness in profit and loss is presented within gains and losses from banking and trading activities on the Statement of Comprehensive Income.

50. Derivatives (continued)

50.6 Hedge accounting (continued)

50.6.2 Cash flow hedge accounting (continued)

The hedging instruments of the Bank 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.
Impact on the income statement and OCI of recycling amounts in respect of cash flow hedges during the period.

	Bank					
	2020			2019		
	Amount recycled from OCI to profit and loss due to continuing hedges Rm	Amount recycled from OCI due to discontinued hedges Rm	Total Rm	Amount recycled from OCI to profit and loss due to continuing hedges Rm	Amount recycled from OCI due to discontinued hedges Rm	Total Rm
Cash flow hedge of interest rate risk	3 072	104	3 176	693	78	771
Recycled to interest income	2 652	53	2 705	604	67	671
Recycled to interest expense	420	51	471	89	11	100
Cash flow hedge of currency risk						
Recycled to operating expenses	312	1	313	35	—	35
Total	3 384	105	3 489	728	78	806

The following amounts relate to items designated as hedged items in cash flow hedges:

	Bank					
	2020			2019		
	Change in value used for calculating hedge ineffectivness 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	(5 755)	7 538	25	(1 607)	1 831	63
Highly probable forecast transactions						
Foreign currency risk	(942)	(185)	—	86	(67)	—

50.6.3 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.

	Bank	
	2020 Cash flow hedge reserve Rm	2019 Cash flow hedge reserve Rm
Balance at the beginning of the year		
Foreign currency translation movements	1 830	558
Hedging gains/losses for the reporting period	9 039	2 078
Interest rate risk	8 860	2 140
Foreign currency risk	179	(62)
Amounts reclassified to profit or loss		
In relation to cash flows affecting profit or loss	(3 488)	(806)
Balance at the end of the year	7 381	1 830

50. Derivatives (continued)

50.7 Interest rate benchmark reform

Background

Global interbank lending rates (IBORs), or interest rate benchmarks, play a significant role in global financial markets, and have been the subject of a fundamental reform recommended by the Financial Stability Board (FSB). The main implication has been that regulators in many jurisdictions have indicated that they will no longer compel banks to submit rates for the calculation of the interest rate benchmark beyond 2021.

The Group is exposed to the various IBORs included in the table below, most notably the Johannesburg Interbank Average Rate (JIBAR). The South African Reserve Bank (SARB) has, since 2018, embarked on a multi-faceted project focused on transforming benchmarks in South Africa and has released proposals regarding the methodology and policies that will govern interest rate benchmarks.

Against the above background, in September 2019, the IASB issued amendments to IAS 39 and IFRS 7 which provide relief to all hedging relationships that are directly affected by interest rate benchmark reform by allowing entities to assume the benchmark interest rate is not altered as a result of the IBOR reform for the following:

- Determining whether a forecasted transaction is highly probable;
- Determining whether the hedged future cash flows are expected to occur when a cash flow hedge is no longer designated; and
- Allowing hedge accounting of a non-contractually specified component of interest rate risk; if that risk was separately identifiable at the inception of the hedge relationship.

The Group has applied the above assumptions to hedges subject to IBOR reform and will apply these until the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of hedged items and/or hedging instruments.

IBOR Reform Program

The Group has established an IBOR Transition steering committee which comprises a series of business and function workstreams, with oversight and coordination provided by a central project team. The key objectives of these workstreams include identifying all contracts in scope of benchmark reform, identifying and communicating to customers with whom repricing and/or re-papering interest rate benchmark referenced contracts is required and executing the necessary modifications to legal contracts. 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.

50. Derivatives (continued)

50.7 Interest rate benchmark reform (continued)

The table below provides more information on the hedge accounting relationships that are impacted by interest rate benchmark reform:

Bank

	Notional Designated Beyond 31 December 2021								
	ZAR JIBAR Rm	USD LIBOR Rm	GBP LIBOR Rm	EUR LIBOR Rm	JPY LIBOR Rm	Total Rm	Notional designated up to 31 December 2021 Rm	Notional not impacted by benchmark reform Rm	Total notional Rm
Cash Flow Hedges	116 058	—	—	175	109	116 342	35 045	3 103	154 490
Interest Rate Swaps	116 058	—	—	—	—	116 058	35 035	—	151 093
Cross Currency Swaps	—	—	—	175	109	284	10	0	294
Forwards	—	—	—	—	—	—	0	3 103	3 103
Fair Value Hedges	47 492	9 510	—	—	109	57 110	1 519	1 630	60 259
Interest Rate Swaps	47 492	9 510	—	—	—	57 001	1 320	—	58 321
Cross Currency Swaps	—	—	—	—	109	109	199	—	308
Inflation Rate Swaps	—	—	—	—	—	—	—	1 630	1 630

	Carrying values of financial instruments designated as hedged items up to 31 December 2021								
	ZAR JIBAR Rm	USD LIBOR Rm	GBP LIBOR Rm	EUR LIBOR Rm	JPY LIBOR Rm	Total Rm	Designated as hedged item up to 31 December 2021 Rm	Hedged items not impacted by benchmark reform Rm	Total value Rm
Cash Flow Hedges	97 989	—	—	562	867	99 418	18 765	—	118 183
Loans and advances	97 989	—	—	—	—	97 989	18 340	—	116 328
Deposits from customers	—	—	—	562	867	1 430	425	—	1 855
Fair Value Hedges	36 705	(257)	—	—	1 021	37 469	—	3 291	40 760
Investment securities through OCI	23 272	5 641	—	—	—	28 912	—	3 291	32 203
Investment securities at Amortised cost	18 252	—	—	—	1 021	19 274	—	—	19 274
Loans and advances	3 327	—	—	—	—	3 327	—	—	3 327
Debt securities in issue	(7 024)	—	—	—	—	(7 024)	—	—	(7 024)
Borrowed funds	(1 122)	(5 898)	—	—	—	(7 020)	—	—	(7 020)

51. Consolidated statement of financial position summary – IFRS 9 classification

	2020			
	Fair value through profit or loss			
	Mandatorily held at fair value Rm	Designated at fair value Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	3 705	2 447	—	6 152
Loans and advances to banks	31 708	121	—	31 829
Trading portfolio assets	165 066	—	—	165 066
Hedging portfolio assets[2]	—	—	10 998	10 998
Other assets	—	—	—	—
Loans and advances to customers	37 889	26 012	—	63 901
Non-current assets held for sale	—	—	—	—
Loans to group companies	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	238 368	28 580	10 998	277 946
Liabilities				
Deposits from banks	—	37 913	—	37 913
Trading portfolio liabilities	105 967	—	—	105 967
Hedging portfolio liabilities[3]	—	—	4 868	4 868
Other liabilities	—	—	—	—
Deposits due to customers	—	52 376	—	52 376
Debt securities in issue	—	24 401	—	24 401
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	105 967	114 690	4 868	225 525

[1] Includes non- financial assets and liabilities and financial instruments outside the scope of IFRS 9.
[2] Includes derivative assets to the amount of **R9 455m** (2019: R2 333m) and **R1 543m** (2019: R1 023m) that have been designated as cash flow and fair value hedging instruments respectively.
[3] Includes derivative liabilities to the amount of **R363m** (2019: R91m) and **R4 505m** (2019: R1 288m) 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 **R603m** (2019: R599m) that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

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	Assets/ liabilities outside the scope of IFRS 9[1] Rm	Total assets and liabilities Rm
—	—	—	—	33 812	—	33 812	—	33 812
37 898	363	25 071	63 332	30 005	—	30 005	—	99 489
—	—	—	—	34 284	—	34 284	—	66 113
—	—	—	—	—	—	—	1 082	166 148
—	—	—	—	—	—	—	—	10 998
—	—	—	—	12 230	—	12 230	2 589	14 819
—	—	—	—	743 934	3 327	747 261	—	811 162
—	—	—	—	—	—	—	136	136
—	—	—	—	56 145	—	56 145	—	56 145
—	—	—	—	—	—	—	27 453	27 453
37 898	363	25 071	63 332	910 410	3 327	913 737	31 260	1 286 275
—	—	—	—	58 120	—	58 120	—	96 033
—	—	—	—	—	—	—	—	105 967
—	—	—	—	—	—	—	—	4 868
—	—	—	—	19 735	—	19 735	2 740	22 475
—	—	—	—	742 511	—	742 511	—	794 887
—	—	—	—	112 734	7 024	119 758	—	144 159
—	—	—	—	13 601	7 020	20 621	—	20 621
—	—	—	—	—	—	—	2 866	2 866
—	—	—	—	946 701	14 044	960 745	5 606	1 191 876

51. Consolidated statement of financial position summary – IFRS 9 classification (continued)

	2019			
	Fair value through profit or loss			
	Mandatorily held at fair value Rm	Designated at fair value Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	1 848	925	—	2 773
Loans and advances to banks	28 220	1 233	—	29 453
Trading portfolio assets	110 924	—	—	110 924
Hedging portfolio assets[2]	—	—	3 355	3 355
Other assets	—	—	—	—
Loans and advances to customers	45 903	21 753	—	67 656
Non-current assets held for sale	—	—	—	—
Loans to group companies	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	186 895	23 911	3 355	214 161
Liabilities				
Deposits from banks	—	48 120	—	48 120
Trading portfolio liabilities	55 968	—	—	55 968
Hedging portfolio liabilities[3]	—	—	1 379	1 379
Other liabilities	—	—	—	—
Deposits due to customers	—	55 438	—	55 438
Debt securities in issue	—	29 362	—	29 362
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	55 968	132 920	1 379	190 267

[1] Includes non-financial assets and liabilities and financial instruments outside the scope of IFRS 9.

[2] Includes derivative assets to the amount of **R9 455m** (2019: R2 333m) and **R1 543m** (2019: R1 023m) that have been designated as cash flow and fair value hedging instruments respectively.

[3] Includes derivative liabilities to the amount of **R363m** (2019: R91m) and **R4 505m** (2019: R1 288m) 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 **R603m** (2019: R599m) that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

Notes to the consolidated financial statements
for the reporting period ended 31 December

2019								
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	Assets/ liabilities outside the scope of IFRS 9[1] Rm	Total assets and liabilities Rm
—	—	—	—	25 485	—	25 485	—	25 485
38 154	345	26 871	65 370	7 087	—	7 087	—	75 230
—	—	—	—	15 540	—	15 540	—	44 993
—	—	—	—	—	—	—	668	111 592
—	—	—	—	—	—	—	—	3 355
—	—	—	—	19 183	—	19 183	2 545	21 728
—	—	—	—	722 636	4 090	726 726	—	794 382
—	—	—	—	3 685	—	3 685	21	3 706
—	—	—	—	50 460	—	50 460	—	50 460
—	—	—	—	—	—	—	28 894	28 894
38 154	345	26 871	65 370	844 076	4 090	848 166	32 128	1 159 825
—	—	—	—	71 357	—	71 357	—	119 477
—	—	—	—	—	—	—	—	55 968
—	—	—	—	—	—	—	—	1 379
—	—	—	—	11 701	—	11 701	20 637	32 338
—	—	—	—	622 371	—	622 371	—	677 809
—	—	—	—	118 426	9 815	128 241	—	157 603
—	—	—	—	12 873	8 409	21 282	—	21 282
—	—	—	—	—	—	—	2 644	2 644
—	—	—	—	836 728	18 224	854 952	23 281	1 068 500

52. Fair value disclosures

52.1 Assets and liabilities held at fair value

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

	Bank							
	2020				2019			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Investment securities	40 423	19 449	9 612	69 484	32 732	23 178	12 233	68 143
Loans and advances to banks	—	31 829	—	31 829	—	29 453	—	29 453
Trading and hedging portfolio assets	56 721	116 841	2 502	176 064	41 613	66 410	6 256	114 279
Debt instruments	55 269	1 738	95	57 102	40 547	970	210	41 727
Derivative assets	—	107 436	1 701	109 137	—	56 771	3 672	60 443
Commodity derivatives	—	622	5	627	—	302	—	302
Credit derivatives	—	—	159	159	—	—	155	155
Equity derivatives	—	3 507	1 487	4 994	—	2 036	3 454	5 490
Foreign exchange derivatives	—	22 534	—	22 534	—	12 604	7	12 611
Interest rate derivatives	—	80 773	50	80 823	—	41 829	56	41 885
Equity instruments	890	—	—	890	520	—	—	520
Money market assets	562	7 667	706	8 935	546	8 669	2 374	11 589
Loans and advances to customers	—	50 304	13 597	63 901	—	56 752	10 904	67 656
Total financial assets	**97 144**	**218 423**	**25 711**	**341 278**	74 345	175 793	29 393	279 531
Financial liabilities								
Deposits from banks	—	37 913	—	37 913	—	48 120	—	48 120
Trading and hedging portfolio liabilities	19 206	91 457	172	110 835	10 401	45 815	1 131	57 347
Derivative liabilities	—	91 457	172	91 629	—	45 815	1 131	46 946
Commodity derivatives	—	765	—	765	—	475	—	475
Credit derivatives	—	—	141	141	—	—	132	132
Equity derivatives	—	3 135	17	3 152	—	1 125	707	1 832
Foreign exchange derivatives	—	19 920	1	19 921	—	11 901	15	11 916
Interest rate derivatives	—	67 637	13	67 650	—	32 314	277	32 591
Short positions	19 206	—	—	19 206	10 401	—	—	10 401
Deposits due to customers	128	48 686	3 562	52 376	156	51 440	3 842	55 438
Debt securities in issue	486	23 915	—	24 401	1 043	28 319	—	29 362
Total financial liabilities	**19 820**	**201 971**	**3 734**	**225 525**	11 600	173 694	4 973	190 267
Non-financial assets								
Commodities	1 082	—	—	1 082	668	—	—	668
Non-recurring fair value adjustments								
Non-current assets held for sale[1]	—	—	136	136	—	—	—	—

[1] Includes certain items classified in terms of the requirement of IFRS 5 which are measured at fair value in terms of their respective standards.

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52. Fair value disclosures (continued)

52.2 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:

	Bank		
	2020		
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm
Opening balance at the beginning of the reporting period	**6 256**	**10 904**	**12 233**
Net interest income	—	246	83
Gains and losses from banking and trading activities	(1 928)	523	(348)
Purchases	38	544	68
Sales	(176)	(931)	(2 843)
Movement in other comprehensive income	—	—	(165)
Issues	—	—	—
Settlements	—	—	—
Transfer to Level 3	142	2 807	1 979
Transfer out of Level 3	(1 830)	(496)	(1 395)
Closing balance at the end of the reporting period	**2 502**	**13 597**	**9 612**

	2019		
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm
Opening balance at the beginning of the reporting period	3 449	10 661	9 537
Net interest income	—	439	88
Gains and losses from banking and trading activities	1 973	(471)	1
Gains and losses from investment activities	—	—	19
Purchases	1 101	4 602	1 378
Sales	(333)	(1 767)	(273)
Movement in other comprehensive income	—	—	(109)
Issues	—	—	—
Settlements	—	—	(7)
Transfer to Level 3	962	52	2 134
Transfer out of Level 3	(896)	(2 612)	(535)
Closing balance at the end of the reporting period	6 256	10 904	12 233

52.2.1 Significant transfers between levels

During the 2020 and 2019 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.

These transfers have been reflected as if they had taken place at the beginning of the year.

Bank

2020

Investment properties Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
—	29 393	—	1 131	3 842	4 973
—	329	—	—	—	—
—	(1 753)	—	(706)	306	(400)
—	650	—	—	—	—
—	(3 950)	—	—	—	—
—	(165)	—	—	—	—
—	—	—	37	704	741
—	—	—	(263)	(534)	(797)
—	4 928	—	—	—	—
—	(3 721)	—	(27)	(756)	(783)
—	25 711	—	172	3 562	3 734

2019

Investment properties Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
180	23 827	19	1 454	2 822	4 295
—	527	—	—	—	—
—	1 503	—	276	96	372
—	19	—	—	—	—
—	7 081	—	—	—	—
(180)	(2 553)	—	—	—	—
—	(109)	—	—	—	—
—	—	—	36	3 808	3 844
—	(7)	—	—	(1 887)	(1 887)
—	3 148	—	—	—	—
—	(4 043)	(19)	(635)	(997)	(1 651)
—	29 393	—	1 131	3 842	4 973

52. Fair value disclosures (continued)

52.3 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:

	Bank			
	2020			
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	**1 774**	**3 192**	**81**	**5 047**
	2019			
	Trading and hedging portfolio assets Rm	Loans and advances to customers[1] Rm	Investment securities[1] Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	3 197	871	342	4 410

	Bank		
	2020		
	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	**(104)**	**(490)**	**(594)**
	2019		
	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	(520)	163	(357)

[1] In 2019, the Bank inadvertently disclosed the incorrect unrealised gains and losses balance for loans and advances to customers and investment securities. This has led to a restatement of the loans and advances to customers balance from R539m to R871m and the restatement of the investment securities balance from R220m to R342m.

52. Fair value disclosures (continued)

52.4 Sensitivity analysis of valuations using unobservable inputs

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

The following 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:

		2020	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	**Absa Group Limited/Absa funding spread**	344/(394)	—/—
Investment securities	**Risk adjustment yield curves, future earnings and marketability discount**	—/—	(146)/151
Loans and advances to customers	**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	—/—

52. Fair value disclosures (continued)

52.4 Sensitivity analysis of valuations using unobservable inputs (continued)

		2019	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	Absa Group Limited/Absa funding spread	349/(395)	—/—
Investment securities	Risk adjustment yield curves, future earnings and marketability discount	—/—	(303)/313
Loans and advances to customers	Credit spreads	(692)/760	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	177/(174)	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(261)/261	—/—

52.5 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:

	Bank	
	2020 Rm	2019 Rm
Opening balance at the beginning of the reporting period	**(407)**	(428)
New transactions	**(105)**	(52)
Amounts recognised in profit or loss during the reporting period	**66**	73
Closing balance at the end of the reporting period	**(446)**	(407)

52.6 Third-party credit enhancements

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

52. Fair value disclosures (continued)

52.7 Assets and liabilities not held at fair value

The following table summarises the carrying amounts and fair value of those assets and liabilities not held at fair value.

	Bank				
	2020				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with the SARB	25 460	25 460	25 460	—	—
Coins and bank notes	8 352	8 352	8 352	—	—
Cash, cash balances and balances with central banks	33 812	33 812	33 812	—	—
Investment securities	30 005	32 479	32 479	—	—
Loans and advances to banks	34 284	34 284	4 154	30 130	—
Other assets	12 230	12 230	5 724	3 546	2 960
RBB South Africa	506 937	501 887	—	—	501 887
Home Loans	247 679	245 702	—	—	245 702
Vehicle and Asset Finance	89 129	87 739	—	—	87 739
Everyday Banking	47 727	47 010	—	—	47 010
Card	26 110	26 110	—	—	26 110
Personal Loans	18 410	17 693	—	—	17 693
Transactions and Deposits	3 207	3 207	—	—	3 207
Relationship Banking	122 402	121 436	—	—	121 436
CIB South Africa	239 351	243 718	—	—	243 718
Head Office, Treasury and other operations in South Africa	973	973	—	—	973
Loans and advances to customers – net of impairment losses	747 261	746 578	—	—	746 578
Loans to group companies	56 145	56 145	—	56 145	—
Total assets (not held at fair value)	913 737	915 528	76 169	89 821	749 538
Financial liabilities					
Deposits from banks	58 120	58 414	16 321	41 982	111
Other liabilities	19 735	19 735	8 773	10 962	—
Call deposits	75 785	75 785	75 785	—	—
Cheque account deposits	218 140	218 140	218 140	—	—
Credit card deposits	2 033	2 033	2 033	—	—
Fixed deposits	157 604	161 534	—	155 274	6 260
Foreign currency deposits	30 022	30 022	—	30 022	—
Notice deposits	74 139	74 139	28 742	45 397	—
Other deposits	936	936	—	936	—
Saving and transmission deposits	183 852	183 852	29 019	7 870	146 963
Deposits due to customers	742 511	746 441	353 719	239 499	153 223
Debt securities in issue	119 758	120 455	—	120 455	—
Borrowed funds	20 621	20 762	—	20 762	—
Total liabilities (not held at fair value)	960 745	965 807	378 813	433 660	153 334

52. Fair value disclosures (continued)

52.7 Assets and liabilities not held at fair value (continued)

	2019				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with the SARB	16 587	16 587	16 587	—	—
Coins and bank notes	8 898	8 898	8 898	—	—
Cash, cash balances and balances with central banks	25 485	25 485	25 485	—	—
Investment securities	7 087	7 064	7 064	—	—
Loans and advances to banks	15 540	15 540	3 513	12 027	—
Other assets	19 183	19 183	12 506	3 103	3 574
RBB South Africa	495 786	497 234	—	—	497 234
Home Loans	237 391	237 391	—	—	237 391
Vehicle and Asset Finance	83 740	84 080	—	—	84 080
Everyday Banking	50 701	51 313	—	—	51 313
Card	26 369	26 778	—	—	26 778
Personal Loans	20 857	21 022	—	—	21 022
Transactions and Deposits	3 475	3 513	—	—	3 513
Relationship Banking	123 953	124 449	—	—	124 449
RBB Other	1	1	—	—	1
CIB South Africa	230 111	230 111	—	—	230 111
Head Office, Treasury and other operations in South Africa	829	829	—	—	829
Loans and advances to customers – net of impairment losses	726 726	728 174	—	—	728 174
Loans to group companies	50 460	50 460	—	50 460	—
Non-current assets held for sale	3 685	3 685	—	—	3 685
Total assets (not held at fair value)	848 166	849 591	48 568	65 590	735 433
Financial liabilities					
Deposits from banks	71 357	71 357	11 539	59 752	66
Other liabilities	11 701	11 701	185	10 330	1 186
Call deposits	52 406	52 406	52 406	—	—
Cheque account deposits	159 981	159 981	159 981	—	—
Credit card deposits	1 862	1 862	1 862	—	—
Fixed deposits	157 998	158 421	—	155 693	2 728
Foreign currency deposits	23 975	23 975	—	23 975	—
Notice deposits	68 997	68 997	23 616	45 381	—
Other deposits	722	722	—	719	3
Saving and transmission deposits	156 430	156 430	32 131	2 059	122 240
Deposits due to customers	622 371	622 794	269 996	227 827	124 971
Debt securities in issue	128 241	130 978	—	130 978	—
Borrowed funds	21 282	21 282	—	21 282	—
Total liabilities (not held at fair value)	854 952	858 112	281 720	450 169	126 223

53. 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:

	Bank		Credit risk mitigation	
	2020 Rm	2019 Rm	2020 Rm	2019 Rm
Assets				
Investment securities	2 447	925	—	—
Loans and advances to banks	121	1 233	121	1 233
Loans and advances to customers	26 012	21 753	1 327	1 452
	28 580	23 911	1 448	2 685

The Bank 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 and loss

The following table represents the carrying amount of financial liabilities designated at fair value through profit and loss and the amount that the Bank is contractually required to pay to the holder of the obligation at maturity:

	Bank			
	2020		2019	
	Carrying amount Rm	Contractual obligation Rm	Carrying amount Rm	Contractual obligation Rm
Liabilities				
Deposits from banks	32 724	35 800	48 120	50 388
Deposits due to customers	52 376	63 052	55 438	67 049
Debt securities in issue	24 402	36 681	29 362	31 275
	109 502	135 533	132 920	148 712

(Increase)/decrease in fair value attributable to changes in own credit risk during the reporting period

	Bank	
	2020 Rm	2019 Rm
Liabilities		
Deposits from banks and customers	(116)	(61)
Cumulative adjustments in fair value attributable to changes in own risk		
Liabilities		
Deposits from banks and customers	474	358

The following approach is used in determining changes in fair value due to changes in 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 funding issued by the Bank. Most market parameters are either directly observable or are implied by 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.

54. Risk management

54.1 Effective risk management and control are essential for sustainable and profitable growth

The role of risk management is to evaluate, respond to, and monitor risks in the execution of the Bank's strategy. It is essential that the business growth strategy is 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.

The approach to managing risk is outlined in the ERMF, which provides the basis for setting policies and standards, and establishing the appropriate risk practices throughout the Bank. It defines the risk management process and sets out the activities, tools, techniques and organisational arrangements to ensure that material risks can be identified and managed. It also ensures that appropriate responses are in place to protect the Bank and prevent detriment to its stakeholders.

The ERMF includes those risks taken by the Bank that are foreseeable, and material enough to merit establishing specific group-wide control frameworks. These are known as key risks and are grouped into nine principal risks.

The three lines of defence operating model, which has been defined in the ERMF, enables the appropriate assignment of risk management activities between those parties that:

- Originate and own risk, and implement controls (first line);
- Oversee and challenge the first line, providing independent risk management activity and support controls (second line); and
- Provide assurance that risk processes are fit for purpose, and that they are being carried out as intended (third line).

The ERMF enables businesses and functions to be organised along the three lines by formalising independence and challenge, whilst promoting collaboration and the flow of information between all areas.

The ERMF is reviewed and approved annually by the Board.

Risk appetite

Risk appetite and stress testing are key components of the Bank's management of risk and are embedded as part of the strategic planning process. The risk appetite statement describes and measures the amount and types of risk that the Bank is prepared to take in executing its strategy. The Bank's risk appetite framework combines a top-down view of capacity to take risk with a bottom-up view of the risk profile associated with each business area's plans.

Risk appetite key indicators and triggers

The Bank manages its risk profile in a forward-looking manner through a trigger and management action framework, which has been reviewed and strengthened. Key indicators and triggers have been developed to serve as an early warning system. The indicators include, *inter alia*, economic indices directly correlated with risk measures and key financial indicators. The indicators and triggers have been implemented at the Bank, Business Unit, and product levels, and are regularly monitored by management and reported to the Bank Risk and Capital Management Committee (GRCMC) on a quarterly basis.

Stress testing

Stress testing is a key element of the Bank's integrated planning and risk management processes. Through the use of stress testing and scenario analysis, the Bank is able to assess the performance of the Bank's portfolios in the expected economic environment and also evaluate the impact of adverse economic conditions.

Actual market stresses, which have been experienced throughout the financial system in recent years, have been used to inform the Bank's capital planning process and enhance the stress scenarios employed. The Bank takes into account the results of all such stress testing when assessing its internal and regulatory capital requirements including the setting of capital and liquidity buffers.

The GRCMC exercises governance oversight and approval authority over stress testing results.

Credit risk

The risk of financial loss should the Bank's customers, clients or market counterparts fail to fulfil their contractual obligation.

54. Risk management (continued)

54.2 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.

	Bank			
	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 the SARB	25 460	25 460	—	—
Cash, cash balances and balances with central banks	25 460	25 460	—	—
Government bonds	65 142	65 142	—	—
Other	21 038	17 747	1 144	—
Treasury bills	6 801	6 801	—	—
Investment securities	92 981	89 690	1 144	—
Loans and advances to banks	34 305	29 096	3 600	—
Accounts receivable	6 740	6 574	165	—
Settlement accounts	5 490	4 709	781	—
Other assets	12 230	11 283	946	—
RBB South Africa	538 482	32 116	375 957	23 210
Home Loans	255 130	10 111	191 811	8 815
Vehicle and Asset Finance	94 877	1 293	65 769	9 494
Everyday Banking	60 571	3 486	32 990	4 901
Card	32 714	3 004	19 201	2 053
Personal Loans	23 785	228	12 246	2 421
Transactions and Deposits	4 072	254	1 543	427
Relationship Banking	127 851	17 226	85 387	—
RBB Other	53	—	—	—
CIB South Africa	242 211	120 115	75 238	2
Head Office, Treasury and other operations in South Africa	520	277	21	—
Loans and advances to customers	781 213	152 508	451 216	23 212
Loans and advances to group companies	56 346	56 346	—	—
Off-statement of financial position exposure				
Guarantees	34 327	18 984	12 000	63
Letters of credit	5 777	1 543	1 963	3
Revocable and irrevocable debt facilities	194 300	87 930	101 201	536
Total off-statement of financial position exposure	234 404	108 457	115 164	602

[1] Refer to note 1.2.1.3 for DG bucket definitions.

54. Risk management (continued)

54.2 Credit risk (continued)

	Bank			
	2020			
	Stage 2[1]			Stage 3[1]
Maximum exposure to credit risk	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm	Default Rm
Balances with the SARB	—	—	—	—
Cash, cash balances and balances with central banks	—	—	—	—
Government bonds	—	—	—	—
Other	792	1 355	—	—
Treasury bills	—	—	—	—
Investment securities	792	1 355	—	—
Loans and advances to banks	778	768	63	—
Accounts receivable	—	1	—	—
Settlement accounts	—	—	—	—
Other assets	—	1	—	—
RBB South Africa	4 647	37 340	14 882	50 330
Home Loans	3 101	10 299	7 180	23 813
Vehicle and Asset Finance	1 230	5 084	4 291	7 716
Everyday Banking	110	4 377	3 411	11 296
Card	52	1 762	1 622	5 020
Personal Loans	19	1 690	1 591	5 590
Transactions and Deposits	39	925	198	686
Relationship Banking	206	17 580	—	7 452
RBB Other	—	—	—	53
CIB South Africa	11 749	27 576	1 503	6 028
Head Office, Treasury and other operations in South Africa	—	222	—	—
Loans and advances to customers	16 396	65 138	16 385	56 358
Loans and advances to group companies	—	—	—	—
Off-statement of financial position exposure				
Guarantees	355	1 897	280	748
Letters of credit	253	1 880	87	48
Revocable and irrevocable debt facilities	881	3 018	143	591
Total off-statement of financial position exposure	1 489	6 795	510	1 387

54. Risk management (continued)

54.2 Credit risk (continued)

		2019		
		Stage 1[1]		
Maximum exposure to credit risk	Gross maximum exposure Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Balances with the SARB	16 587	16 587	—	—
Cash, cash balances and balances with central banks	16 587	16 587	—	—
Government bonds	35 153	35 153	—	—
Other	20 321	19 999	—	—
Treasury bills	16 638	13 541	—	—
Investment securities	72 112	68 693	—	—
Loans and advances to banks	15 560	9 380	5 660	—
Accounts receivable	6 923	4 407	2 514	—
Settlement accounts	12 260	12 233	27	—
Other assets	19 183	16 640	2 541	—
RBB South Africa	516 926	38 579	384 525	20 278
Home Loans	242 828	12 528	190 205	7 490
Vehicle and Asset Finance	86 934	2 120	65 455	6 109
Everyday Banking	59 248	3 449	34 872	6 679
Card	31 097	2 581	19 846	2 066
Personal Loans	23 941	571	13 325	4 150
Transactions and Deposits	4 210	297	1 701	463
Relationship Banking	127 863	20 482	93 993	—
RBB Other	53	—	—	—
CIB South Africa	231 545	125 573	75 263	—
Head Office, Treasury and other operations in South Africa	319	293	17	—
Loans and advances to customers	748 790	164 445	459 805	20 278
Loans and advances to group companies	50 460	50 460	—	—
Off-statement of financial position exposure				
Guarantees	33 523	21 069	9 080	30
Letters of credit	5 303	593	1 400	14
Revocable and irrevocable debt facilities	183 524	34 531	135 365	8 607
Total off-statement of financial position exposure	222 350	56 193	145 845	8 651

[1] Refer to note 1.2.1.3 for DG bucket definitions.

54. Risk management (continued)

54.2 Credit risk (continued)

	2019			
	Stage 2			Stage 3
Maximum exposure to credit risk	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm	Default Rm
Balances with the SARB	—	—	—	—
Cash, cash balances and balances with central banks	—	—	—	—
Government bonds	—	—	—	—
Other	322	—	—	—
Treasury bills	3 097	—	—	—
Investment securities	3 419	—	—	—
Loans and advances to banks	—	487	33	—
Accounts receivable	—	2	—	—
Settlement accounts	—	—	—	—
Other assets	—	2	—	—
RBB South Africa	592	24 472	11 738	36 741
Home Loans	226	8 367	5 232	18 780
Vehicle and Asset Finance	4	4 315	3 677	5 254
Everyday Banking	115	3 936	2 829	7 367
Card	38	1 629	1 219	3 717
Personal Loans	22	1 355	1 411	3 107
Transactions and Deposits	55	952	199	543
Relationship Banking	247	7 854	—	5 287
RBB Other	—	—	—	53
CIB South Africa	8 646	16 055	4 204	1 804
Head Office, Treasury and other operations in South Africa	—	9	—	—
Loans and advances to customers	9 238	40 536	15 942	38 545
Loans and advances to group companies	—	—	—	—
Off-statement of financial position exposure				
Guarantees	97	2 372	627	248
Letters of credit	258	3 009	29	—
Revocable and irrevocable debt facilities	732	2 543	710	1 036
Total off-statement of financial position exposure	1 087	7 924	1 366	1 284

54. Risk management (continued)

54.2 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:

	Bank			
	2020			
Maximum exposure to credit risk	Carrying amount Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Investment securities	5 407	5 283	124	—
Government bonds	15	15	—	—
Other	2 648	2 524	124	—
Treasury bills	2 744	2 744	—	—
Loans and advances to banks	31 830	24 396	7 434	—
Trading and hedging portfolio assets[1]	175 175	136 698	38 250	227
Debt instruments	57 103	47 873	9 230	—
Derivative assets	109 137	80 395	28 515	227
Money market assets	8 935	8 430	505	—
Loans and advances to customers	63 901	29 841	34 060	—
Total	276 313	196 218	79 868	227

	2019			
Maximum exposure to credit risk	Carrying amount Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Investment securities	1 443	943	500	—
Government bonds	924	924	—	—
Other	519	19	500	—
Treasury bills	—	—	—	—
Loans and advances to banks	29 453	16 406	13 047	—
Trading and hedging portfolio assets[1]	113 759	100 418	13 292	49
Debt instruments	41 727	41 649	78	—
Derivative assets	60 443	48 315	12 079	49
Money market assets	11 589	10 454	1 135	—
Loans and advances to customers	67 656	33 399	34 026	231
Total	212 311	151 166	60 865	280

[1] Includes hedging portfolio assets which was separately disclosed in the prior reporting period.

54. Risk management (continued)

54.2 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:

	Bank				
	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	—	—	—	25 460	25 460
Investment securities	10 947	—	—	87 441	98 388
Loans and advances to banks	8 581	30 896	15 996	10 662	66 135
Trading portfolio assets	2 291	22 529	5 296	134 061	164 177
Hedging portfolio assets	—	—	—	10 998	10 998
Other assets	142	206	883	10 999	12 230
Loans and advances to customers	22 149	16 287	13 061	793 617	845 114
Loans and advances to group companies	—	—	16 338	40 008	56 346
Subject to credit risk	44 110	69 918	51 574	1113 246	1 278 848
Off-statement of financial position exposures					
Guarantees	210	4 211	1 717	28 189	34 327
Letters of credit	1 688	522	2 741	826	5 777
Revocable and irrevocable debt facilities	—	—	—	194 300	194 300
Subject to credit risk	1 898	4 733	4 458	223 315	234 404

	2019				
	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	—	—	—	16 587	16 587
Investment securities	3 274	—	—	70 281	73 555
Loans and advances to banks	6 468	13 039	17 275	8 231	45 013
Trading portfolio assets	967	13 257	5 385	90 795	110 404
Hedging portfolio assets	—	—	—	3 355	3 355
Other assets	111	671	236	18 165	19 183
Loans and advances to customers	9 323	12 008	10 536	784 578	816 445
Loans and advances to group companies	—	—	18 531	31 929	50 460
Subject to credit risk	20 143	38 975	51 963	1023 921	1 135 002
Off-statement of financial position exposures					
Guarantees	705	4 405	2 301	26 112	33 523
Letters of credit	838	28	3 504	933	5 303
Revocable and irrevocable debt facilities	—	—	—	183 524	183 524
Subject to credit risk	1 543	4 433	5 805	210 569	222 350

54. Risk management (continued)

54.2 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 Bank offsets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Bank 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 Bank 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 Bank'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.

54. Risk management (continued)
54.2 Credit risk (continued)

Analysis of credit risk mitigation and collateral	2020 Collateral – credit impaired financial assets Gross maximum exposure[1] Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm
Loans and advances to banks	66 135	—	—	—	—
Debt instruments	57 102	—	—	—	—
Derivative assets	109 138	—	—	—	—
Money market assets	8 935	—	—	—	—
Trading and hedging portfolio assets	175 175	—	—	—	—
RBB South Africa	654 387	31	31 190	57	53
Home Loans	308 816	—	21 583	—	—
Vehicle and Asset Finance	96 167	—	5 673	—	—
Everyday Banking	88 413	—	2	—	—
Card	54 882	—	—	—	—
Personal Loans	24 343	—	—	—	—
Transactions and Deposits	9 188	—	2	—	—
Relationship Banking	160 938	31	3 932	57	53
RBB Other	53	—	—	—	—
CIB South Africa	384 507	354	532	—	35
Head Office, Treasury and other operations in South Africa	520	—	—	—	—
Loans and advances to customers	1 039 414	385	31 722	57	88
Off-statement of financial position exposure					
Guarantees	34 327	—	0	—	—
Letters of credit	5 777	—	—	—	—
Total off-statement of financial position exposure	40 104	—	0	—	—

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 exposures for revocable and irrevocable debt facilities.

Bank							
2020							
		Collateral – not credit impaired financial assets					
Unsecured	Total maximum exposure credit impaired financial assets[1]	Guarantees, credit insurance and credit derivatives	Physical collateral	Cash collateral	Other	Unsecured	Total maximum exposure not credit impaired financial assets[1]
Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
—	—	390	—	—	18 664	47 081	66 135
—	—	—	—	—	—	57 102	57 102
—	—	—	—	3 169	74 288	31 681	109 138
—	—	—	—	—	—	8 935	8 935
—	—	—	—	3 169	74 288	97 718	175 175
19 587	50 918	2 129	448 506	1 221	195	151 418	603 469
2 307	23 890	—	263 416	—	—	21 510	284 926
2 043	7 716	—	48 809	—	—	39 642	88 451
11 730	11 732	—	—	—	—	76 681	76 681
5 379	5 379	—	—	—	—	49 503	49 503
5 607	5 607	—	—	—	—	18 736	18 736
744	746	—	—	—	—	8 442	8 442
3 454	7 527	2 129	136 281	1 221	195	13 585	153 411
53	53	—	—	—	—	—	—
5 107	6 028	537	49 177	—	35 392	293 373	378 479
—	—	—	—	—	—	520	520
24 694	56 946	2 666	497 683	1 221	35 587	445 311	982 468
748	748	13	4 666	645	24	28 231	33 579
48	48	—	—	—	—	5 729	5 729
796	796	13	4 666	645	24	33 960	39 308

54. Risk management (continued)

54.2 Credit risk (continued)

Analysis of credit risk mitigation and collateral	Gross maximum exposure[1] Rm	2019 Collateral – credit impaired financial assets Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm
Loans and advances to banks	45 013	—	—	—	—
Debt instruments	41 727	—	—	—	—
Derivative assets	60 442	—	—	—	—
Money market assets	11 589	—	—	—	—
Trading and hedging portfolio assets	113 758	—	—	—	—
RBB South Africa	634 874	18	24 000	26	24
Home Loans	294 915	—	17 349	—	—
Vehicle and Asset Finance	88 585	—	3 985	—	—
Everyday Banking	94 596	—	—	—	—
Card	61 161	—	—	—	—
Personal Loans	24 466	—	—	—	—
Transactions and Deposits	8 969	—	—	—	—
Relationship Banking	156 725	18	2 666	26	24
RBB Other	53	—	—	—	—
CIB South Africa	364 775	187	150	—	40
Head Office, Treasury and other operations in South Africa	319	—	—	—	—
Loans and advances to customers	999 968	205	24 150	26	64
Off-statement of financial position exposure					
Guarantees	33 523	—	1	—	—
Letters of credit	5 303	—	—	—	—
Total off-statement of financial position exposure	38 826	—	1	—	—

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 exposures for revocable and irrevocable debt facilities.

		2019					
		Collateral – not 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
—	—	350	—	—	26 013	18 650	45 013
—	—	—	—	—	—	41 727	41 727
—	—	74	—	1 212	43 992	15 164	60 442
—	—	—	—	—	—	11 589	11 589
—	—	74	—	1 212	43 992	68 480	113 758
13 703	37 771	201	426 764	853	272	169 013	597 103
1 492	18 841	—	255 389	—	—	20 685	276 074
1 267	5 252	—	45 237	—	—	38 096	83 333
8 278	8 278	—	—	—	—	86 318	86 318
4 592	4 592	—	—	—	—	56 569	56 569
3 119	3 119	—	—	—	—	21 347	21 347
567	567	—	—	—	—	8 402	8 402
2 613	5 347	201	126 138	853	272	23 914	151 378
53	53	—	—	—	—	—	—
1 428	1 805	9 393	46 873	—	40 771	265 933	362 970
—	—	—	—	—	—	319	319
15 131	39 576	9 594	473 637	853	41 043	435 265	960 392
247	248	11	3 905	636	21	28 702	33 275
—	—	—	—	—	—	5 303	5 303
247	248	11	3 905	636	21	34 005	38 578

54. Risk management (continued)

54.2 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:

	Bank 2020 Rm	Bank 2019 Rm
Assets written off during financial period still subject to enforcement activities	5 575	7 447

Reconciliation of impairment loss allowance

	Bank 2020			
		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	7	—	—	7
Asset moved/Allowance transferred to stage 1	—	—	—	—
Asset moved/Allowance transferred to stage 2	—	—	—	—
Asset moved/Allowance transferred to stage 3	—	—	—	—
Current period provision	4	25	—	29
Balance at the end of the reporting period	11	25	—	36

	2019			
		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	24	3	10	37
Asset moved/Allowance transferred to stage 1	1	(1)	—	—
Asset moved/Allowance transferred to stage 2	—	—	—	—
Asset moved/Allowance transferred to stage 3	—	—	—	—
Current period provision	(18)	(2)	(10)	(30)
Balance at the end of the reporting period	7	—	—	7

54. Risk management (continued)

54.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

Loans and advances to banks at amortised cost	Bank 2020 Stage 1 Rm	Lifetime expected credit losses ('LEL') Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	17	3	—	20
Asset moved/Allowance transferred to stage 1	—	—	—	—
Asset moved/Allowance transferred to stage 2	(1)	1	—	—
Current period provision	2	—	—	2
Balance at the end of the reporting period	18	4	—	22

Loans and advances to banks at amortised cost	2019 Stage 1 Rm	Lifetime expected credit losses ('LEL') Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	7	13	—	20
Asset moved/Allowance transferred to stage 1	1	(1)	—	—
Current period provision	9	(9)	—	—
Balance at the end of the reporting period	17	3	—	20

Loans and advances to customers at amortised cost and undrawn facilities	Bank 2020 Stage 1 Rm	Lifetime expected credit losses ('LEL') Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	3 492	3 696	15 395	22 583
Asset moved/Allowance transferred to stage 1	1 029	(742)	(287)	—
Asset moved/Allowance transferred to stage 2	(266)	549	(283)	—
Asset moved/Allowance transferred to stage 3	(276)	(1 148)	1 424	—
Current period provision	1 590	3 725	10 199	15 514
Amounts written off	—	—	(5 575)	(5 575)
Net change in interest	—	—	1 888	1 888
Balance at the end of the reporting period	5 569	6 080	22 761	34 410

54. Risk management (continued)

54.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

Loans and advances to customers at amortised cost and undrawn facilities	2019			
		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	3 103	3 559	16 215	22 877
Asset moved/Allowance transferred to stage 1	1 282	(818)	(464)	—
Asset moved/Allowance transferred to stage 2	(247)	664	(417)	—
Asset moved/Allowance transferred to stage 3	(201)	(1 045)	1 246	—
Current period provision	(344)	1 544	4 904	6 104
Amounts written off	—	—	(7 447)	(7 447)
Transfer to non-current assets held for sale	(101)	(208)	(499)	(808)
Net change in interest	—	—	1 857	1 857
Balance at the end of the reporting period	3 492	3 696	15 395	22 583

The following significant changes in the gross carrying amount of loans and advances to customers during the period contributed to changes in the loss allowance:

- The Bank did not originate any credit impaired assets during the current reporting period.
- The total write-offs recognised during the current period related predominantly to exposures in the Retail portfolio.
- The Edcon loan book with a gross carrying amount of R4 493m was disposed of during the reporting period. The ECL at the date of disposal amounted to R101m for stage 1, R208m for stage 2 and R499m for stage 3.

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 **R1 888m** (2019: R1 857m) disclosed is therefore reflective of the amount of interest not recognised during the current reporting period.

Guarantees and letters of credit	Bank 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	32	14	31	77
Asset moved/Allowance transferred to stage 1	—	—	—	—
Asset moved/Allowance transferred to stage 2	—	—	—	—
Asset moved/Allowance transferred to stage 3	—	1	(1)	—
Current period provision	25	(3)	46	68
Balance at the end of the reporting period	57	12	76	145

54. Risk management (continued)

54.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

	2019			
		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	24	48	2	74
Asset moved/Allowance transferred to stage 1	35	(35)	—	—
Asset moved/Allowance transferred to stage 2	—	—	—	—
Asset moved/Allowance transferred to stage 3	—	(1)	1	—
Current period provision	(27)	2	28	3
Balance at the end of the reporting period	32	14	31	77

Other financial assets measured at amortised cost:
The ECL recognised on other assets for the current financial year amounted to **Rnil** (2019: Rnil).

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.

	Bank	
	2020 Rm	2019 Rm
Financial assets modified during the period		
Loans and advances to customers		
Amortised cost before modification	**3 042**	3 001
Net modification loss	**(33)**	(117)

54. Risk management (continued)

54.3 Equity investment risk in banking book

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 Bank (such as investments in subsidiaries), investments for public interest or in utilities. Within each equity portfolio, the Bank aims to achieve a level of asset diversification to manage concentration risk.

Approach

The Banks 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 Bank's equity investments are held in CIB and RBB – Relationship Banking.

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 Bank employs the market-based simple risk weight approach as prescribed by Regulations 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%** (2019: 300%) and **424%** (2019: 400%) for listed and unlisted equity investments, respectively. For investments in which the Bank 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 Bank 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.

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.

	Bank									
	2020					2019				
	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% reduction in fair value			Impact of a 5% increase in fair value	
	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
Listed equity investments	(23)	(3)	535	23	3	(50)	(6)	1 119	50	6
Unlisted equity investments	(27)	(30)	572	27	30	(16)	(11)	556	16	11
Total Bank equity investments	**(50)**	**(33)**	**1 107**	**50**	**33**	(66)	(17)	1 675	66	17

[1] The sensitivity impact analysis on listed investments is based on 5% whereas unlisted investments is based on 10%.

54. Risk management (continued)

54.4 Market risk

Traded market risk

Traded market risk is the risk of the Bank's earnings or capital being adversely impacted by changes in the level or volatility of prices affecting positions in its trading activities across the Bank. 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 and 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 Bank 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 (time series) 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 6 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 have assigned a DVaR and sVaR model multiplier to be used in RC calculations. During the year the PA approved the use of the standardised approach for Funding and Credit Valuation Adjustments. This risk was removed from the VaR model and is now capitalized under the standardised approach.

Issuer-specific risk is currently reported in accordance with the regulatory standardised approach across the Bank. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach.

DVaR is an important market risk measurement and control tool that is used by the Bank. 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.

54. Risk management (continued)

54.4 Market risk (continued)

Traded 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 1 year period of financial stress which is reviewed quarterly and assumes a ten-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, increased to **R62.87m** (2019: R51.12m) for the reporting period, which is a **23%** (2019: 7%) increase on the prior year average. This was principally due to an increase in the historic market volatility feeding the model, resulting from the Covid-19 pandemic, compounded by reduced liquidity creating a challenging environment for the business to exit risk obtained through client facilitation.

The model performed well during the Covid-19 crisis, showing an increase in VaR immediately after the March/April peak in volatility. Whilst backtesting breaches were registered on various individual desks, the diversified risk profile of the trading positions limited extreme losses at Bank level.

	Bank							
	2020				2019			
	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	45.35	86.82	27.51	42.07	37.58	57.51	25.66	35.84
Foreign exchange risk	23.10	54.23	6.78	47.79	15.99	49.55	5.36	5.36
Equity risk	32.40	81.28	3.95	5.34	30.97	78.64	15.52	31.25
Commodity risk	1.39	4.36	0.26	1.30	1.09	4.02	0.23	1.03
Inflation risk	17.63	76.36	5.53	17.43	6.80	22.70	3.00	6.32
Credit spread risk	7.73	10.23	4.05	8.44	5.01	8.91	3.39	4.17
Diversification effect	(64.73)	(204.14)	(15.24)	(56.10)	(46.32)	(136.55)	(16.81)	(38.08)
Total DVaR	62.87	109.14	32.84	66.27	51.12	84.78	36.35	45.89
Expected shortfall	90.68	49.59	150.12	97.37	65.96	118.83	39.46	51.50
Regulatory VaR[2]	62.87	109.14	32.84	66.27	51.12	84.78	36.35	45.89
Regulatory sVaR[2]	106.01	158.90	63.86	104.31	98.84	170.88	59.34	100.88

Other market risks

The Bank 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 Bank 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. Bank 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 quarterly review for appropriateness.

54. Risk management (continued)

54.5 Treasury risk

Treasury risk comprises liquidity risk, capital risk and interest rate risk in the banking book.

- **Liquidity risk:** The risk that the Bank is unable to meet its contractual or contingent 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 Bank 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 Bank is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its banking book assets and liabilities.

54.5.1 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity 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 Bank-specific and market-wide events.

Liquidity risk is monitored at Bank 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 Bank's liquidity risk management priorities are:

- preserve the Bank's liquidity position in line with risk appetite.
- focus on growing core retail, relationship bank, corporate and public sector deposits.
- manage the funding and High Quality Liquid Assets (HQLA) position in line with the Board-approved framework and ensure compliance with regulatory requirements.
- maintain adequate liquidity buffers to ensure the Bank complies with the Liquidity Coverage Ratio (LCR) in accordance with the Covid-19-related relief provided by the South African Reserve Bank (SARB), while managing the Committed Liquidity Facility (CLF) phase-out.
- grow and diversify the funding base to support asset growth and other strategic initiatives, while optimising funding cost and complying with net stable funding ratio (NSFR) requirements.
- collaborate with the regulatory authorities and other stakeholders on the SARB's proposed approach for resolution planning and depositor insurance schemes in South Africa.

Approach

The efficient management of liquidity is essential for safeguarding the Bank's depositors, preserving market confidence and maintaining the Bank's brand. The Bank considers sustainable access to appropriate liquidity for each of its entities to be extremely important. Liquidity risk is managed 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 control liquidity risk within and across lines of business and legal entities.
- price liquidity costs accurately and incorporate these into product pricing and performance measurement.
- Set 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 Bank established the Internal Liquidity Stress Metric (ILSM), which sets the level of liquidity risk the Bank 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 Bank 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 Bank'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.

54. Risk management (continued)

54.5 Treasury risk (continued)

54.5.1 Liquidity risk (continued)

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 Bank-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 warnings indicators (EWIs), which assist in informing management when deciding whether the CFP should be invoked.

Each banking entity in the Bank must establish local processes and procedures to manage local liquidity stresses that are consistent with the Bank'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 Bank the CFP was merged with the recovery plan.

The Bank's liquidity risk position was resilient, in line with risk appetite, and above the minimum regulatory requirements.

The Bank treasury management worked closely with regulators and supervisory authorities in addressing market-wide liquidity constraints that arose at the onset of the Covid-19 pandemic during the first half of 2020. The Bank maintained an excess supply of US dollars to ensure conservative management of foreign currency liquidity. Liquidity conditions improved significantly during the second half of 2020.

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.

	Bank					
	2020					
	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	33 812	—	—	—	—	33 812
Investment securities	1 109	13 762	37 016	47 609	(7)	99 489
Loans and advances to banks	17 507	39 792	4 750	4 086	(22)	66 113
Trading and hedging portfolio assets	165 067	949	8 695	1 353	—	176 064
Derivative assets	98 140	949	8 695	1 353	—	109 137
Non-derivative assets	66 927	—	—	—	—	66 927
Other financial assets	5 721	6 509	—	—	—	12 230
Loans and advances to customers	130 134	163 713	317 220	234 047	(33 952)	811 162
Loans to group companies	33 664	20 129	1 607	947	(202)	56 145
Financial assets	387 014	244 854	369 288	288 042	(34 183)	1 255 015
Non-financial assets						31 260
Total assets						1 286 275
Liabilities[1]						
Deposits from banks	28 831	52 269	13 265	1 668	—	96 033
Trading and hedging portfolio liabilities	105 983	235	1 193	3 424	—	110 835
Derivative liabilities	86 777	235	1 193	3 424	—	91 629
Non-derivative liabilities	19 206	—	—	—	—	19 206
Other financial liabilities	10 225	6 363	—	—	—	16 588
Deposits due to customers	519 318	214 069	49 278	12 222	—	794 887
Debt securities in issue	668	62 812	66 778	13 901	—	144 159
Borrowed funds	—	2 459	18 162	—	—	20 621
Financial liabilities	665 025	338 207	148 676	31 215	—	1 183 123
Non-financial liabilities						8 753
Total liabilities						1 191 876
Equity						94 399
Total equity and liabilities						1 286 275
Net liquidity position of financial instruments	(278 011)	(93 353)	220 612	256 827	(34 183)	71 892

[1] The above table does not include the maturity analysis of finance lease payables, which is detailed in Note 35.

54. Risk management (continued)

54.5 Treasury risk (continued)

54.5.1 Liquidity risk (continued)

	2019					
	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	25 485	—	—	—	—	25 485
Investment securities	4 289	19 776	23 985	27 180	(0)	75 230
Loans and advances to banks	10 734	32 861	1 418	—	(20)	44 993
Trading and hedging portfolio assets	110 925	191	2 346	817	—	114 279
Derivative assets	57 089	191	2 346	817	—	60 443
Non-derivative assets	53 836	—	—	—	—	53 836
Other financial assets	12 546	6 637	—	—	—	19 183
Loans and advances to customers	107 999	139 300	325 621	243 525	(22 063)	794 382
Non-current asset held for sale	3 685	—	—	—	—	3 685
Loans to group companies	27 774	11 096	11 098	653	(161)	50 460
Financial assets	303 437	209 861	364 468	272 175	(22 244)	1 127 697
Non-financial assets						32 128
Total assets						1 159 825
Liabilities[1]						
Deposits from banks	28 903	71 851	18 638	85	—	119 477
Trading and hedging portfolio liabilities	55 979	112	446	811	—	57 347
Derivative liabilities	45 577	112	446	811	—	46 946
Non-derivative liabilities	10 401	—	—	—	—	10 401
Other financial liabilities	21 633	5 232	—	—	—	26 865
Deposits due to customers	397 185	217 229	51 479	11 916	—	677 809
Debt securities in issue	1 036	81 147	62 630	12 790	—	157 603
Borrowed funds	—	4 360	12 779	4 143	—	21 282
Financial liabilities	504 736	379 931	145 972	29 745	—	1 060 383
Non-financial liabilities						8 117
Total liabilities						1 068 500
Equity						91 325
Total equity and liabilities						1 159 825
Net liquidity position of financial instruments	(201 299)	(170 070)	218 496	242 430	(22 244)	67 314

[1] The above table does not include the maturity analysis of finance lease payables, which is detailed in Note 35.

54. Risk management (continued)

54.5 Treasury risk (continued)

54.5.1 Liquidity risk (continued)

Undiscounted maturity[1] (statement of financial position value with impact of future interest)	Bank 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						
Deposits from banks	28 831	52 511	14 562	2 973	(2 844)	96 033
Trading and hedging portfolio liabilities	105 983	239	1 397	5 689	(2 473)	110 835
Derivative liabilities	86 777	239	1 397	5 689	(2 473)	91 629
Non-derivative liabilities	19 206	—	—	—	—	19 206
Other financial liabilities	10 225	6 372	—	—	(9)	16 588
Deposits due to customers	519 318	216 280	56 316	26 120	(23 147)	794 887
Debt securities in issue	668	63 692	76 355	21 252	(17 808)	144 159
Borrowed funds	—	2 519	20 846	—	(2 744)	20 621
Financial liabilities	665 025	341 613	169 476	56 034	(49 025)	1 183 123
Non-financial liabilities						8 753
Total liabilities						1 191 876
Off-statement of financial position						
Guarantees	34 327	—	—	—	—	34 327
Loan commitments	70 884	74 091	—	—	—	144 975

Undiscounted maturity[1] (statement of financial position value with impact of future interest)	2019 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						
Deposits from banks	28 903	72 765	21 771	140	(4 102)	119 477
Trading and hedging portfolio liabilities	55 979	116	557	1 484	(788)	57 347
Derivative liabilities	45 577	116	557	1 484	(788)	46 946
Non-derivative liabilities	10 401	—	—	—	—	10 401
Other financial liabilities	21 633	5 246	—	—	(14)	26 865
Deposits due to customers	397 185	221 356	63 544	24 364	(28 640)	677 809
Debt securities in issue	1 036	83 894	77 328	23 250	(27 905)	157 603
Borrowed funds	—	4 449	16 114	8 708	(7 989)	21 282
Financial liabilities	504 736	387 826	179 314	57 946	(69 438)	1 060 383
Non-financial liabilities						8 117
Total liabilities						1 068 500
Off-statement of financial position						
Guarantees	38 811	—	—	—	—	38 811
Loan commitments	114 859	66 353	—	—	—	181 212

[1] The above table does not include the maturity analysis of finance lease payables, which is detailed in Note 35.

54. Risk management (continued)

54.5 Treasury risk (continued)

54.5.2 Capital management

Capital risk is the risk that the Bank 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 Bank's capital management strategy, which is in line with and in support of the Bank's strategy is to preserve capital through financial resources management.

The Bank's capital management priorities are to:

- The Board approved CET1 target range for 2021 will be 10.5% to 12%.
- The Bank will seek to grow capital towards the middle of the Board Target of 10.5% to 12%, while resuming dividends for the 2021 financial year in line with regulatory guidance to the industry as informed by Guidance Note 3 of 2021.
- Monitor and assess upcoming regulatory developments that may affect the capital position. These include the Basel III enhancements, including fundamental review of the trading book (FRTB); the proposed amendments to the Regulations relating to Banks; the resolution framework and the financial conglomerate supervisory framework in South Africa.

Various processes play a role in ensuring that the Bank'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 Bank encompasses all regulated entities within it. Appropriate Board-approved capital buffers, above the minimum regulatory requirements, are held at an entity level. The Bank ensures that all regulated entities are adequately capitalised in terms of their respective minimum capital adequacy requirements (CARs). The Bank'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 Bank;
- Current and future Basel III requirements and accounting developments; and
- Peer analysis.

During the first half of the year, the Prudential Authority (PA) instituted several regulatory relief reforms in specific response to the Covid-19 pandemic. The relief measures provide for a temporary relaxation of both capital supply and short-term liquidity requirements, with the intention of enabling banks to continue the provision of credit into the real economy during this period of financial stress. Relaxation measures will continue until such time that the PA reinstates the regulations that were relaxed.

Furthermore, in anticipation of credit risk-induced pressure on banks' 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 relief

The following capital buffers above the bank's base minimum capital requirement have been temporarily relaxed:

- Pillar 2A (Systemic Risk) (1%);
- Capital Conservation Buffer (CCB) (2.5%); and
- Domestic-Systemically Important Buffer (D-SIB) (1%).

54. Risk management (continued)

54.5 Treasury risk (continued)

54.5.2 Capital management (continued)

Capital adequacy ratios (unaudited)

Bank	2020	2019	2020 Board target ranges %	2020 Minimum regulatory capital requirements[1] %	2019 Board target ranges %	2019 Minimum regulatory capital requirements %
Statutory capital ratios (includes unappropriated profits) (%)						
Common Equity Tier 1	**10.6**	11.9	**11.0 – 12.0**	**7.5**	11.0 – 12.0	7.5
Tier 1	**11.9**	13.1	**12.0 – 13.0**	**9.3**	12.0 – 13.0	9.3
Total	**15.6**	16.7	**14.5 – 15.5**	**11.5**	14.5 – 15.5	11.5
Capital supply and demand for the reporting period (Rm)						
Qualifying capital	**99 410**	97 787				
Total RWA	**640 044**	601 900				

Regulatory capital comprises the following:

Common Equity Tier 1 – ordinary share capital, share premium and retained earnings including reserves, less regulatory deductions.
Tier1 – 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 Bank complied in full with all externally imposed capital requirements (2019: the same).

54.5.3 Interest rate risk in banking book (IRRBB)

Approach

IRRBB is the risk that the Bank'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 Bank.

The Bank'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 Bank 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.

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 Bank'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 Bank'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 Bank's equity, and is managed by Bank 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.

[1] The 2020 minimum regulatory capital requirements of **11.5%** (2019: 11.5%) include the capital conservation buffer and the domestically systemic important banks (D-SIB) add-on but excludes the bank-specific individual capital requirement (Pillar 2b add-on).

54. Risk management (continued)

54.5 Treasury risk (continued)

54.5.3 Interest rate risk in banking book (IRRBB) (continued)

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 Bank 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 Bank 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 Bank 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 Operations 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 Absa Regional Operations 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 Absa Regional Operations market risk team with oversight provided by Market Risk.

Risk reporting

DVaR and supporting metrics are reported daily for Bank 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 Bank Treasury.

Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Bank'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.

54. Risk management (continued)

54.5 Treasury risk (continued)

54.5.3 Interest rate risk in banking book (IRRBB) (continued)

Re-pricing profile

The re-pricing profile of the Bank'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.

	Bank			
	2020			
Expected repricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Banking 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 the Bank's total assets (%)	0.1	(0.3)	(3.8)	1.1

	2019			
Expected repricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Banking book[1]				
Interest rate sensitivity gap	186 385	(31 703)	(50 187)	(21 713)
Derivatives[2]	(80 011)	14 485	4 221	61 305
Net interest rate sensitivity gap	106 374	(17 218)	(45 966)	39 592
Cumulative interest rate gap	106 374	89 156	43 190	82 782
Cumulative gap as a percentage of the Bank's total assets (%)	9.2	7.8	3.8	7.2

Impact on earnings

The following table shows the impact on AEaR/NII sensitivity for 100 and 200 bps up and down movements in market interest rates for the Bank'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 **R0.86bn** (2019: R3.17bn). A similar increase would result in an increase in projected 12-month net interest income of **R0.54bn** (2019: R2.92bn). AEaR decreased to **2.6%** (2019: 10%) of the Bank's net interest income.

[1] Includes exposures held in the CIB banking book.

[2] Derivatives for interest rate risk management purposes (net nominal value).

Notes to the consolidated financial statements

for the reporting period ended 31 December

54. Risk management (continued)

54.5 Treasury risk (continued)

54.5.3 Interest rate risk in banking book (IRRBB) (continued)

Annual earnings at risk for 100 and 200 bps changes in market interest rates

	Bank			
	2020 Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(857)	(438)	267	534
Percentage of the Bank's net interest income (%)	(2.6)	(1.3)	0.8	1.6
Percentage of the Bank's equity (%)	(0.9)	(0.5)	0.3	0.6

	2019 Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(3 171)	(1 415)	1 467	2 928
Percentage of the Bank's net interest income (%)	(10.1)	(4.5)	4.7	9.3
Percentage of the Bank's equity (%)	(3.6)	(1.6)	1.7	3.3

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 marked-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.

Sensitivity of reserves to market interest rate movements

	Bank					
	2020			2019		
	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	(343)	(404)	(226)	(254)	(465)	(222)
Cash flow hedging reserve	(2 745)	(2 766)	(2 043)	(2 056)	(2 288)	(1 992)
	(3 088)	(3 170)	(2 269)	(2 310)	(2 753)	(2 214)
As a percentage of Bank equity (%)	(3.3)	(3.4)	(2.5)	(2.6)	(3.0)	(2.4)

The sensitivity of reserves to market interest rates movements exhibit very little convexity resulting in a materially equivalent change in value for -100 bps parallel move. Basis risk has been maintained constant.

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.

54. Risk management (continued)

54.6 Foreign exchange risk

The Bank 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 Bank's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Bank'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 bank has a **Rnil** carrying value (2019: Rnil) of foreign currency net investments.

55. Going concern

The Directors assess the Bank's future performance and financial position on an ongoing basis. In light of the continued anticipated impact of Covid-19, the directors have assessed the Bank'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 Bank'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.

56. Events after the reporting period

The Directors are not aware of any other events (as defined by IAS 10 Events after the Reporting Period), after the reporting date of 31 December 2020 and the date of authorisation of these audited consolidated financial results.

57. Directors' and prescribed officers' remuneration

As a subsidiary of the Group, the Bank's remuneration outcomes are governed by the Absa Group Remuneration Committee (RemCo).

The RemCo's mandate includes ensuring that the remuneration policy and related practices are aligned with shareholder interests, both in the performance of our employees and the values they uphold. The Group strives to promote remuneration 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 relevant markets, 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.

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58. Directors' and prescribed officers' remuneration (continued)

Tables for 2020 total awarded remuneration

Executive directors Awarded remuneration	Daniel Mminele[5] 2020 R	Daniel Mminele[5] 2019 R	René van Wyk[6] 2020 R	René van Wyk[6] 2019 R
Salary	8 430 191	—	833 333	9 166 667
Role-based pay	—	—	—	—
Medical aid	—	—	—	—
Retirement benefits	154 680	—	—	—
Other employee benefits	75 102	—	28 842	—
Total fixed remuneration	**8 659 973**	—	**862 175**	9 166 667
Non-deferred cash award[1]	—	—	—	6 000 000
Deferred share award[2]	5 000 000	—	—	—
Total short-term incentive[3]	**5 000 000**	—	—	6 000 000
Face value of long-term incentive award (on-target award)[3, 4]	15 000 000	15 000 000	—	—
Total awarded remuneration	**28 659 973**	15 000 000	**862 175**	15 166 667

Prescribed officers Awarded remuneration	Arrie Rautenbach 2020 R	Arrie Rautenbach 2019 R
Salary	6 450 191	6 465 313
Role-based pay	—	—
Medical aid	155 820	144 288
Retirement benefits	159 261	157 676
Other employee benefits	494 132	492 096
Total fixed remuneration	**7 259 404**	7 259 373
Non-deferred cash award[1]	—	5 500 000
Deferred share award[2]	4 800 000	5 500 000
Total short-term incentive[3]	**4 800 000**	11 000 000
Face value of long-term incentive award (on-target award)[3, 4]	10 250 000	12 000 000
Total awarded remuneration	**22 309 404**	30 259 373

Board appointment dates and contract terms

Daniel Mminele was appointed to the Board on 15 January 2020. Jason Quinn was appointed to the Board on 1 September 2016. Arrie Rautenbach became a prescribed officer on 9 April 2018. Charles Russon became a prescribed officer on 5 November 2018. 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.

[2] The full award made in respect of 2020 performance is 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 an additional CET1 safety and soundness validation which will be set out in the 2020 Remuneration Report. The award will be granted in April 2021. All deferral in respect of the short-term incentive award made for 2019 performance was in shares. Deferred awards disclosed in 2019 were granted in April 2020.

[3] Short-term incentives are not defined as incentives that are settled in the next 12 months after 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 CET1 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 to be 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 2019 follow the same principle, except that the short-term incentive awarded for 2019 performance consisted of a cash award and a deferred share award.

[4] This is the on-target value of the award. The awards reflected in 2019 were made in April 2020, and those reflected in 2020 are to be made in April 2021.

[5] Daniel Mminele was appointed as Group Chief Executive and an executive director on 15 January 2020. His total fixed remuneration reflects payments made from that date. Daniel received a 2020 long-term incentive award of R15m on 1 April 2020, which was agreed as part of his joining terms, as disclosed in the 2019 Remuneration Report.

[6] 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.

[7] Maria Ramos retired from the Group effective 28 February 2019. Values for 2019 are inclusive of amounts to this date.

	Maria Ramos[7]		Jason Quinn		Total	
	2020 R	2019 R	2020 R	2019 R	2020 R	2019 R
	—	1 606 548	**5 422 836**	5 428 393	**14 686 360**	16 201 608
	—	—	—	—	—	-
	—	21 036	**115 128**	106 812	**115 128**	127 848
	—	25 482	**412 862**	417 706	**567 542**	443 188
	—	2 130 211	**58 487**	56 402	**162 431**	2 186 613
	—	3 783 277	**6 009 313**	6 009 313	**15 531 461**	18 959 257
	—	—	—	5 750 000	—	11 750 000
	—	—	**4 800 000**	5 750 000	**9 800 000**	5 750 000
	—	—	**4 800 000**	11 500 000	**9 800 000**	17 500 000
	—	—	**10 000 000**	12 000 000	**25 000 000**	27 000 000
	—	3 783 277	**20 809 313**	29 509 313	**50 331 461**	63 459 257

	Charles Russon		Total	
	2020 R	2019 R	2020 R	2019 R
	5 593 432	5 611 628	**12 043 623**	12 076 941
	—	—	—	—
	194 844	180 432	**350 664**	324 720
	162 550	160 851	**321 811**	318 527
	58 487	56 402	**552 619**	548 498
	6 009 313	6 009 313	**13 268 717**	13 268 686
	—	4 175 000	—	9 675 000
	4 000 000	4 175 000	**8 800 000**	9 675 000
	4 000 000	8 350 000	**8 800 000**	19 350 000
	7 000 000	9 150 000	**17 250 000**	21 150 000
	17 009 313	23 509 313	**39 318 717**	53 768 686

58. 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).

	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		—
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
Prescribed officers				
Arrie Rautenbach[4]				
Share value plan 2017 – 2019[3]	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[1]	—	59 731	92.08	—
Restricted award – Share value plan 2017	11 853	—	—	11 853
Long-term incentive award 2017[3]	103 669	—	—	66 659
Long-term incentive award 2019[2]	88 780	—	—	—
Share incentive plan performance 2020[1, 2]	—	130 321	92.08	—
Total	260 897	190 052		104 219
Charles Russon[5]				
Share value plan 2017 – 2019[3]	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[1]	—	45 341	92.08	—
Restricted award – Share value plan 2017	11 853	—	—	11 853
Long-term incentive award 2017[3]	93 302	—	—	59 993
Long-term incentive award 2019[2]	60 630	—	—	—
Share incentive plan performance 2020[1, 2]	—	99 370	92.08	—
Total	199 143	144 711		89 049

[1] During 2020, new Share Incentive Plan scheme rules replaced the previous Long-Term Inventive 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.

[4] Arrie Rautenbach's outstanding share-based long-term awards include awards received prior to becoming a prescribed officer on 9 April 2018.

[5] Charles Russon's outstanding share-based long-term awards include awards received prior to becoming a prescribed officer on 5 November 2018.

Notes to the consolidated financial statements

for the reporting period ended 31 December

	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	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	
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	

58. Directors' and prescribed officers' remuneration (continued)

Outstanding share-based long-term incentives (continued)

	2019			
	Number of shares under award at 1 January 2019	Number of shares/cash awarded during 2019	Share price on award R	Number of shares/cash released during 2019
Executive directors				
Maria Ramos[1]				
Share value plan 2016 – 2018[2]	18 772	—	—	—
Share value plan 2017 – 2019	18 998	—	—	—
Share value plan 2018 – 2020	22 822	—	—	—
Role-based pay March 2016	1 855	—	—	—
Role-based pay June 2016	1 863	—	—	—
Role-based pay September 2016	1 858	—	—	—
Role-based pay December 2016	1 705	—	—	—
Role-based pay March 2017	3 430	—	—	—
Role-based pay June 2017	3 726	—	—	—
Restricted award – Share value plan 2016	18 430	—	—	—
Restricted award – Share value plan 2017	56 893	—	—	—
Long-term incentive award 2017	165 870	—	—	—
Total	316 222	—		—
Jason Quinn[3]				
Share value plan 2016 – 2018[2]	1 828	—	—	1 828
Share value plan 2017 – 2019	6 334	—	—	3 167
Share value plan 2018 – 2020	12 172	—	—	4 057
Share value plan 2019 – 2021	—	17 028	173.18	—
Restricted award – Share value plan 2016	6 911	—	—	6 911
Restricted award – Share value plan 2017	21 334	—	—	14 222
Long-term incentive award 2017	96 758	—	—	—
Long-term incentive award 2019	—	86 615	173.18	—
Total	145 337	103 643		30 185

[1] Maria Ramos's outstanding share-based and long-term awards only include transactions (awards and vestings) between 1 January 2019 and 28 February 2019 being the period during which she was an executive director of the Group. The closing balance was therefore as at 28 February 2019.

[2] The scheduled vesting date of 1 March 2019 rescheduled to 13 March 2019 due to the vesting date falling within a prohibited period.

[3] Jason Quinn's outstanding share-based and long-term awards include awards received prior to being appointed as an executive director in 2016.

2019					
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 2019	Number of shares under award/option at 31 December 2019	Last scheduled vesting date
—	—	—	—	18 772	2019/03/13
—	—	—	—	18 998	2020/03/01
—	—	—	—	22 822	2021/03/01
—	—	—	—	1 855	2019/03/01
—	—	—	—	1 863	2019/06/01
—	—	—	—	1 858	2019/09/01
—	—	—	—	1 705	2019/12/01
—	—	—	—	3 430	2020/03/01
—	—	—	—	3 726	2020/06/01
—	—	—	—	18 430	2019/09/30
—	—	—	—	56 893	2020/09/30
—	—	—	—	165 870	2020/07/31
	—	—	—	316 222	
166.68	304 691	68 505	—	—	2019/03/13
166.68	527 876	75 173	—	3 167	2020/03/01
166.68	676 221	45 504	—	8 115	2021/03/01
—	—	—	—	17 028	2022/03/18
158.50	1 095 394	197 491	—	—	2019/09/30
158.50	2 254 187	321 438	—	7 112	2020/09/30
—	—	—	—	96 758	2020/07/31
—	—	—	—	86 615	2024/03/18
	4 858 369	708 111	—	218 795	

58. Directors' and prescribed officers' remuneration (continued)

Outstanding share-based long-term incentives (continued)

	2019			
	Number of shares under award at 1 January 2019	Number of shares/cash awarded during 2019	Share price on award R	Number of shares/cash released during 2019
Prescribed officers				
Arrie Rautenbach[1]				
Share value plan 2016 – 2018[2]	7 264	—	—	7 264
Share value plan 2017 – 2019	11 399	—	—	5 700
Share value plan 2018 – 2020	27 388	—	—	9 130
Share value plan 2019 – 2021	—	32 638	173.18	—
Restricted award – Share value plan 2016	11 519	—	—	11 519
Restricted award – Share value plan 2017	35 558	—	—	23 705
Long-term incentive award 2017	103 669	—	—	—
Long-term incentive award 2019	—	88 780	173.18	—
Total	196 797	121 418		57 318
Charles Russon[3]				
Share value plan 2016 – 2018[2]	6 852	—	—	6 852
Share value plan 2017 – 2019	10 132	—	—	5 066
Share value plan 2018 – 2020	24 344	—	—	8 114
Share value plan 2019 – 2021	—	12 062	173.18	—
Restricted award – Share value plan 2016	11 519	—	—	11 519
Restricted award – Share value plan 2017	35 558	—	—	23 705
Long-term incentive award 2017	93 302	—	—	—
Long-term incentive award 2019	—	60 630	173.18	—
Total	181 707	72 692		55 256

[1] Arrie Rautenbach's outstanding share-based and long-term awards include awards received prior to becoming a prescribed officer on 9 April 2018.
[2] The scheduled vesting date of 1 March 2019 rescheduled to 13 March 2019 due to the vesting date falling within a prohibited period.
[3] Charles Russon's outstanding share-based and long-term awards include awards received prior to becoming a prescribed officer on 5 November 2018.

2019					
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 2019	Number of shares under award/option at 31 December 2019	Last scheduled vesting date
166.68	1 210 764	272 688	—	—	2019/03/13
166.68	950 076	135 511	—	5 699	2020/03/01
166.68	1 521 788	102 342	—	18 258	2021/03/01
—	—	—	—	32 638	2022/03/18
158.50	1 825 762	329 205	—	—	2019/09/30
158.50	3 757 243	535 730	—	11 853	2020/09/30
—	—	—	—	103 669	2020/07/31
—	—	—	—	88 780	2024/03/18
	9 265 633	1 375 476	—	260 897	
166.68	1 142 091	257 354	—	—	2019/03/13
166.68	844 401	120 510	—	5 066	2020/03/01
166.68	1 352 442	91 007	—	16 230	2021/03/01
—	—	—	—	12 062	2022/03/18
158.50	1 825 762	329 205	—	—	2019/09/30
158.50	3 757 243	535 730	—	11 853	2020/09/30
—	—	—	—	93 302	2020/07/31
—	—	—	—	60 630	2024/03/18
	8 921 939	1 333 806	—	199 143	

58. Directors' and prescribed officers' remuneration (continued)

Outstanding cash-based long-term awards

	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					
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 9 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.

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
—	—	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	

58. Directors' and prescribed officers' remuneration (continued)

Outstanding cash-based long-term awards (continued)

	2019				
	Value under award at 1 January 2019 R	Maximum potential value at 1 January 2019 R	Value awarded in the year R	Value released in the year R	Value forfeited in the year R
Executive directors					
Maria Ramos[1]					
Cash value plan 2017 – 2019	3 000 000	3 450 000	—	—	—
Cash value plan 2018 – 2020	4 500 000	4 500 000	—	—	—
Total	7 500 000	7 950 000	—	—	—
Jason Quinn[2]					
Cash value plan 2016 – 2018	266 667	346 667	—	266 667	—
Cash value plan 2017 – 2019	1 000 000	1 150 000	—	500 000	—
Cash value plan 2018 – 2020	2 400 000	2 400 000	—	800 000	—
Cash value plan 2019 – 2021	—	—	2 949 000	—	—
Total	3 666 667	3 896 667	2 949 000	1 566 667	—
Prescribed officers					
Arrie Rautenbach[3]					
Cash value plan 2017 – 2019	1 800 000	2 070 000	—	900 000	—
Total	1 800 000	2 070 000	—	900 000	—
Charles Russon[4]					
Cash value plan 2017 – 2019	1 600 000	1 840 000	—	800 000	—
Cash value plan 2019 – 2021	—	—	2 089 000	—	—
Total	1 600 000	1 840 000	2 089 000	800 000	—

[1] Maria Ramos's outstanding cash-based long-term awards only include transactions (awards and vestings) between 1 January 2019 and 28 February 2019 being the period during which she was an executive director of the Group. The closing balance was therefore as at 28 February 2019.

[2] Jason Quinn's outstanding cash-based incentive awards include awards prior to being appointed as executive director in 2016.

[3] Arrie Rautenbach's outstanding cash-based awards include awards received prior to becoming a prescribed officer on 9 April 2018.

[4] Charles Russon's outstanding cash-based awards include awards received prior to becoming a prescribed officer on 5 November 2018.

Notes to the consolidated financial statements

for the reporting period ended 31 December

			2019			
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 2019 R	Maximum potential value at 31 December 2019 R	Last scheduled vesting date
—	—	—	450 000	3 000 000	3 000 000	2020/03/01
—	—	—	—	4 500 000	4 500 000	2021/03/01
—	—	—	450 000	7 500 000	7 500 000	
—	—	80 000	—	—	—	2019/03/01
—	—	—	—	500 000	650 000	2020/03/01
—	193 333	—	—	1 600 000	1 793 333	2021/03/01
—	294 900	—	—	2 949 000	3 243 900	2022/03/18
—	488 233	80 000	—	5 049 000	5 687 233	
—	—	—	—	900 000	1 170 000	2020/03/01
—	—	—	—	900 000	1 170 000	
—	—	—	—	800 000	1 040 000	2020/03/01
—	208 900	—	—	2 089 000	2 297 900	2022/03/18
—	208 900	—	—	2 889 000	3 337 900	

58. Directors' and prescribed officers' remuneration (continued)

Group Chairman and non-executive directors' fees

	Group Board R	Group Board committees and sub-committees R	2020 Subsidiary boards, committees and trusts Absa Bank R	Absa Financial Services R	Other R	2020 Total[8] R
Alex Darko[1]	596 213	1 529 994	105 880	—	—	**2 232 087**
Colin Beggs[2]	596 213	1 623 995	80 880	—	261 616	**2 562 704**
Francis Okomo-Okello[3, 4]	596 213	497 593	58 333	—	24 000	**1 176 139**
Mark Merson[1, 5]	596 213	1 617 940	139 213	—	529 995	**2 883 361**
Mohamed Husain[6]	303 280	566 128	89 213	—	—	**958 621**
Sipho Pityana[4]	596 213	675 420	58 333	—	—	**1 329 966**
Tasneem Abdool-Samad[4]	596 213	1 396 334	58 333	517 062	—	**2 567 942**
Wendy Lucas-Bull (Chairman)[7]	6 501 939	70 287	—	—	—	**6 572 226**
Total	10 382 497	7 977 691	590 185	517 062	815 611	**20 283 046**

	Group Board R	Group Board committees and sub-committees R	2019 Subsidiary boards, committees and trusts Absa Bank R	Absa Financial Services R	Other R	Total[8] R
Alex Darko[1]	638 055	1 680 677	120 934	—	—	2 439 666
Colin Beggs[2]	700 749	2 014 276	190 260	—	255 064	3 160 349
Mark Merson[5]	661 702	1 490 412	120 934	—	424 047	2 697 095
Mohamed Husain	638 055	1 363 098	190 260	—	—	2 191 413
René van Wyk[9]	46 497	131 314	15 406	—	—	193 217
Wendy Lucas-Bull (Chairman)[7]	6 372 932	114 913	—	—	—	6 487 845
Total	9 057 990	6 794 690	637 794	—	679 111	17 169 585

1 Alex Darko joined the Absa Bank Board on 15 May 2019 and stepped down 31 August 2020.

2 Colin Beggs is a trustee of the Absa Group Pension Fund (reported under Other) and his status changed from independent to non-executive director effective 4 June 2020 and simultaneously stepped down from the Absa Bank Board.

3 Francis Okomo-Okello is a trustee of the Absa Foundation Trust (reported under Other).

4 Francis Okomo-Okell, Sipho Pityana and Tasneem Abdool-Samad joined the Absa Bank Board on 4 June 2020.

5 Mark Merson joined the Absa Bank Board on 15 May 2019. He is the Chairman of the Absa Securities United Kingdom Limited, a subsidiary of Absa Group Limited (reported under other).

6 Mohamed Husain retired from the Absa Group and Bank Boards on 4 June 2020.

7 The fee applicable to Wendy Lucas-Bull, the Group Chairman, covers chairmanship of the Absa Group, Absa Bank and Absa Financial Services as well as the membership of all Board committees and sub-committees, except for attendance at the Separation Oversight Committee (a special committee established in relation to the Barclays sell-down which remained in place until completion of the Separation in June 2020).

8 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).

9 René van Wyk changed his status from non-executive to executive director effective 1 February 2019.

Company financial statements

Company statement of financial position

as at 31 December

		Company		
	Note	2020 Rm	Restated 2019 Rm	Restated 2018 Rm
Assets				
Cash, cash balances and balances with central banks	2	**33 812**	25 485	22 679
Investment securities	3	**97 113**	72 077	90 904
Loans and advances to banks	4	**65 953**	44 984	40 527
Trading portfolio assets	5	**166 172**	111 594	101 278
Hedging portfolio assets	5	**10 998**	3 355	2 407
Other assets	6	**14 734**	21 546	22 232
Current tax assets		**251**	1 197	351
Non-current assets held for sale	7	**136**	3 706	50
Loans and advances to customers[1]	8	**802 485**	783 718	725 620
Loans to Group Companies	9	**66 553**	59 550	48 008
Investments in associates and joint ventures	10	**206**	217	100
Subsidiaries	11	**109**	109	344
Property and equipment	12	**13 918**	15 581	13 600
Goodwill and intangible assets	13	**9 514**	8 751	7 134
Deferred tax assets	14	**1 900**	1 482	1 511
Total assets		**1 283 854**	1 153 352	1 076 745
Liabilities				
Deposits from banks	15	**96 033**	119 477	127 959
Trading portfolio liabilities	16	**105 966**	55 965	46 276
Hedging portfolio liabilities	16	**4 868**	1 379	1 343
Other liabilities	17	**22 127**	30 930	31 543
Provisions	18	**2 764**	2 519	2 590
Deposits due to customers	19	**796 021**	678 580	607 742
Debt securities in issue	20	**139 179**	151 290	158 063
Loans from Group Companies[1]		**3 793**	3 286	400
Borrowed funds		**20 621**	21 282	20 052
Total liabilities		**1 191 372**	1 064 708	995 968
Equity				
Capital and reserves				
Attributable to equity holders:				
Ordinary share capital	21	**304**	304	304
Ordinary share premium	21	**36 880**	36 880	36 880
Preference share capital	21	**1**	1	1
Preference share premium	21	**4 643**	4 643	4 643
Additional Tier 1 capital	21	**7 004**	5 795	2 741
Retained earnings	22	**38 081**	37 934	33 605
Other reserves	22	**5 569**	3 087	2 603
Total equity		**92 482**	88 644	80 777
Total liabilities and equity		**1 283 854**	1 153 352	1 076 745

[1] These numbers have been restated, refer to 1.2 for further details.

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2020 Rm	2019 Rm
Net interest income		**32 807**	31 413
Interest and similar income	23	**72 596**	80 534
Effective interest income		**71 161**	79 136
Other interest income		**1 435**	1 398
Interest expense and similar charges	24	**(39 789)**	(49 121)
Non-interest income		**21 174**	21 526
Net fee and commission income		**17 558**	18 941
Fee and commission income	25	**19 352**	20 541
Fee and commission expense	25	**(1 794)**	(1 600)
Gains and losses from banking and trading activities	26	**2 277**	1 484
Gains and losses from investment activities	27	**3**	3
Other operating income	28	**1 336**	1 098
Total income		**53 981**	52 939
Impairment losses	29	**(15 718)**	(6 029)
Operating income before operating expenses		**38 263**	46 910
Operating expenses	30	**(33 077)**	(34 992)
Other expenses		**(1 797)**	(1 508)
Other impairments	31	**(437)**	(372)
Indirect taxation	32	**(1 360)**	(1 136)
Operating profit before income tax		**3 389**	10 410
Taxation expense	33	**(567)**	(2 283)
Profit for the reporting period		**2 822**	8 127
Profit attributable to:			
Ordinary equity holders		**1 926**	7 340
Preference equity holders		**307**	352
Additional Tier 1 capital		**589**	435
		2 822	8 127
Earnings per share:			
Basic earnings per share (cents)	34	**429.6**	1 637.3
Diluted earnings per share (cents)	34	**429.6**	1 637.3

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2020 Rm	2019 Rm
Profit for the reporting period		**2 822**	8 127
Other comprehensive income			
Items that will not be reclassified to profit or loss		**(162)**	(59)
Fair value (losses)/gains on equity instruments measured at FVOCI		**(5)**	9
Fair value (losses)/gains		**(7)**	11
Deferred tax		**2**	(2)
Movement of liabilities designated at FVTPL due to changes in own credit risk		**(82)**	(44)
Fair value movement		**(116)**	(61)
Deferred tax		**34**	17
Movement in retirement benefit fund assets and liabilities		**(75)**	(24)
Decrease in retirement benefit surplus		**(104)**	(34)
Deferred tax	14	**29**	10
Items that are or may be subsequently reclassified to profit or loss		**2 977**	446
Movement in foreign currency translation reserve		**1**	—
Differences in translation of foreign operations		**1**	—
Movement in cash flow hedging reserve		**3 997**	916
Fair value gains		**9 039**	2 078
Amount removed from other comprehensive income and recognised in profit or loss		**(3 488)**	(806)
Deferred tax		**(1 554)**	(356)
Movement in fair value of debt instruments measured at FVOCI		**(1 021)**	(470)
Fair value losses		**(1 383)**	(634)
Release to profit or loss		**(32)**	(20)
Deferred tax	14	**394**	184
Total comprehensive income for the reporting period		**5 637**	8 514
Total comprehensive income attributable to:			
Ordinary equity holders		**4 741**	7 727
Preference equity holders		**307**	352
Additional Tier 1 capital		**589**	435
		5 637	8 514

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Company statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the end of the previous reporting period	**448 301**	**304**	**36 880**	**1**	**4 643**
Total comprehensive income	—	—	—	—	307
Profit for the period	—	—	—	—	307
Other comprehensive income	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	(307)
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	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Deferred tax	—	—	—	—	—
Other movements[1]	—	—	—	—	—
Balance at the end of the reporting period	**448 301**	**304**	**36 880**	**1**	**4 643**
Note	21	21	21	21	21

[1] This relates to an equity distribution to a subsidiary of Absa Group Limited.

Company statement of changes in equity

for the reporting period ended 31 December

Company

2020

Additional Tier 1 capital Rm	Retained earnings Rm	Total other reserves Rm	Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Total equity Rm
5 795	37 934	3 087	(484)	1 319	—	1 422	830	88 644
589	1 764	2 977	(1 021)	3 997	1	—	—	5 637
589	1 926	—	—	—	—	—	—	2 822
—	(162)	2 977	(1 021)	3 997	1	—	—	2 815
—	(2 000)	—	—	—	—	—	—	(2 307)
(589)	—	—	—	—	—	—	—	(589)
1 209	—	—	—	—	—	—	—	1 209
—	425	—	—	—	—	—	—	425
—	—	(495)	—	—	—	—	(495)	(495)
—	—	(863)	—	—	—	—	(863)	(863)
—	—	355	—	—	—	—	355	355
—	—	13	—	—	—	—	13	13
—	(42)	—	—	—	—	—	—	(42)
7 004	38 081	5 569	(1 505)	5 316	1	1 422	335	92 482
21			22	22	22	22	22	

Company statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the end of the previous reporting period	448 301	304	36 880	1	4 643
IFRS 16	—	—	—	—	—
Adjusted balance at the beginning of the reporting period	448 301	304	36 880	1	4 643
Total comprehensive income	—	—	—	—	352
Profit for the period	—	—	—	—	352
Other comprehensive income	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	(352)
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	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Deferred tax	—	—	—	—	—
Balance at the end of the reporting period	448 301	304	36 880	1	4 643
Note	21	21	21	21	21

Company statement of changes in equity

for the reporting period ended 31 December

2019

Additional Tier 1 capital Rm	Retained earnings Rm	Total other reserves Rm	Fair value through other compre-hensive income reserve Rm	Cash flow hedging reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Total equity Rm
2 741	33 605	2 603	(15)	403	1 422	793	80 777
—	(198)	—	—	—	—	—	(198)
2 741	33 407	2 603	(15)	403	1 422	793	80 579
435	7 280	447	(469)	916	—	—	8 514
435	7 340	—	—	—	—	—	8 127
—	(60)	447	(469)	916	—	—	387
—	(2 500)	—	—	—	—	—	(2 852)
(435)	—	—	—	—	—	—	(435)
3 054	—	—	—	—	—	—	3 054
—	(253)	—	—	—	—	—	(253)
—	—	37	—	—	—	37	37
—	—	(372)	—	—	—	(372)	(372)
—	—	(372)	—	—	—	(372)	(372)
—	—	(20)	—	—	—	(20)	(20)
5 795	37 934	3 087	(484)	1 319	1 422	830	88 644
21			22	22	22	22	

Company statement of cash flows

for the reporting period ended 31 December

	Note	Company 2020 Rm	Restated 2019[1] Rm
Cash flow from operating activities			
Profit before tax		**3 389**	10 410
Adjustment of non-cash items			
Depreciation and amortisation (refer to note 30)		**4 969**	4 105
Other impairments (refer to note 31)		**420**	371
Other non-cash items included in profit and before tax		**48**	(11)
Dividends received from investing activities		**(3)**	(3)
Cash flow from operating activities before changes in operating assets and liabilities		**8 823**	14 872
Net increase in trading and hedging portfolio assets		**(62 221)**	(11 264)
Net increase in loans and advances to customers and banks		**(43 539)**	(65 681)
Net increase in investment securities		**(5 349)**	(14 325)
Net (increase)/decrease in other assets		**(26 062)**	18 358
Net increase in trading and hedging portfolio liabilities		**57 487**	10 641
Net increase in amounts due to customers and banks		**93 997**	62 356
Net decrease in other liabilities[2]		**(19 670)**	(6 471)
Income taxes paid		**(1 128)**	(3 043)
Net cash generated from operating activities		**2 339**	5 443
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale		**3 601**	50
Purchase of property and equipment	12	**(1 048)**	(2 617)
Proceeds from disposal of properties and equipment		**175**	169
Purchase of intangible assets	13	**(2 809)**	(2 881)
Proceeds from disposal of intangible assets		**10**	—
Investments in associates and joint ventures		**—**	(117)
Dividends received from investing activities		**3**	3
Disposal of subsidiaries, net of cash		**—**	182
Net cash utilised in investing activities		**(68)**	(5 211)
Cash flow from financing activities			
Purchase of Group shares in respect of equity-settled share-based payment schemes		**425**	(253)
Issue of additional Tier 1 capital		**1 209**	3 054
Equity distribution to a subsidiary of Absa Group Limited		**(42)**	—
Distributions paid to Tier 1 capital holders		**(589)**	(435)
Proceeds from borrowed funds		**2 676**	1 580
Repayment of borrowed funds		**(3733)**	(500)
Repayment of IFRS 16 lease liability		**(975)**	(938)
Dividends paid		**(2 307)**	(2 852)
Net cash utilised in financing activities		**(3 336)**	(344)
Net decrease in cash and cash equivalents		**(1 065)**	(112)
Cash and cash equivalents at the beginning of the reporting period		**9 846**	9 958
Cash and cash equivalents at the end of the reporting period	41	**8 781**	9 846

As part of operating activities, interest income amounting to **R70 644m** (2019: 79 265m); and interest expense amounting to **R40 216m** (2019: R46 032m) were received and paid in cash respectively.

[1] For further details of the impact of the change refer to note 1.1.

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

Notes to the Company financial statements

for the reporting period ended 31 December

1. Accounting policies

The financial statements of Absa Bank Limited (the Company) are prepared according to the same accounting policies used in preparing the consolidated financial statements of the Bank. For detailed accounting policies refer to the Bank's financial statements.

1.1 Change in accounting policy – statement of cashflows

During the current reporting period, the Bank has voluntarily amended the basis on which the statement of cash flows is presented, from the direct to the indirect method. The indirect method allows stakeholders to reconcile the profit earned in the reporting period to the cash flows generated by the Bank, and allows for better comparison of performance to that of its competitors. The change in presentation has also resulted in a simpler collation of information, ensuring enhanced reliability. The change in accounting policy affects the presentation of the Bank's cash flows from operating activities within the statement of cash flows.

The statement of cash flows that was previously presented for the comparative financial period ended 31 December 2019 was as follows:

	2019 Rm
Cash flow from operating activities	
Interest received	79 265
Interest paid	(46 032)
Fees and commission received	20 541
Fees and commission paid	(1 600)
Net trading and other income/(expenses)	2 422
Cash payments to employees and suppliers	(30 504)
Dividends received from banking and trading activities	110
Income taxes paid	(3 043)
Cash flow from operating activities before changes in operating assets and liabilities	21 159
Net (increase)/decrease in trading and hedging portfolio assets	(11 290)
Net increase in loans and advances to customers	(67 332)
Net decrease/(increase) in investment securities	18 202
Net increase in other assets	(14 456)
Net increase/(decrease) in trading and hedging portfolio liabilities	10 740
Net increase in amounts due to customers and banks	58 821
Net (decrease)/increase in other liabilities	(10 401)
Net cash generated from operating activities	5 443
Cash flow from investing activities	
Proceeds from disposal of non-current assets held for sale	50
Purchase of property and equipment	(2 617)
Proceeds from disposal of properties and equipment	169
Purchase of intangible assets	(2 881)
Investments in associates and joint ventures	(117)
Dividends received from investing activities	3
Disposal of subsidiaries, net of cash	182
Net cash utilised in investing activities	(5 211)
Cash flow from financing activities	
Purchase of Group shares in respect of equity-settled share-based payment schemes	(253)
Issue of additional Tier 1 capital	3 054
Distributions paid to Tier 1 capital holders	(435)
Proceeds from borrowed funds	1 580
Repayment of borrowed funds	(500)
IFRS 16 lease liability	(938)
Dividends paid	(2 852)
Net cash generated from/(utilised in) financing activities	(344)
Net (decrease) in cash and cash equivalents	(112)
Cash and cash equivalents at the beginning of the reporting period	9 958
Cash and cash equivalents at the end of the reporting period	9 846

Notes to the Company financial statements

for the reporting period ended 31 December

1.2 Restatement

iMpumelelo is a consolidated structured entity in the consolidated financial statements of Absa Bank Limited. The Bank originated and sold certain loan instruments to iMpumelelo, with a guarantee that provides that, in the event of default, iMpumelelo could request the Bank to repurchase the defaulted assets. Consequently, the Bank fails derecognition of these loan assets and should recognise the financial assets as loans and advances to customers. As it received cash from iMpumelelo for the acquisition of these loan assets, the Bank must recognise a financial liability facing iMpumelelo that increases 'loans from group companies'. The error has been corrected by restating each of the affected financial statement line items for the prior periods. The impact on the cash flow statement relates to the changes in operating assets and liabilities. The impact is an increase of R2 886m on 'loans and advances to customers and banks;' and a decrease of R2 886m in 'other liabilities within the operating activities section. There is no impact on the statement of comprehensive income

The extent to which this error has impacted the Bank's statement of financial position as at 31 December 2019 is set out in the following table:

	As previoiusly reported 1 January 2019 Rm	Restated	
		Correction of error Rm	31 December 2019 Rm
Assets			
Loans and advances to customers	780 432	3 286	783 718
Assets	780 432	3 286	783 718
Liabilities			
Loans from Group Companies	—	3 286	3 286
Liabilities	—	3 286	3 286
Equity			
Total equity	88 644	—	88 644
Total liabilities and equity	88 644	3 286	91 930

The extent to which this error has impacted the Bank's statement of financial position as at 31 December 2018 is set out in the following table:

	As previoiusly reported 1 January 2019 Rm	Restated	
		Correction of error Rm	1 January 2019 Rm
Assets			
Loans and advances to customers	725 220	400	725 620
Assets	725 220	400	725 620
Liabilities			
Loans from Group Companies	—	400	400
Liabilities	—	400	400
Equity			
Total equity	80 777	—	80 777
Total liabilities and equity	80 777	400	81 177

Notes to the Company financial statements

for the reporting period ended 31 December

	Company 2020 Rm	Company 2019 Rm
2. Cash, cash balances and balances with central banks		
Balances with the SARB	25 460	16 587
Coins and bank notes	8 352	8 898
	33 812	25 485

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.

	Company 2020 Rm	Company 2019 Rm
3. Investment securities		
Government bonds	65 157	36 078
Listed equity instruments	66	115
Other debt securities	21 782	18 696
Treasury bills	9 546	16 638
Unlisted equity and hybrid instruments	569	550
Gross investment securities	97 120	72 077
Impairment losses	(7)	(0)
	97 113	72 077

Government bonds of **R4 074m** (2019: R4 673m) 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 **R10m** (2019: R6m) has been recognised on investment securities at FVOCI.

	Company 2020 Rm	Company 2019 Rm
4. Loans and advances to banks		
Gross loans and advances to banks	65 975	45 004
Impairment losses	(22)	(20)
	65 953	44 984

Included above are reverse repurchase agreements of **R33 569m** (2019: R26 783m) and other collateralised loans of **R59m** (2019: R372m) relating to securities borrowed.

	Company 2020 Rm	Company 2019 Rm
5. Trading and hedging portfolio assets		
Commodities	**1 082**	668
Debt instruments	**57 102**	41 727
Derivative assets (refer to note 46)	**98 153**	57 080
Commodity derivatives	**627**	302
Credit derivatives	**159**	155
Equity derivatives	**4 994**	5 490
Foreign exchange derivatives	**22 534**	12 611
Interest rate derivatives	**69 839**	38 522
Equity instruments	**900**	530
Money market assets	**8 935**	11 589
Total trading portfolio assets	**166 172**	111 594
Hedging portfolio assets (refer to note 46)	**10 998**	3 355
	177 170	114 949

Trading portfolio assets with a carrying values of **R13 407m** (2019: R18 719m) and **R1 837m** (2019: R4 381m) 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.

	Company 2020 Rm	Company 2019 Rm
6. Other assets		
Accounts receivable and prepayments	**8 651**	8 614
Deferred costs	**179**	181
Inventories	**21**	25
Cost	**21**	25
Write-down	**—**	—
Retirement benefit fund surplus (refer to note 48)	**393**	466
Settlement accounts	**5 490**	12 260
Gross other assets	**14 734**	21 546
Impairment losses	**0**	0
	14 734	21 546

	Company 2020 Rm	Company 2019 Rm
7. Non-current assets and non-current liabilities held for sale		
Non-current assets held for sale		
Balance at the beginning of the reporting period	**3 706**	50
Disposals	**(3 685)**	(50)
Impairment of an NCAHFS (refer to note 31)	**(17)**	—
Transfer from loans and advances to customers	**—**	3 685
Transfer from property and equipment (refer to note 12)	**132**	21
Balance at the end of the reporting period	**136**	3 706

7. Non-current assets and non-current liabilities held for sale (continued)

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

- RBB South Africa disposed of the Edcon loan book with a carrying amount of **R3 685m**.
- Head Office, Treasury and other operations in South Africa 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.

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

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

8. Loans and advances to customers

	Company 2020 Rm	Company 2019 Rm
Corporate overdrafts and specialised finance loans	**13 778**	11 920
Credit cards	**34 060**	32 866
Foreign currency loans	**39 274**	39 075
Instalment credit agreements included finance lease receivables	**99 856**	90 171
Loans to associates and joint ventures (refer to note 40.5 of the Bank's financial)	**26 869**	28 490
Micro loans	**4 241**	4 595
Mortgages	**323 739**	306 974
Other advances	**13 455**	11 757
Overdrafts	**43 845**	50 035
Overnight finance	**21 286**	19 717
Personal and term loans	**54 497**	47 481
Preference shares	**24 808**	20 627
Reverse repurchase agreements (Carries)	**37 001**	43 222
Wholesale overdrafts[1]	**99 555**	98 787
Gross loans and advances to customers	**836 264**	805 717
Impairment losses	**(33 779)**	(21 999)
	802 485	783 718

Included above are collateralised loans of **R1 376m** (2019: R1 404m) 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.

Other advances include working capital solutions and collateralised loans.

Included in both gross loans and advances to customers, and in the total allowance for impairment losses, is accrued interest in suspense of **R4 080m** (2019: R3 267m).

9. Loans to group companies

	Company 2020 Rm	Company 2019 Rm
Gross loans to group companies	**66 755**	59 711
Impairment losses	**(202)**	(161)
	66 553	59 550

[1] These numbers have been restated, refer to 1.2 for further details.

Notes to the Company financial statements

for the reporting period ended 31 December

	Company 2020 Rm	Company 2019 Rm
10. Investments in associates and joint ventures		
Unlisted investments	**206**	217

10.1 Movement in carrying value of associates and joint ventures

	Company 2020 Rm	Company 2019 Rm
Balance at the beginning of the reporting period	**217**	100
Additional contribution	—	
Impairment on investments (refer note 31)	**(11)**	117
Balance at the end of the reporting period	**206**	217

	Company 2020 Rm	Company 2019 Rm
11. Subsidiaries		
Shares at cost	**109**	109
	109	109

Refer to note 40.3 of the Bank's financial statements for the list of significant subsidiaries.

	Company 2020 Cost Rm	Company 2020 Accumulated depreciation and/or impairments Rm	Company 2020 Carrying value Rm	Company 2019 Cost Rm	Company 2019 Accumulated depreciation and/or impairments Rm	Company 2019 Carrying value Rm
12. Property and equipment						
Computer equipment	**7 562**	**(5 273)**	**2 289**	7 847	(4 701)	3 146
Freehold property	**4 875**	**(337)**	**4 538**	5 542	(413)	5 129
Furniture and other equipment	**8 971**	**(4 410)**	**4 561**	8 713	(3 931)	4 782
Motor vehicles	**4**	**(3)**	**1**	4	(2)	2
Right-of-use-assets	**4 297**	**(1 768)**	**2 529**	3 412	(890)	2 522
	25 709	**(11 791)**	**13 918**	25 518	(9 937)	15 581

Company 2020 — Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfers[1] Rm	Transfers (to)/from intangibles Rm	Transfers to non-current assets held for sale Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	**3 146**	**533**	**(9)**	**1**	**40**	**—**	**(1 271)**	**(151)**	**2 289**
Freehold property	**5 129**	**231**	**(109)**	**(559)**	**—**	**(124)**	**(9)**	**(21)**	**4 538**
Furniture and other equipment	**4 782**	**284**	**(4)**	**558**	**—**	**(8)**	**(1 005)**	**(46)**	**4 561**
Motor vehicles	**2**	**—**	**—**	**—**	**—**	**—**	**(1)**	**—**	**1**
Right-of-use-assets	**2 522**	**885**	**—**	**—**	**—**	**—**	**(878)**	**—**	**2 529**
	15 581	**1 933**	**(122)**	**—**	**40**	**(132)**	**(3 164)**	**(218)**	**13 918**
Note					13	7	30	31	

12. Property and equipment (continued)

Reconciliation of property and equipment	2019 Opening balance Rm	Additions Rm	Disposals Rm	Transfers[1] Rm	Transfers (to)/from intangibles Rm	Transfers to non-current assets held for sale Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	3 404	1 013	(94)	1	—	—	(1 106)	(72)	3 146
Freehold property	5 226	743	(69)	(679)	—	(21)	(7)	(64)	5 129
Furniture and other equipment	4 970	158	(4)	678	—	—	(969)	(51)	4 782
Motor vehicles	—	2	—	—	—	—	—	—	2
Right-of-use-assets	—	3 412	—	—	—	—	(880)	(10)	2 522
	13 600	5 328	(167)	—	—	(21)	(2 962)	(197)	15 581
Note						7	30	31	

Included in the above additions is **R226m** (2019: R722m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction.

R559m (2019: R679m) of assets under construction relating to computer equipment and furniture and other equipment was brought in to use during the reporting period. **R2m** (2019: R8m) of assets under construction relating to freehold property was brought in to use during the reporting period.

R132m (2019: R21m) of certain property and equipment was transferred to non-current assets held for sale due to a change in the use of the assets.

During the prior reporting period, a decision was made to impair certain property and equipment.

13. Goodwill and intangible assets

	Company 2020 Cost Rm	2020 Accumulated amortisation and/or impairments Rm	2020 Carrying amount Rm	2019 Cost Rm	2019 Accumulated amortisation and/or impairments Rm	2019 Carrying amount Rm
Computer software development costs	12 296	(2 807)	9 489	10 897	(2 175)	8 722
Customer lists and relationships	—	—	—	410	(410)	—
Other	70	(45)	25	70	(41)	29
	12 366	(2 852)	9 514	11 377	(2 626)	8 751

Reconciliation of intangible assets	Company 2020 Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Amortisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	8 722	2 774	35	(10)	(1 798)	(191)	(43)	9 489
Other	29	—	—	—	(7)	—	3	25
	8 751	2 774	35	(10)	(1 805)	(191)	(40)	9 514
Note			47		30	31	12	

13. Goodwill and intangible assets (continued)

Reconciliation of intangible assets	2019 Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Amortisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	7 098	2 881	—	—	(1 136)	(121)	—	8 722
Other	36	—	—	—	(7)	—	—	29
	7 134	2 881	—	—	(1 143)	(121)	—	8 751
Note					30	31		

The majority of computer software development costs were internally generated with the remainder externally acquired. Included in computer software development costs is **R3 171m** (2019: R5 016m) relating to assets under construction.

R3 788m (2019: R3 075m) of assets under construction relating to computer software was brought into use during the reporting period.

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

14. Deferred tax

14.1 Reconciliation of net deferred tax (asset)/liability

	Company 2020 Rm	2019 Rm
Balance at the beginning of the reporting period	**(1 482)**	(1 511)
Effects of adoption IFRS 16	—	(77)
Deferred tax on amounts charged directly to other comprehensive income and equity	**1 082**	168
Charge to profit or loss (refer to note 33)	**(1 506)**	(106)
Tax effect of translation and other differences	**6**	44
Balance at the end of the reporting period	**(1 900)**	(1 482)
Deferred tax (asset)/liability		
Tax effects of temporary differences between tax and book value for:		
Deferred tax asset	**(1 900)**	(1 482)
Prepayments, accruals and other provisions	**(979)**	(313)
Capital allowances	**966**	1 080
Property allowances	**234**	208
Cash flow hedge and financial assets at fair value through other comprehensive income	**1 449**	236
Own credit risk	**(112)**	(75)
Share-based payments	**(135)**	(304)
Fair value adjustments on financial instruments	**(121)**	(263)
Impairment of loans and advances	**(3 203)**	(1 907)
Lease and rental debtor allowances	**(98)**	(272)
Retirement benefit asset and liabilities	**99**	128
Net deferred tax (asset)/liability	**(1 900)**	(1 482)

	Company 2020 Rm	Company 2019 Rm
15. Deposits from banks		
Call deposits	**16 610**	12 056
Fixed deposits	**13 423**	26 502
Foreign currency deposits	**24 988**	33 329
Notice deposits	**—**	2 453
Other	**2 185**	2 225
Repurchase agreements	**38 827**	42 912
	96 033	119 477

	Company 2020 Rm	Company 2019 Rm
16. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 46)	**86 760**	45 564
Commodity derivatives	**765**	475
Credit derivatives	**141**	132
Equity derivatives	**3 152**	1 832
Foreign exchange derivatives	**19 921**	11 916
Interest rate derivatives	**62 781**	31 209
Short positions	**19 206**	10 401
Total trading portfolio liabilities	**105 966**	55 965
Hedging portfolio liabilities (refer to note 46)	**4 868**	1 379
	110 834	57 344

	Company 2020 Rm	Company 2019 Rm
17. Other liabilities		
Accruals	**2 185**	1 603
Audit fee accrual	**116**	136
Cash-settled share-based payment liability (refer to note 51)	**138**	282
Creditors	**7 801**	7 084
Deferred income	**293**	220
Lease liabilities	**3 147**	3 220
Settlement balances	**8 447**	18 385
	22 127	30 930

Notes to the Company financial statements

for the reporting period ended 31 December

	Company			
	2020			
	Staff bonuses and incentive provisions Rm	Sundry provisions Rm	Undrawn contractually committed and guarantees provision Rm	Total Rm
18. Provisions				
Balance at the beginning of the reporting period	1 438	482	599	2 519
Additions	1 010	1 082	—	2 092
Amounts used	(1 438)	(332)	—	(1 770)
Reversals	(79)	(2)	—	(81)
Movement in provisions for financial guarantees, undrawn committed facilities and letters of credit (refer to note 54)	—	—	4	4
Balance at the end of the reporting period	931	1 230	603	2 764

Provisions expected to be recovered or settled within 12 months after the reporting date were **R1 529m** (2019: R1 450m).

Sundry provisions include amounts with respect to fraud and litigation, claims and card incentive schemes.

	Company	
	2020 Rm	2019 Rm
19. Deposits due to customers		
Call deposits	75 785	52 438
Cheque account deposits	219 050	160 547
Credit card deposits	2 033	1 862
Fixed deposits	198 861	193 395
Foreign currency deposits	30 022	23 975
Notice deposits	74 139	68 997
Other	1 288	1 052
Repurchase agreements	10 991	19 884
Savings and transmission deposits	183 852	156 430
	796 021	678 580

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

	Company	
	2020 Rm	2019 Rm
20. Debt securities in issue		
Credit linked notes	11 151	9 464
Floating rate notes	48 722	57 028
Negotiable certificates of deposit	40 868	44 007
Other	1 140	458
Promissory notes	49	1 120
Senior notes	37 149	39 111
Structured notes and bonds	100	102
	139 179	151 290

	Company 2020 Rm	Company 2019 Rm
21. Share capital and premium		
21.1 Ordinary share capital		
Authorised		
320 000 000 (2019: 320 000 000) ordinary shares of R1.00 each	**320**	320
250 000 000 (2019: 250 000 000) 'A' ordinary shares of R0.01 each	**3**	3
	323	323
Issued		
302 609 369 (2019: 302 609 369) ordinary shares of R1.00 each	**303**	303
145 691 959 (2019: 145 691 959) 'A' ordinary shares of R0.01 each	**1**	1
	304	304
Total issued capital		
Share capital	**304**	304
Share premium	**36 880**	36 880
	37 184	37 184

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 AGM 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 2020 Rm	Company 2019 Rm
21.2 Preference share capital and premium		
Authorised		
30 000 000 (2019: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each	**1**	1
Issued		
4 944 839 (2019: 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 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 the Company which directly affects the rights attached to the preference shares or the interest of the holders thereof.

21. Share capital and premium (continued)

21.3 Additional Tier 1 capital

Subordinated callable notes issued by Absa Bank Limited

Interest rate	Date of issue	Company 2020 Rm	Company 2019 Rm
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**	—
		7 004	5 795

The additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Bank 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.

22. Other reserves

22.1 Fair value reserve

The fair value reserve comprises of 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 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 Bank recognises the cumulative net change in fair value in retained earnings.

22.2 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.

22.3 Foreign currency translation reserve

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

22.4 Capital reserve

The capital reserve arose on the amalgamation of the founding banks of Absa Bank Limited.

22.5 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.

22.6 Retained earnings

Retained earnings comprise 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 own credit risk on liabilities designated at FVTPL; and
- direct shareholder contributions.

	Company 2020 Rm	Company 2019 Rm
23. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	1	4
Interest on hedging instruments	1 557	331
Investment securities	6 771	7 186
Loans and advances to banks	2 295	1 769
Loans and advances to customers	60 890	69 452
Corporate overdrafts and specialised finance loans	767	1 063
Credit cards	4 389	4 856
Foreign currency loans	760	1 478
Instalment credit agreements and finance lease receivables	8 393	8 925
Loans to associates and joint ventures	1 662	2 091
Microloans	726	668
Mortgages	22 721	26 380
Other advances	991	786
Overdrafts	4 711	4 136
Overnight finance	1 180	2 250
Personal and term loans	5 732	6 292
Preference shares	1 435	1 539
Wholesale overdrafts	7 423	8 988
Other interest	1 082	1 792
	72 596	80 534
Classification of interest and similar income		
Interest on hedging instruments	1 557	331
Cash flow hedges	2 705	671
Fair value hedges	(1 148)	(340)
Interest on financial assets held at amortised cost	67 310	76 034
Interest on financial assets measured at FVOCI	2 293	2 772
Interest on financial assets measured at FVTPL	1 436	1 397
Investment securities	43	158
Loans and advances to customers	1 393	1 239
	72 596	80 534

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

Other interest includes items such as overnight interest on contracts for difference.

24. Interest expense and similar charges

Interest expense and similar charges are paid on:

	Company 2020 Rm	Company 2019 Rm
Borrowed funds	2 159	2 134
Debt securities in issue	10 576	11 950
Deposits due to customers	26 429	32 833
Call deposits	3 898	4 972
Cheque account deposits	3 361	3 158
Credit card deposits	6	7
Fixed deposits	7 824	12 455
Foreign currency deposits	87	189
Notice deposits	3 485	4 986
Other deposits due to customers	42	367
Savings and transmission deposits	7 726	6 699
Deposits from banks	1 089	2 105
Call deposits	55	472
Fixed deposits	856	1 290
Foreign currency deposits	178	343
Interest on hedging instruments	(738)	(187)
Interest incurred on finance leases	274	286
	39 789	49 121

Classification of interest expense and similar charges

	Company 2020 Rm	Company 2019 Rm
Interest on hedging instruments	(738)	(187)
Cash flow hedges	(471)	(100)
Fair value hedges	(267)	(87)
Interest on financial liabilities held at amortised cost	—	—
	40 527	49 308
	39 789	49 121

	Company 2020 Rm	Company 2019 Rm
25. Net fee and commission income		
Consulting and administration fees	306	212
Credit-related fees and commissions	15 918	17 271
Cheque accounts	5 079	5 471
Credit cards	1 712	2 276
Electronic banking	5 200	5 397
Other	2 293	2 132
Savings accounts	1 634	1 995
Insurance commission received	612	593
Asset management, markets execution and investment banking fees	382	396
Merchant income	1 925	1 902
Other	123	95
Trust and other fiduciary service	86	72
Portfolio and other management fees	79	63
Trust and estate income	7	9
Fee and commission income	19 352	20 541
Fee and commission expense	(1 794)	(1 600)
Brokerage fees	—	(1)
Cheque processing fees	(90)	(120)
Clearing and settlement charges	(919)	(754)
Notification fees	(250)	(216)
Other	(449)	(431)
Valuation fees	(86)	(78)
	17 558	18 941

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

	Company 2020 Rm	Company 2019 Rm
25.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	5 079	5 471
Credit cards	1 712	2 276
Electronic banking	5 200	5 397
Other	2 293	2 132
Savings accounts	1 634	1 995
Fee and commission income	15 918	17 271
Fee and commission expense	(1 475)	(1 311)
	14 443	15 960

Credit cards include acquiring and issuing fees.

Other credit-related fees and commission income include service and credit-related fees and commissions on mortgage loans and foreign exchange transactions.

	Company 2020 Rm	Company 2019 Rm
26. Gains and losses from banking and trading activities		
Net (losses)/gains on investments	**(264)**	30
Debt instruments designated at FVTPL	**1**	(2)
Equity instruments mandatorily measured at FVTPL	**(297)**	12
Unwind from reserves for debt instruments at FVOCI	**32**	20
Net trading result	**2 684**	1 559
Net trading income excluding the impact of hedge accounting	**2 107**	1 318
Ineffective portion of hedges	**577**	241
Cash flow hedges	**566**	225
Fair value hedges	**11**	16
Other losses	**(143)**	(105)
	2 277	1 484
Net trading result and other gains on financial instruments		
Net trading income excluding the impact of hedge accounting	**2 107**	1 318
Gains/(Losses) on financial instruments designated at FVTPL	**10 039**	(7 178)
Net gains on financial assets designated at FVTPL	**3 543**	9 176
Net gains/(losses) on financial liabilities designated at FVTPL	**6 496**	(16 354)
(Losses)/Gains on financial instruments mandatorily measured at FVTPL	**(7 932)**	8 496
Other losses	**(143)**	(105)
Gains/(Losses) on financial instruments designated at FVTPL	**836**	(64)
Losses on financial instruments mandatorily measured at FVTPL	**(979)**	(41)

	Company 2020 Rm	Company 2019 Rm
27. Gains and losses from investment activities		
Other gains	**3**	3

	Company 2020 Rm	Company 2019 Rm
28. Other operating income		
Foreign exchange differences, including amounts recycled from other comprehensive income	**30**	(6)
Income arising from contracts with customers	**57**	27
Profit on disposal of property and equipment	**53**	2
Profit on sale of repossessed properties	**4**	25
Gross sales	**22**	57
Cost of sales	**(18)**	(32)
Rental income	**16**	22
Sundry income[1]	**1 233**	1 055
	1 336	1 098

[1] 'Sundry income' includes dividend received as well as profit on disposal of non-core assets.

	Company 2020 Rm	Company 2019 Rm
29. Impairment losses		
Impairment losses raised during the reporting period	15 983	6 565
Stage 1 expected losses	1 651	(452)
Stage 2 expected losses	3 750	1 536
Stage 3 expected losses	10 582	5 481
Losses on modifications	32	118
Recoveries of loans and advances previously written off	(297)	(654)
	15 718	6 029

	Company 2020 Rm	Company 2019 Rm
30. Operating expenses		
Administration fees	446	1 079
Amortisation of intangible assets (refer to note 13)	1 805	1 143
Auditors' remuneration	310	280
Audit fees – current reporting period	280	236
Audit fees – under provision	—	9
Audit-related fees	20	19
Other services	10	16
Cash transportation	1 071	1 195
Depreciation (refer to note 12)	3 164	2 962
Equipment costs	163	182
Maintenance	94	114
Rentals	69	68
Information technology	3 660	3 328
Marketing costs	1 046	1 320
Other (includes fraud losses, travel, entertainment costs and recoveries from fellow subsidiaries)	(444)	301
Printing and stationery	160	205
Professional fees	2 187	1 880
Property costs	1 431	1 377
Staff costs	17 193	18 448
Bonuses	1 015	1 461
Deferred cash and share-based payments (refer to note 51)	402	588
Other	215	344
Salaries and current service costs on post-retirement benefit funds	15 190	15 696
Training costs	371	359
Straight line lease expenses on short term leases and low value assets	91	85
Telephone and postage	681	738
TSA direct costs	113	469
	33 077	34 992

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies. Professional fees include research and development costs totaling **R250m** (2019: R78m). Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, restructuring costs, study assistance, staff relocation and refreshment costs.

	Company 2020 Rm	Company 2019 Rm
31. Other impairments		
Intangible assets (refer to note 13)[1]	191	121
Investments in associates and joint ventures (refer to note 10)[2]	11	—
Non-current assets held for sale[3]	17	—
Property and equipment (refer to note 12)[4]	218	197
Equity investments in subsidiaries	—	53
	437	372

	Company 2020 Rm	Company 2019 Rm
32. Indirect taxation		
Training levy	105	153
VAT net of input credits	1 255	983
	1 360	1 136

	Company 2020 Rm	Company 2019 Rm
33. Taxation expense		
Current		
Foreign and other taxation	177	151
South African current tax	1 444	2 665
South African current tax – previous reporting period	452	(427)
	2 073	2 389
Deferred		
Deferred tax (refer to note 14)	(1 506)	(106)
Capital allowances	161	(32)
Allowances for loan losses	(1 079)	(125)
Provisions	(207)	(89)
Movements in prepayments, accruals and other provisions	(258)	120
Fair value and similar adjustments through profit and loss	(49)	(37)
Fair value and similar adjustments in relation to prior year	(74)	57
	567	2 283
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	3 389	10 410
	3 389	10 410
Tax calculated at a tax rate of 28%	949	2 915
Effect of different tax rates in other countries	133	151
Expenses not deductible for tax purposes[5]	252	294
Dividend income	(690)	(697)
Non-taxable interest[6]	(165)	(122)
Other income not subject to tax	(108)	(123)
Non-taxable portion of capital gain	108	(18)
Other	88	(117)
	567	2 283

1 The Company has impaired certain software assets totaling **R191m** (2019: R121m) for which the value in use is determined to be zero.

2 As a result of the SARB decision to no longer allow for cheques as a form of payment in South Africa, the Board of Directors of Integrated Processing Solutions Proprietary Limited have approved the dissolution of IPS. As a result, an impairment of the investment in the joint venture of **R11m** (2019: Rnil) has been recognised.

3 The Company has impaired certain fixed assets totalling **R17m** (2019: Rnil) which have been classified as held for sale under IFRS 5.

4 The Company has decided to dispose of certain property and equipment classified as held for sale under IFRS 5 resulting in an impairment of **R19m** (2019: R64m). As the property and equipment will be disposed of, the impairment was calculated based on fair value less costs to sell prior to transferring to non-current assets held for sale. In addition, property and equipment amounting to **R199m** (2019: R133m) was impaired without a related transfer to non-current assets held for sale.

5 This includes donations, non-deductible expenses.

6 This relates to interest earned on certain capital instruments, which is exempt from tax.

	Company 2020 Rm	Company 2019 Rm
34. Earnings per share		
Basic and diluted 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.		
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. There are no instruments that would have a dilutive impact.		
Basic and diluted earnings attributable to ordinary equity holders of Company	**1 926**	7 340
Weighted average number of ordinary shares in issue (millions)	**448.3**	448.3
Issued shares at the beginning and end of the reporting period	**448.3**	448.3
Basic earnings per ordinary share/diluted earnings per ordinary share (cents)	**429.6**	1 637.3

	Company 2020 Gross Rm	Company 2020 Net Rm	Company 2019 Gross Rm	Company 2019 Net Rm
35. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders of the Company		**1 926**		7 340
Total headline earnings adjustment:		**228**		283
IFRS 3 – Gain on bargain purchase (refer to note 47)	**(86)**	**(86)**	—	—
IFRS 5 – Re-measurement of non-current assets held for sale (refer to note 31)	**17**	**13**	(9)	(6)
IAS 16 – Profit on disposal of property and equipment (refer to note 28)	**(53)**	**(40)**	(2)	—
IAS 28 – Impairment of investments in associates and joint ventures (refer to note 31)	**11**	**11**	—	—
IAS 36 – Impairment of property and equipment (refer to note 31)	**218**	**158**	197	145
IAS 36 – Impairment of investments in subsidiaries (refer to note 31)	**—**	**—**	53	57
IAS 36 – Impairment of intangible assets (refer to note 31)	**191**	**172**	121	87
Headline earnings/diluted headline earnings		**2 154**		7 623
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		**480.5**		1 700.4

The net amount is reflected after taxation.

	Company 2020 Rm	Company 2019 Rm
36. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend[1] **(2020: 0 cents per share (cps)** (13 August 2019: 446.12851 cps)	—	2 000
Final dividend1 **(15 March 2021: 0 cps)** (11 March 2020: 446.129 cps)	—	2 000
	—	4 000
Dividends declared to preference equity holders (net of treasury shares)		
Interim dividend **(31 August 2020: 2 741.0274 cps)** (13 August 2019: 3 595.89 cps)	135	178
Final dividend **(15 March 2021: 2 429.86301 cps)** (11 March 2020: 3 469.3151 cps)	120	172
	255	350
Distributions declared to additional Tier 1 capital note holders		
Distributions		
10 January 2020: 29 049.32 Rands per note (rpn); 10 January 2019: 29 981.67 rpn	36	37
28 February 2020: 28 502.36 rpn	47	—
05 March 2020: 27 569.26 rpn	38	—
14 March 2020: 31 039.73 rpn; 14 March 2019: 31 561.64 rpn	47	47
14 April 2020: 30 061.64 rpn, 10 April 2019: 29 342.47 rpn	37	36
28 May 2020: 27 143.01 rpn	46	—
05 June 2020: 27 075.73 rpn	37	—
12 June 2020: 30 392.77 rpn; 12 June 2019: 32 263.01 rpn	46	49
10 July 2020: 24 669.86 rpn; 10 July 2019: 29 688.43 rpn	31	37
28 August 2020: 21 487.67 rpn; 28 August 2019: 29 344.21 rpn	36	49
07 September 2020: 21 138.41 rpn	29	—
14 September 2020: 24 702.68 rpn; 12 September 2019: 32 031.12 rpn	37	48
12 October 2020: 22 212.33 rpn; 10 October 2019: 29 659.28 rpn	28	37
30 November 2020: 20 453.37 rpn; 28 November 2019: 28 525.04 rpn	34	48
07 December 2020: 19 177.32 rpn	26	
14 December 2020: 22 500.68 rpn; 12 December 2019: 31 059.67 rpn	34	47
	589	435
Dividends paid to ordinary equity holders		
Final dividend **(20 April 2020: 446.129 cps)** (15 April 2019: 109.30149 cps)	2 000	500
Interim dividend[1] **(2020: 0 cps)** (16 September 2019: 446.12851 cps)	0	2 000
	2 000	2 500
Dividends paid to preference equity holders		
Final dividend **(20 April 2020: 3 469.3151 cps)** (15 April 2019: 3 518.6986 cps)	172	174
Interim dividend **(21 September 2020: 2 741.0274 cps)** (16 September 2019: 3 595.89 cps)	135	178
	307	352

	Company 2020 Rm	Company 2019 Rm
36. Dividends per share (continued)		
Distributions paid to additional Tier 1 Capital note holders		
Distributions		
10 January 2020: 29 049.32 Rands per note (rpn); 10 January 2019: 29 981.67 rpn	36	37
28 February 2020: 28 502.36 rpn	47	—
05 March 2020: 27 569.26 rpn	38	—
14 March 2020: 31 039.73 rpn; 14 March 2019: 31 561.64 rpn	47	47
14 April 2020: 30 061.64 rpn, 10 April 2019: 29 342.47 rpn	37	36
28 May 2020: 27 143.01 rpn	46	—
05 June 2020: 27 075.73 rpn	37	—
12 June 2020: 30 392.77 rpn; 12 June 2019: 32 263.01 rpn	46	49
10 July 2020: 24 669.86 rpn; 10 July 2019: 29 688.43 rpn	31	37
28 August 2020: 21 487.67 rpn; 28 August 2019: 29 344.21 rpn	36	49
07 September 2020: 21 138.41 rpn	29	—
14 September 2020: 24 702.68 rpn; 12 September 2019: 32 031.12 rpn	37	48
12 October 2020: 22 212.33 rpn; 10 October 2019: 29 659.28 rpn	28	37
30 November 2020: 20 453.37 rpn; 28 November 2019: 28 525.04 rpn	34	48
07 December 2020: 19 177.32 rpn	26	
14 December 2020: 22 500.68 rpn; 12 December 2019: 31 059.67 rpn	34	47
	589	435

In the current economic climate, capital conservation, including proactive and appropriate management thereof, is regarded paramount to the Company's sustainability over the short to medium term. The Prudential Authority (PA) has encouraged the boards of directors of banks to ensure that capital conservation takes ultimate priority over any distributions of dividends on ordinary shares. As a result, no dividend was declared for the period ended 31 December 2020. The 2019 year-end dividend was declared before this guidance was issued and paid out to shareholders post-consultation with the PA.

37. Transfer of financial assets that results in partial derecognition

37.1 Transfer of financial assets involving structured entities

In the ordinary course of its normal banking activities the Company 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 Company 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.

37.2 Transfer of financial assets that did not result in derecognition

Company 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	**62 603**	**(13 119)**	**62 603**	**(13 119)**	**49 484**

Company 2019	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	892	(619)	892	(619)	273
Loans and advances to customers[1]	70 905	(10 606)	70 905	(10 606)	60 299

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 Company.

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.

[1] These numbers have been restated, refer to 1.2 for further details.

Notes to the Company financial statements

for the reporting period ended 31 December

38. Related parties

Refer to note 40 of the Bank's financial statements for the full disclosure of related party transactions. The following related party transactions and balances exist for Absa Bank Limited.

	Company 2020 Rm	Company 2019 Rm
38.1 Balances and transactions with the parent company		
Transactions		
Interest expense and similar charges	—	28
Dividends paid	2 000	2 500
38.2 Balances and transactions with subsidiaries		
The following are balances with and transactions entered into with, subsidiaries:		
Balances		
Loans to Group companies	6 615	9 090
Loans from Group companies[1]	—	3 286
Subsidiary shares	109	109
Trading portfolio assets	14	(8)
Transactions		
Interest and similar income	(118)	(141)
Interest expense and similar charges	(83)	(140)
Gains and losses from banking and trading activities	1	(6)
Operating expenditure/(recovered expenses)	(60)	15
Equity distribution[2]	(42)	—

Various terms and conditions are agreed upon, taking into account transfer pricing and relevant tax requirements.

	Company 2020 Rm	Company 2019 Rm
38.3 Balances and transactions with fellow subsidiaries		
Balances		
Loans and advances to banks	401	57
Trading portfolio assets	(116)	7
Other assets	1 057	—
Loans to Group Companies	56 346	47 174
Deposits from banks	(6 303)	(8 553)
Borrowed funds	(17 756)	(18 649)
Loans from Group Companies[1]	—	3 286
Transactions		
Interest and similar income	(884)	(1 324)
Interest expense and similar charges	1 684	2 200
Net fee and commission income	(572)	(535)
Gains and losses from banking and trading activities	1 355	(1 170)
Gains and losses from investment activities	(2)	—
Other operating income	(2)	(2)
Operating expenditure/(recovered expenses)	(1 391)	(1 403)

1 These numbers have been restated, refer to 1.2 for further details.

2 This relates to an equity distribution to a subsidiary of Absa Group Limited.

	Company 2020 (Unaudited) Rm	Company 2019 (Unaudited) Rm
39. Assets under management and administration		
Other	**251 031**	1 910
Portfolio management	**2 866**	3 144
Unit trusts	**1 614**	1 823
	255 511	6 877

'Other' assets includes those for which custody and trustee services are provided. It includes assets managed on behalf of Absa Bank Limited.

	Company 2020 Rm	Company 2019 Rm
40. Contingencies, commitments and similar items		
Guarantees	**38 831**	41 671
Irrevocable debt facilities/other lending facilities	**144 583**	133 721
Letters of credit	**5 777**	5 303
Other	—	1
	189 191	180 696
Authorised capital expenditure		
Contracted but not provided for	**427**	187

Guarantees include performance guarantee contracts and financial guarantee contracts.

Financial guarantee contracts represent contracts where the Company 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 Company 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 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 Company 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.

Refer to note 45 in the Bank's financial statements for legal proceedings, regulatory matters and income taxes.

	Company 2020 Rm	Company 2019 Rm
41. Cash and cash equivalents		
Cash, cash balances and balances with central banks[1]	**8 352**	8 898
Loans and advances to banks[2]	**429**	948
	8 781	9 846

[1] Includes coins and bank notes.

[2] Includes call advances, which are used as working capital for the Bank.

42. Consolidated statement of financial position summary – IFRS 9 classification

	Company			
	2020			
		Fair value through profit or loss		
	Mandatorily held at fair value Rm	Designated at fair value Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	3 234	2 447	—	5 681
Loans and advances to banks	31 709	121	—	31 830
Trading portfolio assets	165 090	—	—	165 090
Hedging portfolio assets[2]	—	—	10 998	10 998
Other assets	—	—	—	—
Loans and advances to customers	37 889	25 083	—	62 972
Non-current assets held for sale	—	—	—	—
Loans to group companies	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	237 922	27 651	10 998	276 571
Liabilities				
Deposits from banks	—	37 913	—	37 913
Trading portfolio liabilities	105 966	—	—	105 966
Hedging portfolio liabilities[3]	—	—	4 868	4 868
Other liabilities	—	—	—	—
Deposits due to customers	—	52 376	—	52 376
Debt securities in issue	—	23 926	—	23 926
Borrowed funds	—	—	—	—
Loans from Group companies	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	105 966	114 215	4 868	225 049

[1] Includes non-financial assets and liabilities and financial instruments outside the scope of IAS 39 and IFRS 9.
[2] Includes derivative assets to the amount of **R9 455m** (2019: R2 333m) and **R1 543m** (2019: R1 023m) that have been designated as cash flow and fair value hedging instruments respectively.
[3] Includes derivative liabilities to the amount of **R363m** (2019: R91m) and **R4 505m** (2019: R1 288m) 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 **R603m** (2019: R599m) that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

Company								
2020								
Fair value through other comprehensive income				Amortised cost			Assets/ liabilities outside the scope of IFRS 9[1]	Total assets and liabilities
Debt instruments Rm	Equity instruments Rm	Hedged item[4] Rm	Total Rm	Debt instruments Rm	Hedged items[4] Rm	Total Rm	Rm	Rm
—	—	—	—	33 812	—	33 812	—	33 812
35 996	360	25 071	61 427	30 005	—	30 005	—	97 113
—	—	—	—	34 123	—	34 123	—	65 953
—	—	—	—	—	—	—	1 082	166 172
—	—	—	—	—	—	—	—	10 998
—	—	—	—	12 171	—	12 171	2 563	14 734
—	—	—	—	736 186	3 327	739 513	—	802 485
—	—	—	—	—	—	—	136	136
—	—	—	—	66 553	—	66 553	—	66 553
—	—	—	—	—	—	—	25 898	25 898
35 996	360	25 071	61 427	912 850	3 327	916 177	29 679	1 283 854
—	—	—	—	58 120	—	58 120	—	96 033
—	—	—	—	—	—	—	—	105 966
—	—	—	—	—	—	—	—	4 868
—	—	—	—	19 397	—	19 397	2 730	22 127
—	—	—	—	743 645	—	743 645	—	796 021
—	—	—	—	115 251	7 024	122 275	—	139 179
—	—	—	—	20 203	7 020	27 223	—	20 621
—	—	—	—	3 793	—	3 793	—	3 793
—	—	—	—	—	—	—	2 764	2 764
—	—	—	—	960 409	14 044	974 453	5 494	1 191 372

42. Consolidated statement of financial position summary – IFRS 9 classification

	2019			
		Fair value through profit or loss		
	Mandatorily held at fair value Rm	Designated at fair value Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	832	925	—	1 757
Loans and advances to banks	28 220	1 233	—	29 453
Trading portfolio assets	110 926	—	—	110 926
Hedging portfolio assets[2]	—	—	3 355	3 355
Other assets	—	—	—	—
Loans and advances to customers[6]	45 903	20 841	—	66 744
Non-current assets held for sale	—	—	—	—
Loans to group companies	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	185 881	22 999	3 355	212 235
Liabilities				
Deposits from banks	—	48 120	—	48 120
Trading portfolio liabilities	55 965	—	—	55 965
Hedging portfolio liabilities[3]	—	—	1 379	1 379
Other liabilities	—	—	—	—
Deposits due to customers	—	55 438	—	55 438
Debt securities in issue	—	28 338	—	28 338
Borrowed funds	—	—	—	—
Loans from Group companies[6]	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	55 965	131 896	1 379	189 240

[1] Includes non-financial assets and liabilities and financial instruments outside the scope of IAS 39 and IFRS 9.

[2] Includes derivative assets to the amount of **R9 455m** (2019: R2 333m) and **R1 543m** (2019: R1 023m) that have been designated as cash flow and fair value hedging instruments respectively.

[3] Includes derivative liabilities to the amount of **R363m** (2019: R91m) and **R4 505m** (2019: R1 288m) 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 **R603m** (2019: R599m) that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

[6] These numbers have been restated, refer to 1.2 for further details.

2019								
Fair value through other comprehensive income				Amortised cost			Assets/ liabilities outside the scope of IFRS 9[1]	Total assets and liabilities
Debt instruments Rm	Equity instruments Rm	Hedged item[4] Rm	Total Rm	Debt instruments Rm	Hedged items[4] Rm	Total Rm	Rm	Rm
—	—	—	—	25 485	—	25 485	—	25 485
36 023	339	26 871	63 233	7 087	—	7 087	—	72 077
—	—	—	—	15 531	—	15 531	—	44 984
—	—	—	—	—	—	—	668	111 594
—	—	—	—	—	—	—	—	3 355
—	—	—	—	19 125	—	19 125	2 421	21 546
—	—	—	—	712 884	4 090	716 974	—	783 718
				3 685	—	3 685	21	3 706
—	—	—	—	59 550	—	59 550	—	59 550
—	—	—	—	—	—	—	27 337	27 337
36 023	339	26 871	63 233	843 347	4 090	847 437	30 447	1 153 352
—	—	—	—	71 357	—	71 357	—	119 477
—	—	—	—	—	—	—	—	55 965
—	—	—	—	—	—	—	—	1 379
—	—	—	—	10 304	—	10 304	20 626	30 930
—	—	—	—	623 142	—	623 142	—	678 580
—	—	—	—	113 137	9 815	122 952	—	151 290
—	—	—	—	12 873	8 409	21 282	—	21 282
—	—	—	—	3 286	—	3 286	—	3 286
—	—	—	—	—	—	—	2 519	2 519
—	—	—	—	834 099	18 224	852 323	23 145	1 064 708

Notes to the Company financial statements

for the reporting period ended 31 December

43. Fair value disclosures

43.1 Assets and liabilities held at fair value

The following table shows the Company'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.

	Company							
	2020				2019			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Investment securities	39 952	19 449	7 707	67 108	31 715	23 179	10 096	64 990
Loans and advances to banks	—	31 830	—	31 830	—	29 453	—	29 453
Trading and hedging portfolio assets	56 731	116 855	2 502	176 088	41 623	66 402	6 256	114 281
Debt instruments	55 269	1 738	95	57 102	40 547	970	210	41 727
Derivative assets	—	107 450	1 701	109 151	—	56 763	3 672	60 435
Commodity derivatives	—	622	5	627	—	302	—	302
Credit derivatives	—	—	159	159	—	—	155	155
Equity derivatives	—	3 507	1 487	4 994	—	2 036	3 454	5 490
Foreign exchange derivatives	—	22 534	—	22 534	—	12 604	7	12 611
Interest rate derivatives	—	80 787	50	80 837	—	41 821	56	41 877
Equity instruments	900	—	—	900	530	—	—	530
Money market assets	562	7 667	706	8 935	546	8 669	2 374	11 589
Loans and advances to customers	—	49 375	13 597	62 972	—	55 840	10 904	66 744
Total financial assets	**96 683**	**217 509**	**23 806**	**337 998**	73 338	174 874	27 256	275 468
Financial liabilities								
Deposits from banks	—	37 913	—	37 913	—	48 120	—	48 120
Trading and hedging portfolio liabilities	19 206	91 455	173	110 834	10 401	45 812	1 131	57 344
Derivative liabilities	—	91 455	173	91 628	—	45 812	1 131	46 943
Commodity derivatives	—	764	1	765	—	475	—	475
Credit derivatives	—	—	141	141	—	—	132	132
Equity derivatives	—	3 135	17	3 152	—	1 125	707	1 832
Foreign exchange derivatives	—	19 920	1	19 921	—	11 901	15	11 916
Interest rate derivatives	—	67 636	13	67 649	—	32 311	277	32 588
Short positions	19 206	—	—	19 206	10 401	—	—	10 401
Deposits due to customers	128	48 686	3 562	52 376	156	51 440	3 842	55 438
Debt securities in issue	—	23 926	—	23 926	9	28 329	—	28 338
Total financial liabilities	**19 334**	**201 980**	**3 735**	**225 049**	10 566	173 701	4 973	189 240
Non-financial assets								
Commodity	1 082	—	—	1 082	668	—	—	668
Non-recurring fair value measurements								
Non-current assets held for sale	—	—	136	136	—	—	—	—

43. Fair value disclosures (continued)

43.2 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:

	Company			
	2020			
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	6 256	10 904	10 096	27 256
Net interest income	—	246	70	316
Gains and losses from banking and trading activities	(1 928)	523	(345)	(1 750)
Purchases	38	544	68	650
Sales	(176)	(931)	(2 643)	(3 750)
Movement in other comprehensive income	—	—	(123)	(123)
Transfer to Level 3	142	2 807	1 979	4 928
Transfer out of Level 3	(1 830)	(496)	(1 395)	(3 721)
Closing balance at the end of the reporting period	2 502	13 597	7 707	23 806

	2019			
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	3 449	10 661	7 406	21 516
Net interest income	—	439	65	504
Gains and losses from banking and trading activities	1 973	(471)	1	1 503
Gains and losses from investment activities	—	—	19	19
Purchases	1 101	4 602	1 375	7 078
Sales	(333)	(1 767)	(273)	(2 373)
Movement in other comprehensive income	—	—	(89)	(89)
Settlements	—	—	(7)	(7)
Transfer to Level 3	962	52	2 134	3 148
Transfer out of Level 3	(896)	(2 612)	(535)	(4 043)
Closing balance at the end of the reporting period	6 256	10 904	10 096	27 256

43.2.1 Significant transfers between levels

During the 2020 and 2019 reporting periods, transfers between levels occurred because of changes in the observability of valuation inputs, in some instances owing to changes in the level of market activity.

Transfers have been reflected as if they had taken place at the beginning of the year.

43. Fair value disclosures (continued)

43.2 Reconciliation of Level 3 assets and liabilities (continued)

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

	Company			
	2020			
	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	**—**	**1 131**	**3 842**	**4 973**
Gains and losses from banking and trading activities	**—**	**(706)**	**306**	**(400)**
Issues	**—**	**38**	**704**	**742**
Settlements	**—**	**(263)**	**(534)**	**(797)**
Transfer out of Level 3	**—**	**(27)**	**(756)**	**(783)**
Closing balance at the end of the reporting period	**—**	**173**	**3 562**	**3 735**

	2019			
	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	19	1 454	2 822	4 295
Gains and losses from banking and trading activities	—	276	96	372
Issues	—	36	3 808	3 844
Settlements	—	—	(1 887)	(1 887)
Transfer out of Level 3	(19)	(635)	(997)	(1 651)
Closing balance at the end of the reporting period	—	1 131	3 842	4 973

43. Fair value disclosures (continued)

43.3 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:

	Company 2020 Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	**1 774**	**3 192**	**113**	**5 079**

	2019 Trading and hedging portfolio assets Rm	Loans and advances to customers[1] Rm	Investment securities[1] Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	3 197	871	342	4 410

	Company 2020 Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	**(104)**	**(490)**	**(594)**

	2019 Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	(520)	163	(357)

[1] In 2019, the Bank inadvertently disclosed the incorrect unrealised gains and losses balance for loans and advances to customers and investment securities. This has led to a restatement of the loans and advances to customers balance from R539m to R871m and the restatement of the investment securities balance from R220m to R342m.

43. Fair value disclosures (continued)

43.4 Sensitivity analysis of valuations using unobservable inputs

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

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

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

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value of the asset or liability by more than 10% of the underlying value of the affected item.

This is demonstrated by the following sensitivity analysis which includes a reasonable range of possible outcomes:

		2020	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	**Absa Group Limited/Absa funding spread**	344/(394)	—/—
Investment securities	**Risk adjustment yield curves, future earnings and marketability discount**	—/—	(146)/151
Loans and advances to customers	**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	—/—

43. Fair value disclosures (continued)

43.4 Sensitivity analysis of valuations using unobservable inputs (continued)

		2019	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	Absa Group Limited/Absa funding spread	349/(395)	—/—
Investment securities	Risk adjustment yield curves, future earnings and marketability discount	—/—	(303)/313
Loans and advances to customers	Credit spreads	(692)/760	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	177/(174)	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(261)/261	—/—

43.5 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:

	Company	
	2020 Rm	2019 Rm
Opening balance at the beginning of the reporting period	**(407)**	(428)
New transactions	**(105)**	(52)
Amounts recognised in profit or loss during the reporting period	**66**	73
Closing balance at the end of the reporting period	**(446)**	(407)

43.6 Third-party credit enhancements

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

43. Fair value disclosures (continued)

43.7 Assets and liabilities not held at fair value

The following table summarises the carrying amounts and fair value of those assets and liabilities not held at fair value.

	Company				
	2020				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with the SARB	25 460	25 460	25 460	—	—
Coins and bank notes	8 352	8 352	8 352	—	—
Cash, cash balances and balances with central banks	33 812	33 812	33 812	—	—
Investment securities	30 005	32 479	32 479	—	—
Loans and advances to banks	34 123	34 123	4 154	29 969	—
Other assets	12 171	12 171	5 678	3 533	2 960
RBB South Africa	502 012	496 971	—	—	496 971
Home Loans	246 408	244 442	—	—	244 442
Vehicle and Asset Finance	89 129	87 739	—	—	87 739
Everyday Banking	47 727	47 010	—	—	47 010
Card	26 110	26 110	—	—	26 110
Personal Loans	18 410	17 693	—	—	17 693
Transactions and Deposits	3 207	3 207	—	—	3 207
Relationship Banking	118 748	117 780	—	—	117 780
CIB South Africa	236 528	240 895	—	—	240 895
Head Office, Treasury and other operations in South Africa	973	973	—	—	973
Loans and advances to customers – net of impairment losses	739 513	738 839	—	—	738 839
Loans to group companies	66 553	66 553	—	66 553	—
Total assets (not held at fair value)	916 177	917 977	76 123	100 055	741 799
Financial liabilities					
Deposits from banks	58 120	58 414	16 321	41 982	111
Other liabilities	19 397	19 397	8 448	10 949	—
Call deposits	75 785	75 785	75 785	—	—
Cheque account deposits	218 922	218 922	218 922	—	—
Credit card deposits	2 033	2 033	2 033	—	—
Fixed deposits	157 604	161 534	—	155 274	6 260
Foreign currency deposits	30 022	30 022	—	30 022	—
Notice deposits	74 139	74 139	28 742	45 397	—
Other deposits	1 288	1 288	—	1 288	—
Saving and transmission deposits	183 852	183 852	29 019	7 870	146 963
Deposits due to customers	743 645	747 575	354 501	239 851	153 223
Debt securities in issue	115 253	115 951	—	115 951	—
Loans from group companies	3 792	3 792	—	3 792	—
Borrowed funds	20 621	20 762	—	20 762	—
Total liabilities (not held at fair value)	960 828	965 891	379 270	433 287	153 334

Notes to the Company financial statements

for the reporting period ended 31 December

43. Fair value disclosures (continued)

43.7 Assets and liabilities not held at fair value (continued)

	2019				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with the SARB	16 587	16 587	16 587	—	—
Coins and bank notes	8 898	8 898	8 898	—	—
Cash, cash balances and balances with central banks	25 485	25 485	25 485	—	—
Investment securities	7 087	7 064	7 064	—	—
Loans and advances to banks	15 531	15 531	3 104	12 427	—
Other assets	19 125	19 125	12 509	3 043	3 573
RBB South Africa	489 158	491 703	—	—	491 703
Home Loans	235 924	235 924	—	—	235 924
Vehicle and Asset Finance	83 740	84 080	—	—	84 080
Everyday Banking	51 123	51 735	—	—	51 735
Card	26 790	27 199	—	—	27 199
Personal Loans	20 857	21 022	—	—	21 022
Transactions and Deposits	3 476	3 514	—	—	3 514
Relationship Banking	118 371	119 964	—	—	119 964
CIB South Africa[1]	226 989	226 989	—	—	226 989
Head Office, Treasury and other operations in South Africa	827	827	—	—	827
Loans and advances to customers – net of impairment losses[1]	716 974	719 519	—	—	719 519
Loans to group companies	59 550	59 550	—	59 550	—
Non-current assets held for sale	3 685	3 685	—	—	3 685
Total assets (not held at fair value)	844 151	846 673	48 162	71 734	726 777
Financial liabilities					
Deposits from banks	71 357	71 357	11 539	59 752	66
Other liabilities	10 304	10 304	—	10 271	33
Call deposits	52 438	52 438	52 438	—	—
Cheque account deposits	160 390	160 390	160 390	—	—
Credit card deposits	1 862	1 862	1 862	—	—
Fixed deposits	157 998	158 421	—	155 692	2 729
Foreign currency deposits	23 975	23 975	—	23 975	—
Notice deposits	68 997	68 997	23 616	45 381	—
Other deposits	1 052	1 052	—	1 052	—
Saving and transmission deposits	156 430	156 430	32 131	2 059	122 240
Deposits due to customers	623 142	623 565	270 437	228 159	124 969
Debt securities in issue	122 952	125 688	—	125 688	—
Loans from group companies[1]	3 286	3 286	—	3 286	—
Borrowed funds	21 282	21 282	—	21 282	—
Total liabilities (not held at fair value)	849 037	852 196	281 976	445 152	125 068

[1] These numbers have been restated, refer to 1.2 for further details.

44. Borrowed funds

Refer to note 20 in the Bank's financial statements.

45. Leases

Refer to note 35 in the Bank's financial statements.

46. Derivatives

Refer to note 50 in the Bank's financial statements.

47. Acquisitions and disposals of businesses and other similar transactions

47.1 Acquisitions and disposals of businesses during the current reporting period

Refer to note 48 of the Bank's financial statements.

47.2 Acquisitions and disposals of businesses during the previous reporting period

Refer to note 48 of the Bank's financial statements.

48. Retirement benefit fund obligations

Refer to note 36 in the Bank's financial statements.

49. Securities borrowed/lent and repurchase/reverse repurchase agreements

Refer to note 38 in the Bank's financial statements.

50. Offsetting financial assets and financial liabilities

Refer to note 41 in the Bank's financial statements.

51. Share-based payments

Refer to note 47 in the Bank's financial statements.

52. Segment report

Refer to note 49 in the Bank's financial statements.

53. Credit risk of financial instruments designated at fair value

Refer to note 53 in the Bank's financial statements.

54. Risk management

The financial risks inherent within the Bank are considered to be substantially the same for the Company and consolidated level. Refer to note 54 of the Bank's financial statements for detailed risk management disclosures.

55. Going concern

The Directors assess the Company's future performance and financial position on an ongoing basis. In light of the continued anticipated 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 consolidated financial statements. For this reason, these consolidated financial statements are prepared on a going concern basis.

56. Events after the reporting period

The Directors are not aware of any events (as defined per IAS10 Events after the Reporting Period) after the reporting date of 31 December 2020 and the date of authorisation of these annual consolidated and separate financial statements.

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