Absa Group Limited

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

Contents

Absa Group Limited
(1986/003934/06)

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 Group Financial Reporting under the direction and supervision of the 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 pages 18 to 19, is made to distinguish, for the benefit of shareholders, the respective responsibilities of the directors and of the auditor in relation to the consolidated and separate financial statements of Absa Group Limited and its subsidiaries (the Group).

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

To enable the directors to meet these responsibilities:

- All directors and senior management develop an environment whereby all directors and employees endeavour to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that, in all reasonable circumstances, is above reproach.
- The Board sets standards and management implements systems of internal control and accounting as well as information systems aimed at providing reasonable assurance that both on- and off-statements of financial position are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The Board and management identify all key areas of risk across the Group and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems, and discipline are applied and managed within predetermined procedures and constraints.
- The Group's Internal audit and compliance functions, which operate unimpeded and independently from operational management and have unrestricted access to the 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 Group's systems and processes appropriately reflect the current legal and regulatory environment, refer to note 53.
- The Group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

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

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

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

It is the responsibility of the independent external auditor to report on the financial statements. Their report to the shareholders of the Group and the Company is set out on page 18 of this report.

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

W E Lucas-Bull
Group Chairman

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 239, 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 GACC, 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 GACC, are set out in the GACC's mandate on the Group's website.

The GACC, 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 GACC, including closed sessions without management, on any matters that they regard as relevant to the fulfilment of the GACC'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 GACC included:

Matter	GACC 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 4 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 GACC included: (continued)

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

- 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 GACC 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 GACC Chairman or the GACC 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 GACC 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 GACC 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 GACC 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 GACC:

- 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 Service (SENS).
  - Reporting changes announced on the SENS in respect of the current year.
- 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 GACC by the Board or management.

Solvency and liquidity tests

- The GACC considered (a) the compliance of Absa Group Limited (Absa Group, or the Company) with section 45 of the Companies Act, No 71 of 2008 (the Companies Act) in respect of the granting of financial assistance; and
- (b) sections 4 and 45 of the Companies Act pertaining to solvency and liquidity, and recommended to the Absa Group Board the passing of a resolution that Absa Group'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.

Internal audit and the internal control environment

The GACC 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 GACC:

- 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.

Group Audit and Compliance Committee report

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

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

- 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.
- 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 GACC 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 GACC:

- 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.

Group Audit and Compliance Committee report

Quality and integrity of the integrated report

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

- 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 the integrity of the Integrated Report or that could have a material impact on the financial statements.

Regulatory and corporate governance requirements

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

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

The GACC 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 GACC 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 GACC

T Abdool-Samad
Chairman of the GACC

Johannesburg
14 March 2021

Directors' report

General information and nature of activities

The Group, which has a primary listing on the JSE, is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, insurance, financial services and wealth management products and services. The Group operates in 12 African countries, United Kingdom, United States of America and employs 36 767 people. The address of the registered office of the Group is the 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001.

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

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

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

The consolidated and separate financial statements were approved for issue by the Board Finance Committee, a committee of the Board, on 14 March 2021.

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

Group Audit and Compliance Committee report

Refer to pages 3 to 7.

Group results

Main business and operations

The Group recorded a decrease of 58% in headline earnings to **R6 038m** (2019: R14 526m) for the reporting period. Headline earnings per share (HEPS) decreased by 58% to **730.9 cents** (2019: 1 750.1 cents) and diluted HEPS by 58% to **730.5 cents** (2019: 1 747.6 cents). Refer to note 43 for the breakdown of headline earnings note.

Headline earnings was derived from the following activities:

	Group	
	2020 Rm	2019 Rm
Retail and Business Banking South Africa (RBB South Africa)	**4 270**	9 510
Corporate and Investment Banking South Africa (CIB South Africa)	**3 035**	3 230
Absa Regional Operations (ARO)	**1 589**	3 635
Head Office, Treasury and other operations in South Africa	**(929)**	(110)
Barclays separation	**(1 927)**	(1 739)
Headline earnings (refer to note 43)	**6 038**	14 526

Directors' report

Details of the members of the Board:

Name	Position as director	Current reporting period appointments and resignations
T Abdool-Samad	Independent non-executive director	
C Beggs	Non-executive director	
A B Darko *(Ghanaian and British)*	Independent non-executive director	
D J Hodge *(British)*	Non-executive director	Resigned 15 December 2020
M J Husain	Independent non-executive director	Retired 4 June 2020
R A Keanly	Independent non-executive director	
W E Lucas-Bull	Independent non-executive director, Chairman	
P B Matlare	Deputy Group Chief Executive	Passed away 7 March 2021
D Mminele *(South African and British)*	Group Chief Executive	Appointed 15 January 2020
N S Mjoli-Mncube	Independent non-executive director	Appointed 15 October 2020
M S Merson *(British)*	Independent non-executive director	
S J Munyantwali	Independent non-executive director	
D Naidoo	Independent non-executive director	
F Okomo-Okello *(Kenyan)*	Independent non-executive director	
S M Pityana	Lead independent non-executive director	
J P Quinn	Financial Director	
I Rensburg	Independent non-executive director	
F Tonelli	Non-executive director	Appointed 1 July 2020
R van Wyk[1]	Non-executive director	

Shareholder information

	2020			2019		
	Number of shareholders/ note holders	Number of shares/notes	% holding	Number of shareholders/ note holders	Number of shares/notes	% holding
Public and non-public shareholders						
Ordinary shares						
Public						
Public Investment Corporation (SA)	**1**	**52 865 228**	**6.24**	1	53 292 674	6.29
Other	**28 577**	**649 296 953**	**76.59**	22 827	650 780 797	76.77
Non-public		**145 588 498**	**17.17**		145 488 606	17.17
Barclays Bank PLC (UK)		**126 145 303**	**14.88**		126 145 303	14.88
Treasury shares[2]		**18 961 880**	**2.24**		19 122 853	2.26
Directors and prescribed officers (refer to note 25.2)		**481 315**	**0.05**		220 450	0.03
Total		**847 750 679**	**100**		847 750 679	100

The additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Group Limited (the issuer) subject to regulatory approval. These instruments include a write-off provision which is required under Basel III. This provision is triggered by the Prudential Authority and shall be instituted at the earlier of (i) a decision that a write-off, without which the Issuer would become non-viable, is necessary; or (ii) a decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable. In addition, the additional Tier 1 notes do not have a contractual obligation to pay interest. Accordingly, the instruments are classified as equity instruments. The total number of issued notes at the end of the reporting period was **7 004 000 000** (2019: 5 795 000 000).

[1] René van Wyk was an independent non-executive director until 31 January 2019, and became an executive director on 1 February 2019. He was subsequently appointed as Group Chief Executive Officer on an interim basis, from 1 March 2019 up until 14 January 2020. He is now a non-executive director as of 1 August 2020.

[2] **529 734** shares held by Absa Life Limited (2019: 537 975); **1 600 940** (2019: 3 004 843) shares held in trust for shared-based payments; **851 051** (2019: 678 187) held by Absa Capital Securities and **15 980 155** (2019: 14 901 848) shares held by the Absa Empowerment Trust in pursuance of a future Broad-Based Black Economic Empowerment structure.

Directors' report

Directors' and officers' personal financial interests in contracts

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

Executive directors are entitled to Absa Group ordinary shares awards, the details of which are included in note 65.

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

Directors' and prescribed officers' emoluments

The emoluments and services of directors and prescribed officers are determined by the Group Remuneration Committee (Remco) as disclosed in note 65.

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 50 to the consolidated financial statements.

Acquisitions and disposals

Refer to notes 7, 11 and 56 for additional information on the acquisitions and disposals of businesses and other significant assets.

Acquisitions during the current reporting period

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

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

Acquisitions during the prior reporting period

During the prior reporting period, there were no acquisitions of businesses.

Disposals during the current reporting period

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

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

Disposals during the prior reporting period

During the prior reporting period, there were no disposals of businesses.

Covid-19 response

The Board oversaw the Group'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.

Directors' report

Dividends

- On 11 March 2020, a final dividend of 620 cents per ordinary share was declared. The dividend was announced on 11 March 2020 to the ordinary shareholders registered on 17 April 2020. The dividend was paid on 20 April 2020.
- 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 46 for additional Tier 1 distribution.

Special resolutions

The following special resolutions were passed by the Company's ordinary shareholders at the AGM held on 4 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 from 1 June 2020 to and including the last day of the month preceding the date of the next AGM thereafter.
- **Special resolution number 2 – Increase in authorised ordinary share capital**
  Resolved that in terms of section 36(2)(a) and section 16(1)(c) of the Companies Act, the authorised ordinary share capital of the Company be and is hereby amended by an increase equal to R22 613 108 divided into 11 306 554 (eleven million three hundred and six thousand five hundred and fifty four) ordinary shares with a par value of R2 (two rand) each, ranking pari passu in all respects with the existing ordinary shares in the authorised share capital of the Company.
- **Special resolution number 3 – General repurchases**
  Resolved that the Company or any subsidiary of the Company may, subject to the Companies Act, the Company's MOI, the JSE Listings Requirements and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase ordinary shares issued by the Company, provided that this authority shall be valid only until the date of the next AGM of the Company or for 15 months from the date of the resolution, whichever is the earlier, and may be varied by a special resolution at any general meeting of the Company at any time prior to the AGM.
- **Special resolution number 4 – 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 auditors 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 share capital of the Company of **R1 783 548 108** (2019: R1 760 935 000) consists of **891 774 054** (2019: 880 467 500) ordinary shares of R2.00 each.

Issued

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

847 750 679 (2019: 847 750 679) ordinary shares of R2.00 each.

No preference shares are currently in issue by the Company.

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

In accordance with the provisions of the Companies Act, I certify that, in respect of the year ended 31 December 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 auditor's report to the shareholders of Absa Group Limited

Independent Auditor's Report

To the shareholders of Absa Group Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Absa Group Limited and its subsidiaries ('the Group') and Company set out on pages 20 to 239, 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 52, 62.5.2, 62.7, and Annexure A: Embedded value report for Life Insurance entities.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of 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 only to the audit of the Consolidated Financial Statements.

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

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td rowspan="4">Absa Group Limited</td><td colspan="2">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 33)
• Note 8 – Loans and advances to customers (page 69)
• Note 62.2 – Credit risk (page 162)
• Impact of Covid-19 note (excludes any numbers marked as unaudited) (page 20)</td></tr>
<tr><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 focused 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>• 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>• 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 auditor's report to the shareholders of Absa Group Limited

Level	Key audit matter	How our audit addressed the matter
	• **Management adjustments** Management adjustments are applied to ECL model outputs where the existing models do not fully incorporate factors which impact the ECL. In the current year, management has 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.	• **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.
	• **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.	• **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.
	• **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.	• **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.

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

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td rowspan="2">Absa Group Limited</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 60 – Fair value disclosures (page 150)</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 auditor's report to the shareholders of Absa Group Limited

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td rowspan="2">Absa Group Limited</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 40)
• Note 14 – Goodwill and intangible assets (page 73)
• Note 38 – Operating expenses (page 92)</td></tr>
<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 two 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 programme 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 third-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.</td></tr>
</table>

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

Level	Key audit matter	How our audit addressed the matter
	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 its 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 ongoing 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 239 page document titled 'Absa Group 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 Group 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.

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.

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

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 Group 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

102 Rivonia Road
Sandton

14 March 2021

Impact of Covid-19

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 14)
- Impairment losses (refer to note 37)
- Other impairments (refer to note 39)
- Credit risk (refer to note 62.2)

Impact on the use of estimates, judgements and assumptions

The pandemic has, in turn, had a material impact on the risks that the Group is exposed to and the output of financial models, most specifically those used to determine credit risk exposures. The high degree of uncertainty resulting from this has forced the Group 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 Group's response created added complexity and there is a risk that actual loss experienced may differ from those suggested by the judgements and assumptions used.

As multiple outbreaks continue to progress and evolve, it is challenging to predict the full extent and duration of their business and economic impact. 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 Group 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 Group's estimates and judgements is included in note 1.2 and within the 'Other estimates and judgements' section below.

Effect on risk management

The role of risk management is to evaluate, respond and monitor risks in the execution of our strategy. It is essential that business growth plans are supported by an effective Enterprise Risk Management Framework (ERMF). Risk culture is closely aligned to that of the business. The Risk Function retains independence in analysis and decision-making. Please refer to note 62.

Covid-19 customer payment relief

The Group 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. Once payment relief ends, the Group's existing credit policies continue to apply.

RBB SA: 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' programme, 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 programme had been concluded and customers were required to recommence payment.

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

CIB (South Africa and ARO): 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.

ARO Retail and Business Banking: Payment relief programmes were instituted in all the ARO banking entities, providing relief for periods of, in general up to six months as informed by local regulatory and management actions. A minimal amount of payment relief was extended for a further three months for customers in good standing and sectors where there was protracted impact. Most of the payment relief had concluded by 31 December 2020.

The Group's existing credit policies continued to apply to customers not meeting the payment relief eligibility criteria or those who no longer benefit from the payment relief.

Impact of Covid-19

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 2020 Rm	Percentage of portfolio %	Up to date %
RBB South Africa	151 658	551 663	27.49	91.57
Home Loans	84 492	255 130	33.12	94.46
Vehicle and Asset Finance	25 892	94 876	27.29	88.01
Everyday Banking	16 492	73 732	22.37	79.32
Card	9 832	45 874	21.43	83.49
Personal Loans	6 607	23 786	27.78	73.30
Transactions and Deposits	53	4 072	1.30	54.90
Relationship Banking	24 782	127 872	19.38	93.59
RBB Other	—	53	—	—
CIB South Africa	39 793	306 262[1]	12.99	97.41
Absa Regional Operations (ARO)	27 130	115 065	23.58	88.86
RBB	12 487	59 920	20.84	88.03
CIB	14 643	55 145	26.55	89.57
Head Office, Treasury and other operations in South Africa	—	612	—	—
Loans and advances to customers	218 581	973 602	22.45	92.30

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 Group'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	3 524	14 621	3 565	10 333	6 253
Home Loans	950	2 189	950	1 750	182
Vehicle and Asset Finance	926	3 062	926	2 129	1 099
Everyday Banking	1 177	7 337	1 221	5 107	4 653
Card	628	3 883	673	2 897	2 536
Personal Loans	466	2 893	466	1 867	1 610
Transactions and Deposits	83	561	82	343	507
Relationship Banking	471	2 032	468	1 348	322
RBB Other	—	1	—	(1)	(3)
CIB South Africa	776	1 951	776	1 657	367
ARO	1 057	3 995	1 176	2 672	1 213
RBB	570	2 507	634	1 455	1 120
CIB	441	1 340	483	1 140	173
Head Office, Treasury and other operations	46	148	59	77	(80)
Head Office, Treasury and other operations in South Africa	—	2	—	(1)	(17)
Total	5 357	20 569	5 517	14 661	7 816

Sensitivity of expected credit losses

Given the level of uncertainty required in the determination of ECL, the Group has conducted a sensitivity analysis in order to indicate the impact on the ECL when assigning a probability weighting of 100% to each macroeconomic variable scenario. The analysis only reflects the impact of changing the probability assigned to each scenario to a 100% and does not include management adjustments required to provide a more appropriate assessment of risk.

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

In addition, the impact on expected credit losses were analysed should 5% of the gross carrying of the Group's 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 SA	21 939	2 147
CIB SA	9 775	24
ARO	4 686	492

Impact of Covid-19

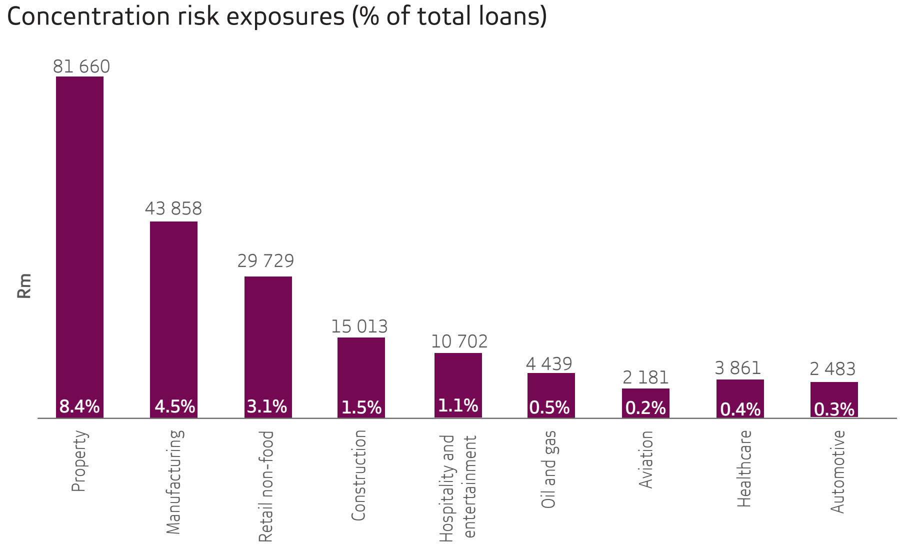
Single name impairments

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 Group 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
SA Relationship Banking	287	246
CIB SA	1 040	662
CIB ARO	1 077	781
ARO Business Banking	330	130
Total	2 734	1 819

Wholesale lending in key Covid-19 impacted industries

In addition to the disclosure provided above, the graph below provides a view of the Group's wholesale exposure (across CIB SA and ARO, Relationship Banking and ARO Business 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:



Impact of Covid-19

Other estimates and judgements

Other estimates and judgements utilised in preparing the Group's financial results have been impacted by the advent of the pandemic. The 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 Group's internally generated intangible assets, property and equipment, and goodwill may potentially be impaired, and the Group 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 Group 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 Group recognised impairment losses on internally generated intangible assets, property and equipment and goodwill of **R420m** (2019: R330m).
Post-retirement benefits	While the Absa Pension Fund meets the definition of a defined benefit pension plan, the majority of the Group's employees are part of the defined contribution portion of the fund, and as a result the Group's actuarial risk exposure is limited. In ARO subsidiaries, there are certain legacy defined benefit pension plans, however, the majority of employees in these countries belong to defined contribution pension plans. 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%). The most significant defined benefit pension plan in ARO is that of Mauritius. The key assumptions for the Mauritius defined benefit pension plan is a discount rate of **3.2%** (2019: 5.6%) inflation of **0.5%** (2019: 2.4%) and salary increases of **0.5%** (2019: 2.4%). 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). Adjustments in the assumptions applied to ARO subsidiary funds, primarily the Mauritius Pension Fund, resulted in a decrease in other comprehensive income (after tax) of **R416m** (2019: R104m decrease).
Hedge accounting	Cash flow hedges are used by the Group to protect against the potential cash flow variability arising from the Group exposure to interest rate and foreign currency risk. The Group's structural interest rate hedge in South Africa represents its most significant cash flow hedge. An assessment of the Group's hedge accounting position and the applied risk management strategy showed no significant changes to the way the Group manages its risk. At 31 December 2020, the Group 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.
Valuation of insurance liabilities	The Group provides **short-term and long-term** insurance in South Africa and in Absa Regional Operations. The Group has assessed the carrying value of these insurance liabilities as at 31 December 2020. The value of the life insurance liability is determined using assumptions regarding future mortality, morbidity, discontinuance rates, policyholders' reasonable benefit expectations, and guaranteed benefits and expenses. This reserve was increased in response to the pandemic as a result of an adjustment in mortality assumptions, higher lapse rate expectations and an increase in the retrenchment incidence rate. Adjustments to mortality assumptions were derived based on excess death data reported during 2020, with additional allowance for the emerging increased severity of the second wave compared to the first wave, whilst lapse rate and retrenchment incidence rate expectations were increased due to the expected persistence of the weakened economic environment. There is still considerable uncertainty around the impact of the pandemic and adjustments to assumptions will continue to be reviewed as experience emerges. Establishing **short-term insurance liabilities** is an inherently uncertain process and, therefore, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. Estimates and judgements are regularly adjusted as changes in facts and experience are identified. No material changes in these estimates and assumptions have been noted at 31 December 2020 when compared to 31 December 2019.

Consolidated statement of financial position

as at 31 December

	Note	Group 2020 Rm	2019 Rm
Assets			
Cash, cash balances and balances with central banks	2	**60 682**	52 532
Investment securities	3	**153 504**	116 747
Loans and advances to banks	4	**84 538**	59 745
Trading portfolio assets	5	**213 521**	158 348
Hedging portfolio assets	5	**11 000**	3 358
Other assets	6	**20 417**	30 343
Current tax assets		**865**	1 682
Non-current assets held for sale	7	**144**	3 992
Loans and advances to customers	8	**929 969**	916 978
Reinsurance assets	9	**680**	886
Investments linked to investment contracts	10	**21 273**	20 042
Investments in associates and joint ventures	11	**1 601**	1 648
Investment properties	12	**496**	513
Property and equipment	13	**17 094**	18 620
Goodwill and intangible assets	14	**11 050**	10 300
Deferred tax assets	15	**4 286**	3 441
Total assets		**1 531 120**	1 399 175
Liabilities			
Deposits from banks	16	**96 106**	117 423
Trading portfolio liabilities	17	**108 976**	59 224
Hedging portfolio liabilities	17	**4 868**	1 379
Other liabilities	18	**33 905**	46 355
Provisions	19	**3 959**	4 064
Current tax liabilities		**290**	172
Non-current liabilities held for sale	7	**—**	112
Deposits due to customers	20	**951 894**	826 293
Debt securities in issue	21	**145 740**	159 794
Liabilities under investment contracts	22	**27 533**	29 700
Policyholder liabilities under insurance contracts	23	**4 198**	4 331
Borrowed funds	24	**20 761**	21 418
Deferred tax liabilities	15	**587**	227
Total liabilities		**1 398 817**	1 270 492
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	25	**1 657**	1 657
Share premium	25	**10 561**	10 428
Retained earnings		**95 345**	95 386
Other reserves	26	**8 108**	5 807
		115 671	113 278
Non-controlling interest – ordinary shares		**4 984**	4 966
Non-controlling interest – preference shares	27.1	**4 644**	4 644
Non-controlling interest – additional Tier 1 capital	27.2	**7 004**	5 795
Total equity		**132 303**	128 683
Total liabilities and equity		**1 531 120**	1 399 175

Consolidated statement of comprehensive income

for the reporting period ended 31 December

		Group	
	Note	2020 Rm	2019 Rm
Net interest income		**48 857**	46 501
Interest and similar income	28	**93 051**	97 838
Effective interest income		**91 263**	96 040
Other interest income		**1 788**	1 798
Interest expense and similar charges	29	**(44 194)**	(51 337)
Non-interest income		**32 736**	33 619
Net fee and commission income		**21 597**	23 606
Fee and commission income	30	**25 120**	26 759
Fee and commission expense	30	**(3 523)**	(3 153)
Net insurance premium income	31	**8 286**	7 830
Net claims and benefits incurred on insurance contracts	32	**(4 205)**	(3 747)
Changes in investment and insurance contract liabilities	33	**(2 262)**	(1 589)
Gains and losses from banking and trading activities	34	**6 379**	5 408
Gains and losses from investment activities	35	**2 199**	1 600
Other operating income	36	**742**	511
Total income		**81 593**	80 120
Impairment losses	37	**(20 569)**	(7 816)
Operating income before operating expenses		**61 024**	72 304
Operating expenses	38	**(48 111)**	(48 767)
Other expenses		**(2 508)**	(2 006)
Other impairments	39	**(464)**	(330)
Indirect taxation	40	**(2 044)**	(1 676)
Share of post-tax results of associates and joint ventures	11.1	**(36)**	221
Operating profit before income tax		**10 369**	21 752
Taxation expense	41	**(3 156)**	(5 772)
Profit for the reporting period		**7 213**	15 980
Profit attributable to:			
Ordinary equity holders		**5 880**	14 256
Non-controlling interest – ordinary shares		**437**	937
Non-controlling interest – preference shares		**307**	352
Non-controlling interest – additional Tier 1 capital		**589**	435
		7 213	15 980
Earnings per share:			
Basic earnings per share (cents)	42.1	**711.8**	1 717.6
Diluted earnings per share (cents)	42.2	**711.3**	1 715.1

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Group 2020 Rm	Group 2019 Rm
Profit for the reporting period		**7 213**	15 980
Other comprehensive income			
Items that will not be reclassified to profit or loss		**(578)**	(112)
Movement on equity instruments designated at fair value through other comprehensive income (FVOCI)		**(5)**	60
Fair value (losses)/gains		**(7)**	77
Deferred tax		**2**	(17)
Movement on liabilities designated at FVTPL due to changes in own credit risk		**(82)**	(44)
Fair value movements		**(116)**	(61)
Deferred tax		**34**	17
Movement in retirement benefit fund assets and liabilities		**(491)**	(128)
Decrease in retirement benefit surplus	45	**(100)**	(38)
Increase in retirement benefit deficit	45	**(433)**	(104)
Deferred tax	15	**42**	14
Items that are or may be subsequently reclassified to profit or loss		**2 646**	(1 034)
Movement in foreign currency translation reserve		**(808)**	(1 387)
Differences in translation of foreign operations		**(690)**	(1 505)
Release to profit or loss		**(118)**	118
Movement in cash flow hedging reserve		**3 997**	913
Fair value gains		**9 034**	2 081
Amounts transferred within other comprehensive income		**5**	(7)
Amount removed from other comprehensive income and recognised in profit or loss		**(3 488)**	(806)
Deferred tax	15	**(1 554)**	(355)
Movement in fair value of debt instruments measured at FVOCI		**(543)**	(560)
Fair value losses		**(773)**	(811)
Release to profit or loss	34	**(32)**	(20)
Deferred tax	15	**262**	271
Total comprehensive income for the reporting period		**9 281**	14 834
Total comprehensive income attributable to:			
Ordinary equity holders		**7 877**	13 202
Non-controlling interest – ordinary shares		**508**	845
Non-controlling interest – preference shares		**307**	352
Non-controlling interest – additional Tier 1 capital		**589**	435
		9 281	14 834

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm
Balance at the end of the previous reporting period	828 628	1 657	10 428	95 386	5 807	912
Total comprehensive income	—	—	—	5 293	2 584	—
Profit for the period	—	—	—	5 880	—	—
Other comprehensive income	—	—	—	(587)	2 584	—
Dividends paid during the reporting period	—	—	—	(5 115)	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Issuance of additional Tier 1 capital	—	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(965)	92	—	—
Elimination of the movement in treasury shares held by Group entities	161	0	133	—	—	—
Movement in share-based payment reserve	—	—	965	—	(543)	—
Transfer from share-based payment reserve	—	—	965	—	(965)	—
Value of employee services	—	—	—	—	409	—
Deferred tax	—	—	—	—	13	—
Movement in general credit risk reserve	—	—	—	(269)	269	269
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(27)	27	—
Share of post-tax results of associates and joint ventures	—	—	—	36	(36)	—
Disposal of non-controlling interest[1]	—	—	—	—	—	—
Acquisition of non-controlling interest[2]	—	—	—	(51)	—	—
Balance at the end of the reporting period	828 789	1 657	10 561	95 345	8 108	1 181
Note	25	25	25			26

[1] On 27 November 2020, Absa Group Limited disposed of First Assurance Tanzania, which was housed in Absa Regional Operations.

[2] On 15 December 2020, Absa acquired the remaining minority interest of Instant Life Proprietary Limited, increasing its shareholding in this entity to 100%.

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group
2020

	Fair value through other compre-hensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest – additional Tier 1 capital Rm	Total equity Rm
	(628)	1 316	1 750	13	926	1 518	113 278	4 966	4 644	5 795	128 683
	(597)	3 997	(816)	—	—	—	7 877	508	307	589	9 281
	—	—	—	—	—	—	5 880	437	307	589	7 213
	(597)	3 997	(816)	—	—	—	1 997	71	—	—	2 068
	—	—	—	—	—	—	(5 115)	(452)	(307)	—	(5 874)
	—	—	—	—	—	—	—	—	—	(589)	(589)
	—	—	—	—	—	—	—	—	—	1 209	1 209
	—	—	—	—	—	—	(873)	—	—	—	(873)
	—	—	—	—	—	—	133	—	—	—	133
	—	—	—	—	(543)	—	422	—	—	—	422
	—	—	—	—	(965)	—	—	—	—	—	—
	—	—	—	—	409	—	409	—	—	—	409
	—	—	—	—	13	—	13	—	—	—	13
	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	27	—	—	—	—	—	—	—
	—	—	—	—	—	(36)	—	—	—	—	—
	—	—	—	—	—	—	—	(14)	—	—	(14)
	—	—	—	—	—	—	(51)	(24)	—	—	(75)
	(1 225)	5 313	934	40	383	1 482	115 671	4 984	4 644	7 004	132 303
	26	26	26	26	26	26			27.1	27.2	

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm
Balance at the end of the previous reporting period	827 477	1 655	10 205	91 237	6 387	823
Impact of adopting new accounting standards at 1 January 2019						
IFRS 16	—	—	—	(243)	—	—
Adjusted balance at the beginning of the reporting period	827 477	1 655	10 205	90 994	6 387	823
Total comprehensive income	—	—	—	14 147	(945)	—
Profit for the period	—	—	—	14 256	—	—
Other comprehensive income	—	—	—	(109)	(945)	—
Dividends paid during the reporting period	—	—	—	(9 377)	—	—
Transfer with non-controlling interest holders	—	—	—	—	—	—
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	—	—	(400)	(62)	—	—
Elimination of the movement in treasury shares held by Group entities	1 151	2	223	—	—	—
Movement in share-based payment reserve	—	—	400	—	49	—
Transfer from share-based payment reserve	—	—	400	—	(400)	—
Value of employee services	—	—	—	—	470	—
Deferred tax	—	—	—	—	(21)	—
Movement in general credit risk reserve	—	—	—	(89)	89	89
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(6)	6	—
Share of post-tax results of associates and joint ventures	—	—	—	(221)	221	—
Balance at the end of the reporting period	828 628	1 657	10 428	95 386	5 807	912
Note	25	25	25			26

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group
2019

Fair value through other compre-hensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest – additional Tier 1 capital Rm	Total equity Rm
(80)	403	3 060	7	877	1 297	109 484	4 737	4 644	2 741	121 606
—	—	—	—	—	—	(243)	(13)	—	—	(256)
(80)	403	3 060	7	877	1 297	109 241	4 724	4 644	2 741	121 350
(548)	913	(1 310)	—	—	—	13 202	845	352	435	14 834
—	—	—	—	—	—	14 256	937	352	435	15 980
(548)	913	(1 310)	—	—	—	(1 054)	(92)	—	—	(1 146)
—	—	—	—	—	—	(9 377)	(613)	(352)	—	(10 342)
—	—	—	—	—	—	—	10	—	—	10
—	—	—	—	—	—	—	—	—	(435)	(435)
—	—	—	—	—	—	—	—	—	3 054	3 054
—	—	—	—	—	—	(462)	—	—	—	(462)
—	—	—	—	—	—	225	—	—	—	225
—	—	—	—	49	—	449	—	—	—	449
—	—	—	—	(400)	—	—	—	—	—	—
—	—	—	—	470	—	470	—	—	—	470
—	—	—	—	(21)	—	(21)	—	—	—	(21)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	6	—	—	—	—	—	—	—
—	—	—	—	—	221	—	—	—	—	—
(628)	1 316	1 750	13	926	1 518	113 278	4 966	4 644	5 795	128 683
26	26	26	26	26	26			27.1	27.2	

Consolidated statement of cash flows

for the reporting period ended 31 December

	Note	Group 2020 Rm	Restated 2019[1] Rm
Cash flow from operating activities			
Profit before tax		**10 368**	21 752
Adjustments of non-cash items			
Depreciation and amortisation (refer to note 38)		**5 959**	5 006
Other impairments (refer to note 39)		**431**	322
Share of post-tax results of associates and joint ventures		**36**	(221)
Other non-cash items included in profit and before tax		**104**	9
Dividends received from investing activities		**(290)**	(425)
Cash flow from operating activities before changes in operating assets and liabilities		**16 608**	26 443
Net increase in trading and hedging portfolio assets		**(58 427)**	(31 140)
Net increase in loans and advances to customers and banks		**(43 835)**	(91 486)
Net decrease/(increase) in other assets		**1 033**	(6 273)
Net (increase)/decrease in investment securities		**(40 286)**	15 912
Net increase in trading and hedging portfolio liabilities		**53 237**	7 622
Net decrease in insurance and investment contracts[1]		**(3 615)**	(1 385)
Net increase in amounts due to customers and banks		**110 289**	93 359
Net (decrease)/increase in other liabilities[2]		**(25 083)**	7 482
Income taxes paid		**(2 954)**	(6 825)
Net cash generated from operating activities		**6 967**	13 709
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale		**3 742**	103
Dividends received from investing activities		**290**	425
Investment in associates and joint ventures		**—**	(117)
Purchase of investment properties	12	**—**	(1)
Proceeds from disposal of investment properties		**1**	2
Purchase of property and equipment	13	**(1 913)**	(4 168)
Proceeds from disposal of properties and equipment		**138**	550
Purchase of intangible assets	14	**(2 976)**	(3 067)
Net cash utilised in investing activities		**(718)**	(6 273)
Cash flow from financing activities			
Sale of own shares		**133**	225
Acquisition of non-controlling interest		**(75)**	—
Purchase of Group shares in respect of equity-settled share-based payment schemes		**(873)**	(462)
Issue of additional Tier 1 capital		**1 209**	3 054
Proceeds from borrowed funds		**2 676**	1 580
Repayment of borrowed funds		**(3 733)**	(534)
Repayment of IFRS 16 lease liability		**(1 133)**	(1 117)
Distributions paid to additional Tier 1 capital holders		**(589)**	(435)
Dividends paid		**(5 874)**	(10 332)
Net cash utilised in financing activities		**(8 259)**	(8 021)
Net decrease in cash and cash equivalents		**(2 010)**	(585)
Cash and cash equivalents at the beginning of the reporting period		**18 288**	18 494
Effect of foreign exchange rate movements on cash and cash equivalents		**518**	379
Cash and cash equivalents at the end of the reporting period	54	**16 796**	18 288

As part of operating activities, interest income amounting to **R90 661m** (2019: R95 009m); and interest expense amounting to **R44 617m** (2019: R48 141m) were received and paid in cash respectively.

[1] For further details of the impact of the change refer to note 1.21.

[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 Group, however additional disclosures have been provided in note 58.

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 Group, but may impact future periods should the Group 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 Group 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 Group as it ultimately determines the impairment losses recognised from an accounting perspective. This section describes the processes and assumptions applied in estimating impairment under IFRS 9.

1. Summary of significant accounting policies (continued)

1.2 Process of determination, and use of estimates, assumptions and judgements (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 Group is exposed. Integral to this is the calculation of parameters which are used for credit risk management purposes and in the calculation of regulatory capital, economic capital and the determination of impairment in terms of IFRS.

The key credit parameters used in this process are:

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

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

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

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

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

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

1.2.1.2 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 Groups Models Committee (MC).

1.2.1.3 Default grades

The Group uses two types of PDs, namely:

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

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

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

1. 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 Group is described in note 1.7.4.

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

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

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

Exposures are classified within stage 3 if they are credit impaired.

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

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

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

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

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

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

Expert credit judgement may, in certain instances be applied to account for situations where known or expected risk factors have not been considered in the ECL assessment or modelling process, or where uncertain future events have not been incorporated into the modelled approach. Adjustments are intended to be short term measures and will not be used to incorporate any continuous risk factors. The Group has a robust policy framework which is applied in the estimation and approval of management adjustments refer to note 37.

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

Covid-19 considerations

- 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 144m 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 Group uses various quantitative, qualitative and backstop measures as indicators of a significant increase in credit risk. The thresholds applied for each portfolio are reviewed on a regular basis to ensure they remain appropriate. Where evidence of a significant increase in credit risk is not yet available at an individual instrument level, instruments that share similar risk characteristics are assessed on a collective basis.

Key drivers of a significant increase in credit risk include:

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

The impact of Covid-19 on PDs and LGDs, as well as the provision of payment relief, are considered to determine whether a SICR event, which would result in a shift in the exposure from stage 1 (12-month expected losses) to stage 2 (full lifetime expected losses), has taken place. Where payment relief has been provided, deferred or reduced payments could not be considered in determining whether a SICR has occurred. All available information is considered, including, whether a client is experiencing a short-term liquidity constraint, the respective industry and the anticipated arrears in a Covid-19 environment. 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 Group's definition of default, is the treatment of exposures which are classified as within forbearance. Forbearance is a concession granted to a counterparty for reasons of financial difficulty that would not otherwise be considered by the Group. The definition of forbearance is not limited to measures that give rise to an economic loss (that is, a reduction in the counterparty's financial obligation). Default within Wholesale and Retail is aligned with the regulatory definition, and therefore assets are classified as defaulted when:

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

In addition, within the Retail portfolios:

- 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 Group 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 Group considers factors such as historical information and experience about:

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

ECL estimation must reflect an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. Whilst economic activity across South Africa and the various ARO regions 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 Group'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 Group'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 Group 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 following table shows the key forecast assumptions for the three economic scenarios for four of our largest ARO markets at 31 December 2020:

	Baseline					Mild upside					Mild downside				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Botswana															
Real GDP (%)	(10.8)	7.3	5.5	4.3	4.2	(7.9)	5.9	4.8	4.7	4.6	(13.0)	7.3	3.6	2.6	2.5
CPI (%)	1.8	3.3	4.1	2.8	2.6	1.5	2.4	3.4	2.6	2.6	2.1	4.7	4.5	4.5	4.4
Average policy rate (%)	4.4	4.2	4.8	4.8	4.8	4.9	3.9	4.4	4.5	4.5	4.4	4.7	5.1	5.1	5.0
Ghana															
Real GDP (%)	1.5	4.1	4.9	5.3	5.2	2.6	5.0	5.5	5.8	5.6	(0.4)	3.6	4.8	3.9	4.0
CPI (%)	10.5	9.8	8.3	8.2	8.0	10.1	8.6	8.0	8.2	8.3	11.1	13.6	9.6	9.7	9.8
Average policy rate (%)	14.7	15.4	15.5	15.5	15.5	14.9	14.6	14.8	14.5	14.5	14.9	16.3	17.8	17.3	16.8
Kenya															
Real GDP (%)	1.6	3.9	5.0	5.4	5.5	2.7	5.1	5.9	6.0	6.1	(0.4)	3.5	3.3	2.8	2.7
CPI (%)	5.2	5.1	5.3	4.5	4.3	4.9	3.0	4.1	2.9	2.8	5.4	7.3	6.1	5.2	5.1
Average policy rate (%)	7.3	7.0	7.3	7.5	7.5	7.2	6.5	6.8	7.0	7.0	7.3	7.8	8.8	8.3	8.0
Mauritius															
Real GDP (%)	(9.6)	7.3	5.6	4.2	4.0	(5.6)	5.5	5.3	5.3	5.2	(11.6)	6.7	3.7	3.2	3.2
CPI (%)	2.1	2.2	2.4	3.4	3.6	2.0	0.8	1.7	2.8	2.9	2.8	4.6	4.4	4.1	4.1
Average policy rate (%)	2.3	2.2	2.9	3.1	3.3	2.3	1.8	2.2	2.4	2.8	2.3	3.3	4.9	5.3	5.1

1. Summary of significant accounting policies (continued)

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

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

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

The following table shows the key forecast assumptions for the three economic scenarios for four of our largest ARO markets 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
Botswana															
Real GDP (%)	4.2	3.7	4.2	4.3	4.3	7.9	8.7	4.8	4.3	4.3	(5.4)	0.4	5.1	5.8	4.9
CPI (%)	3.0	3.6	4.1	4.1	4.0	1.0	2.8	4.3	4.1	4.0	4.2	5.1	4.0	4.0	4.0
Average policy rate (%)	4.8	4.8	5.6	5.8	6.2	3.6	4.2	5.6	5.8	6.2	6.7	6.6	5.6	5.8	6.2
Ghana															
Real GDP (%)	7.1	6.6	6.5	6.5	6.5	9.7	9.7	9.2	8.6	8.0	0.8	3.5	5.8	5.3	5.1
CPI (%)	10.3	10.4	10.8	10.9	10.7	8.4	7.1	9.1	10.3	10.7	11.8	13.5	9.6	9.5	9.9
Average policy rate (%)	15.9	16.2	16.4	16.6	16.7	15.3	14.5	14.9	15.7	16.6	17.6	20.8	20.3	18.6	17.1
Kenya															
Real GDP (%)	5.5	6.2	6.3	6.4	6.5	6.2	7.1	7.1	7.3	6.6	3.9	4.1	4.0	5.4	6.7
CPI (%)	5.2	5.7	5.0	4.9	4.9	4.8	4.3	4.2	5.0	5.1	6.0	7.5	5.6	4.8	4.8
Average policy rate (%)	8.7	8.9	9.0	9.2	9.3	7.5	7.3	8.0	9.1	9.3	11.2	11.4	9.8	9.2	9.3
Mauritius															
Real GDP (%)	4.2	3.9	4.0	4.0	4.0	6.0	6.0	4.4	4.4	4.2	3.5	3.0	3.8	3.8	3.8
CPI (%)	2.3	3.9	2.8	2.8	2.8	2.0	3.0	2.7	2.8	2.8	2.7	4.7	2.9	2.8	2.8
Average policy rate (%)	3.5	4.1	4.1	4.1	4.1	3.0	3.0	3.3	3.6	3.9	3.6	4.3	4.3	4.2	4.2

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, 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 to sustain 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 supply poses another downside risk to the forecast. For the economy to grow sustainably faster the government will need to make progress upon 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.

ARO

The economic impact of the global pandemic has varied widely across ARO. At a general level, the economies of East Africa have generally been impacted less, as restrictions to economic activity were generally more modest, and as their more diversified economies benefitted from sharp moves in commodity prices. Those economies with less diversification, and particularly those where tourism and/or commodity exports are a focus, have been very hard hit. Our latest projections for 2020 point to a 0.1% contraction in real GDP for ARO. Only two countries within ARO appear certain to have escaped a full-year recession in 2020, namely Tanzania and Ghana. We expect growth to rebound 4.6% in 2021, though downside risks remain elevated as a result of the second wave of the pandemic that resulted in a further tightening of containment measures domestically and in key international markets.

Very large fiscal deficits and weak fiscal buffers raises the risk of unsustainable public debt trajectories for some countries in ARO. Zambia and Seychelles are in the process of restructuring their external debt, whilst a number of ARO economies have already received assistance from multilaterals for balance of payments and budget support and a number of ARO markets are in talks with the IMF for formal programmes.

Central banks were able to reduce policy rates during 2020 in response to the pandemic, but rates are assumed to have bottomed. As inflation gradually moves higher and country risk premia is generally expected to rise, we expect monetary policy tightening for the bulk of markets by late 2021 and possibly in 2022.

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 targeting 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 of 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.

ARO

Phased reopening is somewhat faster than under the baseline scenario and the resumption of economic activity therefore quicker. Countries with larger Covid-19 related slowdown will tend to show bigger improvements than baseline when compared to those countries for which the Covid-19 impact was relatively small. Fiscal consolidation is credible, helping to reduce borrowing costs and reducing the threat of fiscal crisis in those economies where public finance is most stretched. Reduced risk premia could see short-term interest rates fall modestly as compared the baseline forecast.

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.

ARO

The Covid-19 crisis persists longer than expected and the impact of containment measures more intense. Cross border tourism returns more slowly than in the baseline, and commodity exports remain under downward pressure for longer. Despite the weaker economic outlook policy there is no room for further fiscal or monetary policy support. Rather the larger fiscal deficits that result from revenue shortfalls inducing heightened fears of debt sustainability in a number of ARO countries, increasing risk premia and pushing central banks into raising short-term interest rates earlier and faster than in the baseline scenario.

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

Capitalisation

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

Amortisation

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

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

Impairment

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

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

The Group uses approved projected cash flow forecasts for a period of 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 14 includes details of the amount recognised by the Group as goodwill.

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

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values should be first calculated with reference to observable inputs where these are available in the market. Only where these are unavailable should fair value techniques be applied which employ less observable inputs. Unobservable inputs may only be used where observable inputs or less observable inputs are unavailable. IFRS 13 *Fair Value Measurement* (IFRS 13) does not mandate the use of a particular valuation technique but rather sets out a principle requiring an entity to determine a valuation technique that is appropriate in the circumstances for which sufficient data is available and for which the use of relevant observable inputs can be maximised. Where management is required to place greater reliance on unobservable inputs, the fair values may be more sensitive to assumption changes and different valuation methodologies that may be applied. For this reason, there is a direct correlation between the extent of disclosures required by IFRS 13 and the degree to which data applied in the valuation is unobservable.

Valuation inputs

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

- **Quoted market prices – Level 1**

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

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

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

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

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

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

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

Investment properties

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

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)

Judgemental inputs on valuation of principal instruments

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

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

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

- **Equity instruments**

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

- **Derivatives**

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

- **Loans and advances**

  The fair value of loans and advances 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.

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

- **Bid-offer valuation adjustments**

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

- **Uncollateralised derivative adjustments**

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

Fair value adjustments

- **Model valuation adjustments**

  Valuation models are reviewed under the Group's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependent on the size of 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/liabilities	Valuation techniques applied	Significant observable inputs
Cash, cash balances and balances with central banks	Discounted cash flow models	Underlying price of market traded instruments and/or interest rates
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 and investments linked to investment contracts	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	Range of unobservable inputs applied 2020	Range of unobservable inputs applied 2019
Loans and advances to banks and customers	Discounted cash flow and/or yield for debt instruments	Credit spreads	**0.07% to 3.21%**	0.1% to 2.9%
Investment securities and investments linked to investment contracts	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Risk adjusted yield curves, future earnings, marketability discounts and/or competitor multiples	**7.75% to 8%**	7.75% to 8%
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	**0.2% – 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% – 26.5%** **15% – 93%** **60% – 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 Group Limited's funding spreads (greater than 5 years)	**1.075% – 1.550%**	1.13% to 1.7%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	**1.075% – 1.550%**	1.13% to 1.7%
Investment properties	Discounted cash flow models	Estimates of the periods in which rental units will be disposed Annual selling price Annual rental escalations Income capitalisation rates Risk adjusted discount rates	**1 to 6 years** **6% to 8%** **n/a** **7.75% to 8%** **10% to 15%**	1 to 6 years 6% 6% 7.5% to 8% 10% to 15%

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

For debt securities in issue held at amortised cost, a further significant input would be the underlying price of the market traded instrument, refer to note 62.7.

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

Definition of a structured entity (SE)

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

Assessment of agent versus principal

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

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

Assessment of sponsored entities

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

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

Refer to notes 50 and 51.

1.2.5 Post-retirement benefits

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

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

Exposure to actuarial risks

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

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

Investment risk

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

Inflation/pension increase risk

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

Longevity risk

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

Salary risk

An increase in the salary of the plan participants will increase the plan's liability. This risk has been limited with the closure of a number of the defined benefit plans and the introduction of defined contribution plans. There are now a limited number of active defined benefit members. Although the Absa Pension Fund has in its entirety been disclosed as a defined benefit plan, the defined contribution portion thereof does not retain salary risk.

1. Summary of significant accounting policies (continued)

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

1.2.5 Post-retirement benefits (continued)

Measurement risk

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

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

Regulatory risk

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

Refer to note 45 for the specific assumptions used and carrying amounts of post-retirement benefits.

1.2.6 Provisions

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

Refer to note 19 for details of provisions recognised and refer to note 53 for details of contingencies disclosed.

1.2.7 Income taxes

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

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

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

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

1.2.8 Share-based payments

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

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

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

Note 55 includes details of the Group's share awards. Refer to note 18 for the carrying amount of liabilities arising from cash-settled arrangements.

1. Summary of significant accounting policies (continued)

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

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

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

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

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

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Group makes estimates and assumptions to provide appropriate levels of claims provision and provision for unexpired risks. Estimates and judgements are regularly adjusted as changes in facts and experience are identified. For more details on the liability arising from claims made under short-term insurance contracts, refer to note 23.

1.2.10 Liabilities arising from claims made under life insurance contracts

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

The value of the insurance liability is determined using assumptions regarding future mortality, morbidity, discontinuance rates, policyholders' reasonable benefit expectations, guaranteed benefits and expenses which all equal the best estimate assumptions used in determining the liabilities. These assumptions are based on recent experience investigations and retrenchments. The discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. For more details on the life insurance contract liability, refer to note 23.

The Group provides short-term and long-term insurance in South Africa and in Absa Regional Operations. The Group has assessed the carrying value of these insurance liabilities as at 31 December 2020 which were reviewed by independent actuaries.

Establishing short-term insurance liabilities is an inherently uncertain process and, therefore, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. Estimates and judgements are regularly adjusted as changes in facts and experience are identified. No material changes in these estimates and assumptions have been noted at 31 December 2020 when compared to 31 December 2019.

Similarly, the value of the life insurance liability is determined using assumptions regarding future mortality, morbidity, discontinuance rates, policyholders' reasonable benefit expectations, and guaranteed benefits and expenses. Reserves were strengthened by R34m in response to the pandemic as a result of an increase in the expected retrenchment incidence rate. No other material assumption changes were noted at 31 December 2020 when compared to 31 December 2019.

1.2.11 Offsetting financial assets and financial liabilities

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

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

The above are considered to ensure the Group's financial assets and liabilities are presented accurately in accordance with the characteristics of the items in question as resources or obligations of the entity. Refer to note 49.

1.3 Consolidated financial statements of the Group

1.3.1 Subsidiaries

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

1. Summary of significant accounting policies (continued)

1.3 Consolidated financial statements of the Group (continued)

1.3.1 Subsidiaries (continued)

The Group 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 Group in reaching this decision are as follows:

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

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

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

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

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

1.3.2 Investments in associates and joint ventures

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

The Group's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each reporting period by the Group's share of the post-acquisition profit (or loss). 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 Group. Such interests include but are not limited to holdings of debt or equity securities, derivatives that transfer financial risks to the Group, and in some cases financial guarantees and investment management fee agreements. At market, plain-vanilla interest rate swaps and derivatives that are determined to introduce risk to a structured entity are not considered to be an interest in an entity.

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

1.3.4 Common control

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

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

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

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

1.4 Segment reporting

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

1. Summary of significant accounting policies (continued)

1.5 Foreign currencies

1.5.1 Foreign currency translations

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

Prior to consolidation (or equity accounting) the assets and liabilities of non-Rand operations are translated at the closing rate and items of income, expense and 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 Group 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 held. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

1.7 Financial instruments

1.7.1 Initial recognition

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

1.7.2 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.

1.7.3 Classification and measurement of financial instruments

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

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

The classification and subsequent measurement of financial assets depends on:

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

Business model assessment

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.3 Classification and measurement of financial instruments (continued)

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

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

1.7.3.1 Debt instruments

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

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

1.7.3.2 Equity instruments

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

1.7.3.3 Financial liabilities

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

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.3 Classification and measurement of financial instruments (continued)

1.7.3.4 Derivatives

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

1.7.4 Expected credit losses on financial assets

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

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

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

Three-stage approach to ECL

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

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

The stage allocation is required to be performed as follows:

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.4 Expected credit losses on financial assets (continued)

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 month ECL and lifetime losses ECL) as a function of the EAD; PD and LGD. These terms are interpreted as follows per the requirements of IFRS 9:

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

Lifetime of financial instruments

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

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

Forward-looking information

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

Write-off

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

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

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

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

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

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.5 Derecognition of financial assets and financial liabilities

1.7.5.1 Derecognition of financial assets

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

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

1.7.5.2 Derecognition of financial liabilities

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

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

1.7.6 Modification of financial assets and financial liabilities

1.7.6.1 Modification of financial assets

Modifications to financial assets are assessed as follows:

A loan modification is a permanent change to one or more of the terms of the loan. Enforcing or adopting terms that were present in the original terms of the facility is not a modification. The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depend on whether the modification is done for commercial reasons or because of financial difficulty of the borrower.

- Contractual modifications on commercial terms are treated as a new transaction resulting in derecognition of the original financial asset and the recognition of a 'new' financial asset. Any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in profit or loss.
- When the Group modifies the contractual conditions due to financial difficulties of the borrower, the asset is not derecognised unless the terms of the contract are substantively changed (such as the inclusion of an equity participation or a substantial change in counterparty). If the asset is not substantially modified, then the gross carrying amount of the financial asset is recalculated to be the present value of the modified cash flows discounted at the original EIR and any gain or loss is recognised in profit or loss as part of the total impairment loss.

1.7.6.2 Modification of financial liabilities

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

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

1.7.7 Offsetting of financial assets and financial liabilities

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

1.7.8 Hedge accounting

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

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

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.8 Hedge accounting (continued)

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

Fair value hedge accounting

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

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

Cash flow hedge accounting

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

Hedges of a net investment in a foreign operation

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

1.7.9 Equity instruments

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

1.7.10 Compound financial instruments

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

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

1.7.11 Subordinated debt

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

1.7.12 Repurchase and reverse repurchase agreements

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

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

Consideration received (or cash collateral provided) is accounted for as a financial liability.

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.13 Loan commitments

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

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

1.7.14 Financial guarantee contracts

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

1.8 Share capital

1.8.1 Ordinary share capital

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

1.8.2 Preference share capital

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

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

1.9 Revenue recognition

1.9.1 Net interest income

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

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

Impact of IFRS 9 ECL on interest recognition

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

1.9.2 Net trading income

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

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

1. 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 Group is acting as an agent, amounts collected on behalf of the principal are not income. Only the net commission retained by the Group is, in this case, recognised as income.

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

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

1.10 Classification of insurance and investment contracts

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

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

1.10.1 Insurance contracts

1.10.1.1 Short-term insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

Liability adequacy test

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

If these estimates show that the carrying amount of its insurance liabilities (less related acquisition costs) exceeds the estimated future cash flows, the deficiency is recognised in profit or loss by setting up a provision in the statement of financial position. Refer to note 62.

Deferred policy acquisition costs

Acquisition costs comprise commissions and other variable costs directly connected with the acquisition or renewal of short-term insurance contracts. The deferred acquisition costs represent the portion of acquisition costs incurred.

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

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

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

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

1. Summary of significant accounting policies (continued)

1.10 Classification of insurance and investment contracts (continued)

1.10.1 Insurance contracts (continued)

1.10.1.1 Short-term insurance contracts (continued)

Deferred reinsurance acquisition revenues

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

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

Salvage and subrogation reimbursements

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

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

1.10.1.2 Life insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

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

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

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

Benefits are recorded as an expense when they are incurred.

Valuation methodology

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

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

Liability adequacy test

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

1. Summary of significant accounting policies (continued)

1.10 Classification of insurance and investment contracts (continued)

1.10.2 Investment contracts (continued)

1.10.1.3 Reinsurance contracts held

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

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

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

Receivables and payables related to insurance and investment contracts

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

Policy on release of profits on the valuation basis

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

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

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

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

1.10.1.4 Value of business acquired

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

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

1.10.2 Investment contracts

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

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

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

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

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

Accounting policies

for the reporting period ended 31 December

1. Summary of significant accounting policies (continued)

1.11 Commodities

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

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

1.12 Intangible assets

1.12.1 Goodwill

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

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

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

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

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

1.12.2 Intangible assets other than goodwill

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

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

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

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

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

1. Summary of significant accounting policies (continued)

1.13 Property and equipment

1.13.1 Property and equipment not subject to lease agreements

Property and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset. Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line basis over their estimated useful 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 Group uses the following annual rates in calculating depreciation:

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

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

1.13.2 Property and equipment subject to lease agreements

1.13.2.1 Property and equipment subject to lease agreements

As lessee

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

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

As lessor

Finance leases

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

Op***erating 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 Group is the lessor, lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Group recognises leased assets on the statement of financial position within property and equipment.

1.13.3 Investment properties

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

1.14 Repossessed properties

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

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

1. Summary of significant accounting policies (continued)

1.15 Non-current assets held for sale

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

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

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

1.16 Cash and cash equivalents

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

1.17 Provisions, contingent liabilities and commitments

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

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

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

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

1.18 Employee benefits

1.18.1 Post-retirement benefits

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

Defined contribution schemes

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

Defined benefit schemes

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

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

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

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

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

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

Post-employment medical aid plans

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

1. Summary of significant accounting policies (continued)

1.18 Employee benefits (continued)

1.18.2 Staff costs

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

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

1.18.3 Share-based payments

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

Employee services settled in equity instruments

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

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

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

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

Employee services settled in cash

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

1.19 Tax

1.19.1 Current tax

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

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

1.19.2 Deferred tax

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

1.19.3 Dividends withholding tax

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

1.19.4 Value added tax (VAT)

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

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

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

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

1.20 Treasury shares

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

1. Summary of significant accounting policies (continued)

1.21 Change in accounting policy – statement of cash flows

During the current reporting period, the Group 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 Group, 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 effects the presentation of the Group's cash flows from operating activities within the statement of cash flows.

As part of the implementation of the cash flow statement on the indirect basis, the cash movements relating to investments linked to investment contracts have been moved from investing activities to operating activities as this relates to a principal revenue-producing activity. This has resulted in a reclassification of the 'net decrease in investments linked to investment contracts' cash flows of R1 157m (2019) from investing activities to the movement in 'other assets' in operating activities.

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	95 009
Interest paid	(48 141)
Fees and commission received	26 759
Fees and commission paid	(3 153)
Insurance premiums and claims	2 540
Net trading and other income/(expenses)	6 519
Cash payments to employees and suppliers	(44 476)
Dividends received from banking and trading activities	131
Income taxes paid	(6 825)
Cash flow from operating activities before changes in operating assets and liabilities	28 363
Net (increase)/decrease in trading and hedging portfolio assets	(31 166)
Net (increase) in loans and advances to customers	(89 564)
Net (increase)/decrease in other assets	(13 357)
Net decrease/(increase) in investment securities	15 911
Net increase/(decrease) in trading and hedging portfolio liabilities	7 721
Net increase/(decrease) in insurance and investment contracts	138
Net increase in amounts due to customers and banks	90 347
Net increase in other liabilities	6 473
Net cash generated from operating activities	**14 866**
Cash flow from investing activities	
Proceeds from disposal of non-current assets held for sale	103
Net decrease in investments linked to investment contracts	(1 157)
Dividends received from investments in associates and joint ventures	425
Investment in associates and joint ventures	(117)
Purchase of investment properties	(1)
Proceeds from disposal of investment properties	2
Purchase of property and equipment	(4 168)
Proceeds from disposal of properties and equipment	550
Purchase of intangible assets	(3 067)
Net cash utilised in investing activities	**(7 430)**
Cash flow from financing activities	
Sale/(Purchase) of own shares	225
Purchase of Group shares in respect of equity-settled share-based payment schemes	(462)
Issue of additional Tier 1 capital	3 054
Proceeds from borrowed funds	1 580
Repayment of borrowed funds	(534)
IFRS 16 lease liability	(1 117)
Distributions paid to additional Tier 1 capital holders	(435)
Dividends paid	(10 332)
Net cash utilised in financing activities	**(8 021)**
Net increase in cash and cash equivalents	(585)
Cash and cash equivalents at the beginning of the reporting period	18 494
Effect of foreign exchange rate movements on cash and cash equivalents	379
Cash and cash equivalents at the end of the reporting period	**18 288**

1. Summary of significant accounting policies (continued)

1.21 New standards and interpretations not yet adopted

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

1.21.1 IFRS 17 – Insurance Contracts

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

IFRS 17 introduces a general measurement model that measures groups of insurance contracts based on fulfilment cash flows (comprising probability-weighted current estimates of future cash flows and an explicit entity specific adjustment for risk) and a contractual service margin (effectively representing the unearned profit). As a result, no profit may be recognised at inception of an insurance contract, and profit is rather recognised over the coverage period. Losses are however immediately recognised on initial recognition for contracts where fulfilment cash flows are a net outflow.

The premium allocation approach is a simplified measurement model that may be applied when certain conditions are fulfilled. Under the premium allocation approach, the amount relating to remaining service is measured by allocating the premium over the coverage period. The general measurement model has specific modifications applicable to accounting for reinsurance contracts, direct participating contracts and investment contracts with discretionary participation features.

On 25 June 2020, the International Accounting Standards Board issued amendments to IFRS 17 resulting from the Exposure Draft that was published on 26 June 2019 and subsequent redeliberations based on feedback received. As a result, the effective date of IFRS 17 has been deferred to annual reporting periods beginning on or after 1 January 2023.

During 2018, the Group's joint insurance programme focused on interpreting the requirements of the new accounting standard, solution design, model prototyping as well as the commencement of an impact assessment. During 2019, the solution design was approved by the relevant governance forums and development activities commenced on the big data framework which provides a single source of reconciled insurance data to support the required system and business processes changes. Unpacking of the new concepts within the accounting standard have largely been concluded to support the base case methodologies and interpretations which are being used in the transition and impact assessments.

During 2020, development activities continued and the new data process that supports the new IFRS 17 standard was established. During 2021, the actuarial software as well as the financial process will be upgraded to ensure compliance. The programme plans for a full year of parallel runs in 2022 to ensure the end to end solution inclusive of the transition and impact assessment is fully understood, quantified and implemented ahead of the compliance date of 1 January 2023.

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

1.21.2 Amendments 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.

1.21.3 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.

1.21.4 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. Summary of significant accounting policies (continued)

1.21 New standards and interpretations not yet adopted (continued)

1.21.5 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.

1.22.6 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.

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

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

	Group 2020 Rm	Group 2019 Rm
2. Cash, cash balances and balances with central banks		
Balances with other central banks	**13 450**	13 180
Balances with the SARB	**25 460**	16 587
Coins and bank notes	**14 403**	14 033
Money market assets	**7 371**	8 736
Gross cash, cash balances and balances with central banks	**60 684**	52 536
Impairment losses	**(2)**	(4)
	60 682	52 532

Included above are money market assets of **R1 085m** (2019: R2 130m) which are linked to investment contracts (refer to note 22.1).

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

	Group 2020 Rm	Group 2019 Rm
3. Investment securities		
Government bonds	**65 985**	36 261
Listed equity instruments	**2 406**	2 714
Money market assets	**—**	1
Other debt securities	**58 298**	47 785
Treasury bills	**23 949**	27 419
Unlisted equity and hybrid instruments	**2 873**	2 567
Gross investment securities	**153 511**	116 747
Impairment losses	**(7)**	(0)
	153 504	116 747

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 **R221m** (2019: R65m) has been recognised on investment securities at FVOCI.

	Group 2020 Rm	Group 2019 Rm
4. Loans and advances to banks		
Gross loans and advances to banks	**84 601**	59 769
Impairment losses	**(63)**	(24)
	84 538	59 745

Included above are reverse repurchase agreements of **R33 569m** (2019: R26 974m) and other collateralised loans of **R59m** (2019: R372m) relating to securities borrowed.

	Group 2020 Rm	Group 2019 Rm
5. Trading and hedging portfolio assets		
Commodities	**1 082**	668
Debt instruments	**67 217**	53 365
Derivative assets (refer to note 58.3 and 58.4)	**98 852**	57 582
Commodity derivatives	**627**	302
Credit derivatives	**159**	155
Equity derivatives	**4 997**	5 544
Foreign exchange derivatives	**23 244**	13 051
Interest rate derivatives	**69 825**	38 530
Equity instruments	**35 243**	30 775
Money market assets	**11 127**	15 958
Total trading portfolio assets	**213 521**	158 348
Hedging portfolio assets (refer to note 58.3)	**11 000**	3 358
	224 521	161 706

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.

	Group 2020 Rm	Group 2019 Rm
6. Other assets		
Accounts receivable and prepayments	**11 795**	12 613
Deferred costs	**238**	237
Deferred acquisition costs (refer to note 6.1)	**50**	49
Other deferred costs	**188**	188
Inventories	**248**	311
Cost	**387**	311
Write-down	**(139)**	—
Retirement benefit fund surplus (refer to note 45)	**405**	473
Settlement accounts	**7 800**	16 750
Gross other assets	**20 486**	30 384
Impairment losses	**(69)**	(41)
	20 417	30 343
6.1 Deferred acquisition costs		
Balance at the beginning of the reporting period	**49**	47
Additions	**262**	261
Disposals/releases/amortisation charge	**(259)**	(261)
Foreign exchange movement	**(2)**	2
Balance at the end of the reporting period	**50**	49

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

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

	Group 2020 Rm	Group 2019 Rm
Non-current assets held for sale		
Balance at the beginning of the reporting period	**3 992**	239
Disposals	**(3 831)**	(84)
Impairment of an NCAHFS (refer to note 39)	**(33)**	—
Transfer from cash, cash balances and balances with central banks	**16**	—
Transfer from loans and advances to customers	**—**	3 829
Transfer from property and equipment (refer to note 13)	**132**	21
Movement in loans and advances to banks	**(30)**	5
Movement in other assets	**(26)**	(4)
Movement in investment securities	**(9)**	1
Movement in reinsurance assets	**(61)**	(15)
Movement in property and equipment	**(2)**	(1)
Movement in deferred tax assets	**(13)**	1
Movement in foreign exchange rates	**9**	—
Balance at the end of the reporting period	**144**	3 992
Non-current liabilities held for sale		
Balance at the beginning of the reporting period	**112**	124
Movement in policyholder liabilities under insurance contracts	**(85)**	(13)
Movement in other liabilities	**(33)**	1
Movement in foreign exchange rates	**6**	—
Balance at the end of the reporting period	**—**	112

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

- RBB South Africa disposed of the Edcon loan book with a carrying amount of **R3 829m**.
- ARO disposed of property and equipment with a carrying amount of **R2m**.
- 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.
- First Assurance Tanzania was disposed of in the current year (refer to note 56). The movements in Head Office, Treasury and other operations in South Africa that relate to the disposal are: loans and advances to banks **(decrease of R30m)**, other assets **(decrease of R26m)**, investment securities **(decrease of R9m)**, reinsurance assets **(decrease of R61m)**, property and equipment **(decrease of R2m)**, deferred tax assets **(decrease of R13m)**, policyholder liabilities under insurance contracts **(decrease of R85m)** and other liabilities **(decrease of R33m)**. A **R16m** impairment was recognised arising from the disposal of First Assurance for **Rnil** consideration.
- Foreign exchange movements resulted in a **R9m** and **R6m** increase in assets and liabilities, respectively.

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

- RBB South Africa disposed of investment property with a carrying amount of R32m.
- RBB South Africa transferred the Edcon loan book with a carrying amount of R3 829m to non-current assets held for sale.
- ARO disposed of property and equipment with a carrying amount of R2m.
- 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.
- The following movements occurred on the underlying assets and liabilities of a non-core subsidiary held for sale in Head Office, Treasury and other operations in South Africa: loans and advances to banks (increase of R5m), deferred tax assets (increase of R1m), investment securities (increase of R1m), reinsurance assets (decrease of R15m), property and equipment (decrease of R1m), other assets (decrease of R4m), other liabilities (increase of R1m) and policyholder liabilities under insurance contracts (decrease of R13m).

	Group 2020 Rm	Group 2019 Rm
8. Loans and advances to customers		
Corporate overdrafts and specialised finance loans	**13 778**	11 920
Credit cards	**44 759**	43 559
Foreign currency loans	**40 168**	39 536
Instalment credit agreements	**101 452**	91 667
Finance lease receivables (refer to note 8.1)	**3 892**	4 467
Loans to associates and joint ventures (refer to note 50.4)	**26 869**	28 490
Micro loans	**4 241**	4 595
Mortgages	**332 361**	315 472
Other advances	**17 164**	15 280
Overdrafts	**52 234**	59 336
Overnight finance	**21 437**	20 179
Personal and term loans	**150 139**	145 551
Preference shares	**25 089**	20 975
Reverse repurchase agreements (Carries)	**37 001**	43 222
Wholesale overdrafts	**103 018**	102 466
Gross loans and advances to customers	**973 602**	946 715
Impairment losses	**(43 633)**	(29 737)
	929 969	916 978

The Group has securitised certain loans and advances to customers, the total value of these securitised assets is **R6 545m** (2019: R6 056m). Included in the 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, collateralised loans and specialised products in ARO.

Included in both gross loans and advances to customers, and in the total allowance for impairment losses, is accrued interest in suspense of **R5 622m** (2019: R4 485m).

	Group 2020 Gross advances Rm	2020 Unearned finance charges Rm	2020 Net advances Rm	2019 Gross advances Rm	2019 Unearned finance charges Rm	2019 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 Group enters into finance lease contracts in respect of motor vehicles, equipment and medical equipment.

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

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

Unguaranteed residual values of finance lease receivables in the reporting period is **R1 972m** (2019: R2 169m).

	Group 2020 Rm	Group 2019 Rm
9. Reinsurance assets		
Insurance contracts (refer to note 23)		
Life insurance contracts	141	162
Short-term insurance contracts	539	724
	680	886

Reinsurance assets relate to the portion of the insurance contract liability for which a claim event has not yet occurred, and for which the Group is entitled to recover an amount under its reinsurance arrangements when such a claim event occurs. An amount of **R2.5m** (2019: R32m) is included as part of the 'Accounts receivables and prepayments line' in 'Other assets' (refer to note 6) which relates to the amount receivable from reinsurers for claims made against them.

	Group 2020 Rm	Group 2019 Rm
10. Investments linked to investment contracts		
Debt instruments	1 705	816
Derivative instruments (refer to note 58.3)	2	6
Listed equity instruments	17 642	17 336
Money market instruments	1 306	1 803
Unlisted equity and hybrid instruments	618	81
	21 273	20 042

	Group 2020 Rm	Group 2019 Rm
11. Investments in associates and joint ventures		
Unlisted investments	1 601	1 648
11.1 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 39)	(11)	—
Balance at the end of the reporting period	1 601	1 648

11.2 Associates and joint ventures

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

Group share	Associates 2020 Rm	Associates 2019 Rm	Joint ventures 2020 Rm	Joint ventures 2019 Rm
Post-tax profit/(losses) from continuing operations	25	25	(61)	196
Total comprehensive income	25	25	(61)	196

	Group 2020 Rm	Group 2019 Rm

11. Investments in associates and joint ventures (continued)

11.3 Analysis of carrying value of associates and joint ventures accounted for under the equity method

	2020 Rm	2019 Rm
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

11.4 Carrying value of associates and joint ventures

	Group 2020 Associates Rm	2020 Joint ventures Rm	2020 Total Rm	2019 Associates Rm	2019 Joint ventures Rm	2019 Total Rm
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 investment in associates and joint ventures designated at fair value through profit or loss are presented within listed equity instruments under 'Investment securities' (refer to note 3).

Refer to note 50.4 for additional disclosure of the Group's investments in associates and joint ventures.

12. Investment properties

	Group 2020 Rm	Group 2019 Rm
Balance at the beginning of the reporting period	513	508
Additions	—	1
Change in fair value (refer to note 36)	(5)	12
Disposals/Transfers	(1)	(2)
Foreign exchange movements	(11)	(6)
Balance at the end of the reporting period	496	513

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

	Group					
	2020			2019		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying amount Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying amount Rm
13. Property and equipment						
Computer equipment	8 763	(6 176)	2 587	9 025	(5 524)	3 501
Freehold property	6 674	(945)	5 729	7 264	(1 022)	6 242
Furniture and other equipment	12 367	(6 996)	5 371	11 918	(6 431)	5 487
Leasehold property	431	(310)	121	523	(387)	136
Motor vehicles	83	(59)	24	100	(67)	33
Right-of-use assets (refer to note 44)	5 449	(2 187)	3 262	4 326	(1 105)	3 221
	33 767	(16 673)	17 094	33 156	(14 536)	18 620

	Group									
	2020									
Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfers[1] Rm	Transfer (to/from intangible assets Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depre-ciation Rm	Impair-ments charge Rm	Closing balance Rm
Computer equipment	3 501	621	(8)	29	33	—	(11)	(1 422)	(156)	2 587
Freehold property	6 242	719	(121)	(746)	—	(124)	(148)	(72)	(21)	5 729
Furniture and other equipment	5 487	565	(12)	717	—	(8)	(64)	(1 268)	(46)	5 371
Leasehold property	136	3	(1)	—	8	—	(3)	(22)	—	121
Motor vehicles	33	5	(1)	—	—	—	—	(13)	—	24
Right-of-use assets	3 221	1 277	(60)	—	—	—	(31)	(1 145)	—	3 262
	18 620	3 190	(203)	—	41	(132)	(257)	(3 942)	(223)	17 094
Note		44			14	7		38	39	

[1] An amount of **R746m** (2019: R741m) of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' **R29m** (2019: R31m), 'Furniture and other equipment' **R717m** (2019: R580m) and 'Leasehold property' **R0m** (2019: R130m) in accordance with the nature of these assets.

13. Property and equipment (continued)

Reconciliation of property and equipment	2019									
	Opening balance Rm	Additions Rm	Disposals Rm	Transfers[1] Rm	Transfer (to)/from intangible assets Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depre-ciation Rm	Impair-ments charge Rm	Closing balance Rm
Computer equipment	3 689	1 204	(85)	31	—	—	(29)	(1 226)	(83)	3 501
Freehold property	6 197	1 145	(106)	(741)	(25)	(21)	(72)	(71)	(64)	6 242
Furniture and other equipment	5 684	611	(126)	580	—	—	(15)	(1 196)	(51)	5 487
Leasehold property	222	—	(188)	130	—	—	(4)	(24)	—	136
Motor vehicles	43	14	(5)	—	—	—	(4)	(15)	—	33
Right-of-use assets[2]	—	4 531	(13)	—	—	—	(181)	(1 106)	(10)	3 221
	15 835	7 505	(523)	—	(25)	(21)	(305)	(3 638)	(208)	18 620
Note		44			14	7		38	39	

Included in the above additions is **R679m** (2019: R966m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction.

R746m (2019: R741m) of assets under construction 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) was transferred to non-current assets held for sale due to a change in the use of the assets.

	Group					
	2020			2019		
	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying amount Rm	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying amount Rm
14. Goodwill and intangible assets						
Computer software development costs	**15 181**	**(5 106)**	**10 075**	13 657	(4 352)	9 305
Customer lists and relationships	**255**	**(225)**	**30**	667	(631)	36
Goodwill	**1 053**	**(197)**	**856**	1 052	(197)	855
Other	**195**	**(106)**	**89**	200	(96)	104
	16 684	**(5 634)**	**11 050**	15 576	(5 276)	10 300

[1] An amount of **R746m** (2019: R741m) of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' **R29m** (2019: R31m), 'Furniture and other equipment' **R717m** (2019: R580m) and 'Leasehold property' **R0m** (2019: R130m) in accordance with the nature of these assets.

[2] Included in additions is an amount of R2 713m relating to the take on balance of the right-of-use asset from the adoption of IFRS 16.

14. Goodwill and intangible assets (continued)

Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Amor-tisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
	Group								
	2020								
Computer software development costs	9 305	2 976	35	(12)	2	(1 992)	(195)	(44)	10 075
Customer lists and relationships	36	—	—	—	—	(6)	—	—	30
Goodwill	855	—	—	—	3	—	(2)	—	856
Other	104	—	—	—	1	(19)	—	3	89
	10 300	2 976	35	(12)	6	(2 017)	(197)	(41)	11 050
Note			56.1			38	39	13	

Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Amor-tisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
	2019								
Computer software development costs	7 651	3 113	—	—	(20)	(1 342)	(122)	25	9 305
Customer lists and relationships	44	—	—	—	—	(8)	—	—	36
Goodwill	855	—	—	—	—	—	—	—	855
Other	122	—	—	—	—	(18)	—	—	104
	8 672	3 113	—	—	(20)	(1 368)	(122)	25	10 300
Note			56.2			38	39	13	

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 292m) relating to assets under construction.

R3 788m (2019: R3 147m) 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.

	Group	
	2020 Rm	2019 Rm
Composition of goodwill		
Absa Asset Management Proprietary Limited	**30**	30
Absa Bank Ghana Limited	**63**	65
Absa Bank Mauritius Limited	**43**	41
Absa Instant Life Proprietary Limited	**20**	20
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
First Assurance Company Limited	**94**	98
Global Alliance Seguros S.A.	**24**	24
Nile Bank Limited	**106**	101
Woolworths Financial Services Proprietary Limited	**364**	364
	856	855

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: no impairment loss).

	Group 2020 Rm	Group 2019 Rm
15. Deferred tax		
15.1 Reconciliation of net deferred tax (asset)/liability		
Balance at the beginning of the reporting period	**(3 214)**	(3 071)
Effects of adopting IFRS 16	**—**	(85)
Deferred tax on amounts charged directly to other comprehensive income and equity	**1 201**	91
Credit to profit or loss (refer to note 41)	**(1 806)**	(246)
Tax effect of translation and other differences	**120**	97
Balance at the end of the reporting period	**(3 699)**	(3 214)

15.2 Deferred tax (asset)/liability

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

	Group 2020 Rm	Group 2019 Rm
Deferred tax liability	**587**	227
Prepayments, accruals and other provisions	**613**	73
Capital allowances	**—**	9
Cash flow hedge and financial assets at fair value through other comprehensive income	**(21)**	(1)
Fair value adjustments on financial instruments	**—**	143
Impairment of loans and advances	**(5)**	4
Retirement benefit asset and liabilities	**—**	(1)
Deferred tax asset	**(4 286)**	(3 441)
Assessed losses	**(189)**	(72)
Fair value adjustments on financial instruments	**(223)**	(334)
Cash flow hedge and financial assets at fair value through other comprehensive income	**1 497**	210
Impairment of loans and advances	**(4 172)**	(2 861)
Lease and rental debtor allowances	**(111)**	(272)
Prepayments, accruals and other provisions	**(1 815)**	(1 101)
Own credit risk	**(112)**	(75)
Capital allowances	**939**	1 080
Property allowances	**234**	365
Retirement benefit assets	**(70)**	54
Share-based payments	**(264)**	(435)
Net deferred tax (asset)/liability	**(3 699)**	(3 214)

15.3 Future tax relief

The Group has estimated tax losses of **R752m** (2019: R779m) which are available for set-off against future taxable income. Deferred tax assets of **R53m** (2019: R45m) relating to tax losses carried forward were recognised. The assessed losses in Absa Bank Mozambique, SA expire after five years of origination. The Group has actual losses that have not been recognised of **R563m** (2019: R618m).

	Group 2020 Rm	Group 2019 Rm
16. Deposits from banks		
Call deposits	**16 491**	11 628
Fixed deposits	**7 877**	18 579
Foreign currency deposits	**24 249**	33 317
Notice deposits	**—**	2 453
Other	**8 662**	8 508
Repurchase agreements	**38 827**	42 938
	96 106	117 423

17. Trading and hedging portfolio liabilities

	Group 2020 Rm	Group 2019 Rm
Derivative liabilities (refer to note 58.3 and 58.4)	**87 928**	46 023
Commodity derivatives	**765**	475
Credit derivatives	**324**	206
Equity derivatives	**3 152**	1 882
Foreign exchange derivatives	**20 895**	12 249
Interest rate derivatives	**62 792**	31 211
Short positions	**21 048**	13 201
Total trading portfolio liabilities	**108 976**	59 224
Hedging portfolio liabilities (refer to note 58.3)	**4 868**	1 379
	113 844	60 603

18. Other liabilities

	Group 2020 Rm	Group 2019 Rm
Accruals	**3 339**	2 771
Audit fee accrual	**185**	196
Cash-settled share-based payment liability (refer to note 55)	**184**	339
Creditors	**14 709**	14 987
Deferred income	**242**	184
Lease liabilities	**3 905**	3 935
Retirement benefit funds and post-retirement medical plan obligations (refer to note 45)	**852**	425
Settlement balances	**10 489**	23 518
	33 905	46 355

19. Provisions

	Group 2020 Staff bonuses and incentive provisions Rm	Group 2020 Sundry provisions Rm	Group 2020 Undrawn contractually committed and guarantees provision Rm	Group 2020 Total Rm
Balance at the beginning of the reporting period	2 070	1 192	802	4 064
Additions	1 340	1 319	—	2 659
Amounts used	(2 071)	(614)	—	(2 685)
Reversals	(137)	(57)	—	(194)
Movement in provisions for financial guarantees, undrawn committed facilities and letters of credit (refer to note 62.2)	—	—	115	115
Balance at the end of the reporting period	1 202	1 840	917	3 959

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 62.2 for detailed reconciliations of the expected credit losses).

Provisions expected to be recovered or settled within 12 months after the reporting date amount to **R2 149m** (2019: R2 238m). Sundry provisions include amounts with respect to fraud and litigation, claims and card incentive schemes.

	Group	
	2020 Rm	2019 Rm
20. Deposits due to customers		
Call deposits	108 258	82 773
Cheque account deposits	268 826	204 344
Credit card deposits	2 033	1 862
Fixed deposits	230 300	225 187
Foreign currency deposits	46 824	41 567
Notice deposits	74 139	68 997
Other deposits	1 834	1 526
Repurchase agreements	10 991	20 145
Savings and transmission deposits	208 689	179 892
	951 894	826 293

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

	Group	
	2020 Rm	2019 Rm
21. Debt securities in issue		
Commercial paper	4 504	5 290
Credit linked notes	11 151	9 464
Floating rate notes	48 723	57 028
Negotiable certificates of deposit	42 670	46 539
Other	1 394	1 140
Promissory notes	49	1 120
Senior notes	37 149	39 111
Structured notes and bonds	100	102
	145 740	159 794

	Group	
	2020 Rm	2019 Rm
22. Liabilities under investment contracts		
Net balance at the beginning of the reporting period	29 700	29 674
Change in investment contracts (refer to note 33)	2 158	1 570
Cash inflows on investment contracts	5 638	3 317
Policyholder benefits on investment contracts	(10 057)	(4 934)
Other	94	73
Net balance at the end of the reporting period	27 533	29 700
Intercompany eliminations[1]	41	30
Gross balance at the end of the reporting period	27 574	29 730

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

Notes to the consolidated financial statements

for the reporting period ended 31 December

22. Liabilities under investment contracts (continued)

22.1 Assets and liabilities backing the investment contracts

	Group 2020 Total assets/ (liabilities) backing the investment contracts Rm	Intercompany eliminations[1] Rm	Net assets/ (liabilities) attributable to external policyholders Rm
Deferred taxation (refer to note 15.2)[2]	(17)	—	(17)
Money market assets (refer to note 2)	1 204	(119)	1 085
Investments linked to investment contracts (refer to note 10)	26 464	(5 191)	21 273
Other assets	64	(35)	29
Other liabilities	(146)	113	(33)
Reinsurance asset (refer to note 9)	5	(5)	—
	27 574	(5 237)	22 337

22.1 Assets and liabilities backing the investment contracts

	2019 Total assets/ (liabilities) backing the investment contracts Rm	Intercompany eliminations[1] Rm	Net assets/ (liabilities) attributable to external policyholders Rm
Money market assets (refer to note 2)	2 213	(83)	2 130
Investments linked to investment contracts (refer to note 10)	27 594	(7 552)	20 042
Other assets	45	(29)	16
Other liabilities	(125)	90	(35)
Reinsurance asset (refer to note 9)	3	(3)	—
	29 730	(7 577)	22 153

23. Policyholder liabilities under insurance contracts

	Group 2020 Gross Rm	Reinsurance Rm	Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 23.1)	868	(320)	548
Claims reported and loss adjustment expense	656	(227)	429
Claims incurred but not reported	212	(93)	119
Unearned premiums at the end of the reporting period	996	(219)	777
Balance at the beginning of the reporting period	983	(209)	774
Foreign exchange movement	(9)	(1)	(10)
Increase during the reporting period	1 494	(94)	1 400
Release during the reporting period	(1 472)	85	(1 387)
	1 864	(539)	1 325
Long-term insurance contracts (refer to note 23.2)	2 334	(141)	2 193
	4 198	(680)	3 518

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

[2] This amount relates to the deferred tax liabilities recognised on investment contracts. This amount of **R17m** in 2020 is included as part of the overall deferred tax asset balance per note 15.2.

23. Policyholder liabilities under insurance contracts (continued)

	2019 Gross Rm	2019 Reinsurance Rm	2019 Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 23.1)	1 143	(515)	628
Claims reported and loss adjustment expense	909	(431)	478
Claims incurred but not reported	234	(84)	150
Unearned premiums at the end of the reporting period	983	(209)	774
Balance at the beginning of the reporting period	947	(220)	727
Foreign exchange movement	9	(4)	5
Increase during the reporting period	1 190	(96)	1 094
Release during the reporting period	(1 163)	111	(1 052)
	2 126	(724)	1 402
Long-term insurance contracts (refer to note 23.2)	2 205	(162)	2 043
	4 331	(886)	3 445

	Group 2020 Rm	Group 2019 Rm
Comprising:		
Unit-linked insurance contracts	**1 334**	1 663
Gross	**1 445**	2 122
Reinsurance (refer to note 9)	**(111)**	(459)
Non-unit-linked insurance contracts	**2 184**	1 782
Gross	**2 753**	2 209
Reinsurance (refer to note 9)	**(569)**	(427)
	3 518	3 445

23. Policyholder liabilities under insurance contracts (continued)

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

	Group 2020 Gross Rm	Group 2020 Reinsurance Rm	Group 2020 Net Rm
Balance at the beginning of the reporting period	1 143	(515)	628
Foreign exchange movements	(13)	(3)	(16)
Cash paid for claims settled during the reporting period	(1 876)	200	(1 676)
Increase in claims arising from the current reporting period's claims outstanding	1 474	(2)	1 472
Increase in claims arising from the previous reporting period's claims outstanding	140	—	140
Balance at the end of the reporting period (refer to note 23)	868	(320)	548

	2019 Gross Rm	2019 Reinsurance Rm	2019 Net Rm
Balance at the beginning of the reporting period	1 033	(310)	723
Foreign exchange movements	(12)	3	(9)
Cash paid for claims settled during the reporting period	(1 621)	67	(1 554)
Increase in claims arising from the current reporting period's claims outstanding	1 460	(388)	1 072
Increase in claims arising from the previous reporting period's claims outstanding	283	113	396
Balance at the end of the reporting period (refer to note 23)	1 143	(515)	628

23.2 Reconciliation of gross long-term insurance contracts

	Group 2020 Rm	Group 2019 Rm
Balance at the beginning of the reporting period	2 205	2 188
Change in insurance contract liabilities (refer to note 33)	104	19
Insurance premium income (refer to note 31)	5 456	5 066
Claims and benefits incurred (refer to note 32)	(2 484)	(1 994)
Experience variances and change in assumptions	(2 868)	(3 053)
Other	(58)	(23)
Foreign exchange movements	83	21
Balance at the end of the reporting period (refer to note 23)	2 334	2 205
Recoverable from reinsurers (refer to note 9)	141	162
Net liabilities	2 193	2 043
Unit-linked liabilities	1 202	1 219
Non-linked liabilities	991	824
	2 334	2 205

24. Borrowed funds

			Group 2020 Rm	Group 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
Subordinated callable notes issued by Absa Group Limited				
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%	11 April 2029	viii	**2 676**	—
Three-month JIBAR + 2.40%	29 November 2028	ix	**1 580**	1 580
Three-month JIBAR + 2.45%	19 November 2024	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
Subordinated callable notes issued by other subsidiaries				
Absa Bank of Botswana Limited, bank rate + 2.25%	14 November 2028	xxiii	**136**	136
Other				
Accrued interest			**1 108**	1 162
Fair value adjustments			**418**	245
Foreign exchange movement			**902**	621
			20 761	21 418

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 Group Limited on 20 August 2021. Interest is paid semi-annually in arrears on 20 August and 20 February. Absa Group 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 Group Limited not exercise the redemption option.

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

vii. The 12.43% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Absa Group 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 Group Limited not exercise the redemption option

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

Notes to the consolidated financial statements

for the reporting period ended 31 December

24. Borrowed funds (continued)

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

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

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 Group Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

xiv. The three month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Group Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Group 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 Group 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 Group Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Absa Group 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 Group 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 Group Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Absa Group 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 Group 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 Group Limited on 17 March 2022. Interest is paid quarterly in arrears on 17 March, 17 June, 17 September and 17 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 17 March 2022. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

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

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

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

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

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 Group Limited on 25 April 2023. Interest is payable semi-annually in arrears on 25 April and 25 October of each year. Absa Group Limited has the option to exercise the redemption on 25 April 2023. If Absa Group Limited does not exercise the redemption option from (and including) 25 April 2023, the interest rate per annum will be equal to the reset interest rate which shall be determined by the calculation agent on 27 April 2023. The reset margin is 3.523% per annum.

xxiii. The Botswana Bank repo rate + 2.25% floating rate notes issued by Absa Bank of Botswana Limited, with a nominal amount of BWP 100m, may be redeemed in full on 14 November 2023. The interest is paid quarterly in arrears on 14 February, 14 May, 14 August and 14 November. Absa Bank of Botswana Limited has the option to exercise the redemption on any interest payment date after 14 November 2023. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

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

Note xxii is listed on the London Stock Exchange.

Note xxiii is listed on the Botswana Stock Exchange.

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

	Group 2020 Rm	Group 2019 Rm
25. Share capital and premium		
25.1 Ordinary share capital		
Authorised		
891 774 054 (2019: 880 467 500) ordinary shares of R2.00 each	**1 784**	1 761
Issued		
847 750 679 (2019: 847 750 679) ordinary shares of R2.00 each	**1 696**	1 696
18 961 880 (2019: 19 122 853) treasury shares held by Group entities	**(39)**	(39)
	1 657	1 657
Total issued capital		
Share capital	**1 657**	1 657
Share premium	**10 561**	10 428
	12 218	12 085

Authorised shares

During the current reporting period, the authorised share capital was increased by **11 306 554** ordinary shares with a par value of R2 each.

Unissued shares

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

Shares issued

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

25.2 Treasury shares

The Absa Group Limited Share Incentive Trust holds treasury shares of **1 600 940** (2019: 3 004 843) which is utilised by the Group as a vehicle from which share incentive awards are granted.

The Absa Empowerment Trust's subsidiary holds treasury shares of **15 980 155** (2019: 14 901 848) to be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure.

Absa Life Limited and Absa Capital Securities Proprietary Limited jointly hold treasury shares of **1 380 785** (2019: 1 216 162) which are held in the entities' share portfolios.

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

25.3 Directors' interests in the Group's ordinary shares

	Direct number of shares		Indirect number of shares		Total direct and indirect number of shares	
	Beneficial		Beneficial		Beneficial	
	2020	2019	2020	2019	2020	2019
Present directors						
C Beggs	**2 000**	2 000	**—**	—	**2 000**	2 000
M J Husain[1]	**—**	1 000	**—**	—	**—**	1 000
W E Lucas-Bull	**1 000**	1 000	**4 625**	4 625	**5 625**	5 625
PB Matlare	**92 709**	17 950	**—**	—	**92 709**	17 950
J P Quinn	**104 033**	47 815	**—**	—	**104 033**	47 815
D Mminele[2]	**—**	—	**—**	—	**—**	—
Prescribed officers						
A Rautenbach	**163 536**	93 371	**—**	—	**163 536**	93 371
C Russon	**113 412**	52 689	**—**	—	**113 412**	52 689
	476 690	215 825	**4 625**	4 625	**481 315**	220 450

There was no movement in shareholding between the reporting date and the date of approval of the financial statements.

No directors hold any non-beneficial interests in the Group's ordinary shares.

[1] Retired on 4 June 2020.

[2] Appointed 15 January 2020.

26. Other reserves

26.1 General credit risk reserve

The general credit risk reserve consists of the following:

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

26.2 Fair value reserve

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

26.3 Cash flow hedging reserve

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

26.4 Foreign currency translation reserve

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

26.5 Foreign insurance subsidiary regulatory reserve

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

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

26.6 Share-based payment reserve

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

26.7 Associates' and joint ventures' reserve

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

26.8 Retained earnings

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

	Group 2020 Rm	Group 2019 Rm
27. Non-controlling interest		
27.1 Preference shares		
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 only subsidiary that gives rise to a significant non-controlling interest is Absa Bank Limited. Whilst Absa Group Limited holds 100% of the voting rights in Absa Bank Limited, Absa Bank Limited has preference shares in issue that are disclosed as non-controlling interests.

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

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

		Group 2020 Rm	Group 2019 Rm
27.2 Additional Tier 1 capital			
Subordinated callable notes issued by Absa Group Limited			
Interest rate	**Date of issue**		
Three month JIBAR + 5.65%	11 September 2017	**1 500**	1 500
Three month JIBAR + 4.75%	9 October 2018	**1 241**	1 241
Three month JIBAR + 4.50%	28 May 2019	**1 678**	1 678
Three month JIBAR + 4.25%	5 December 2019	**1 376**	1 376
Three month JIBAR + 4.55%	26 October 2020	**1 209**	—
		7 004	5 795

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

	Group 2020 Rm	Group 2019 Rm
28. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	22	24
Interest on hedging instruments	1 557	331
Investment securities	11 498	10 463
Loans and advances to banks	3 144	2 283
Loans and advances to customers	76 830	84 737
Corporate overdrafts and specialised finance loans	767	1 053
Credit cards	6 158	6 480
Foreign currency loans	805	1 625
Instalment credit agreements and finance lease receivables	9 025	9 777
Loans to associates and joint ventures	1 662	2 031
Microloans	726	643
Mortgages	23 268	27 288
Other advances	1 285	556
Overdrafts	5 511	5 543
Overnight finance	1 180	2 250
Personal and term loans	16 481	16 513
Preference shares	1 453	1 570
Wholesale overdrafts	8 509	9 408
	93 051	97 838
Classification of interest and similar income		
Interest on hedging instruments	1 557	331
Cash flow hedges (refer to note 58.7)	2 705	671
Fair value hedging instruments	(1 148)	(340)
Interest on financial assets held at amortised cost	82 701	88 679
Interest on financial assets held at FVOCI	7 006	7 030
Interest on financial assets measured at fair value through profit or loss	1 787	1 798
Cash, cash balances and balances with central banks	15	17
Investment securities	42	158
Loans and advances to customers	1 730	1 623
	93 051	97 838

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

29. Interest expense and similar charges

	Group 2020 Rm	Group 2019 Rm
Interest expense and similar charges are paid on:		
Borrowed funds	2 153	2 140
Debt securities in issue	11 900	12 617
Deposits due to customers	29 385	34 642
Call deposits	4 086	5 616
Cheque account deposits	3 716	3 535
Credit card deposits	3	7
Fixed deposits	8 596	12 411
Foreign currency deposits	249	269
Notice deposits	3 485	5 085
Other deposits due to customers	993	771
Savings and transmission deposits	8 257	6 948
Deposits from banks	1 077	1 776
Call deposits	378	446
Fixed deposits	482	768
Foreign currency deposits	178	343
Other	39	219
Interest on hedging instruments	(738)	(187)
Interest incurred on lease liabilities (refer to note 44)	417	349
	44 194	51 337
Classification of interest expense and similar charges		
Interest on hedging instruments	(738)	(187)
Cash flow hedges (refer to note 58.7)	(471)	(100)
Fair value hedging instruments	(267)	(87)
Interest on financial liabilities measured at amortised cost	44 932	51 524
	44 194	51 337

	Group 2020 Rm	Group 2019 Rm
30. Net fee and commission income		
Consulting and administration fees	575	548
Credit-related fees and commissions	19 301	20 695
Cheque accounts	5 112	5 497
Credit cards	2 340	2 923
Electronic banking	5 333	5 510
Other	4 864	4 752
Savings accounts	1 652	2 013
Insurance commission received	766	784
Investment, markets execution and investment banking fees	390	400
Merchant income	2 209	2 289
Other fee and commission income	488	535
Trust and other fiduciary services	1 391	1 508
Portfolio and other management fees	1 092	1 168
Trust and estate income	299	340
Fee and commission income	25 120	26 759
Fee and commission expense	(3 523)	(3 153)
Brokerage fees	(100)	(89)
Cheque processing fees	(99)	(122)
Clearing and settlement charges	(1 000)	(823)
Insurance commission paid	(1 091)	(994)
Notification fees	(250)	(216)
Other	(897)	(831)
Valuation fees	(86)	(78)
	21 597	23 606

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

	Group 2020 Rm	Group 2019 Rm
30.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	5 112	5 497
Credit cards	2 340	2 923
Electronic banking	5 333	5 510
Other	4 864	4 752
Savings accounts	1 652	2 013
Fee and commission income	19 301	20 695
Fee and commission expense	(2 000)	(1 812)
	17 301	18 883

Credit cards include acquiring and issuing fees.

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

	Group 2020 Rm	Group 2019 Rm
31. Net insurance premium income		
Gross insurance premiums	9 441	8 944
Life insurance contracts	5 456	5 066
Short-term insurance contracts	3 985	3 878
Premiums ceded to reinsurers	(1 155)	(1 114)
Reinsurance on life insurance contracts	(601)	(602)
Reinsurance on short-term insurance contracts	(554)	(512)
	8 286	7 830
Comprising (net of reinsurance)		
Life	4 855	4 464
Bank embedded cover	6	15
Credit life	1 851	1 712
Funeral business	1 177	1 067
Group life	228	212
Home mortgage protection	611	597
Other	982	861
Short-term	3 431	3 366
Commercial business	(7)	91
Personal business	3 438	3 275
	8 286	7 830

	Group 2020 Rm	Group 2019 Rm
32. Net claims and benefits incurred on insurance contracts		
Gross claims and benefits incurred on insurance contracts	4 753	4 869
Life insurance claims and benefits	2 484	1 994
Short-term insurance claims and benefits	2 269	2 875
Reinsurance recoveries	(548)	(1 122)
Reinsurance recoveries on life insurance contracts	(363)	(401)
Reinsurance recoveries on short-term insurance contracts	(185)	(721)
	4 205	3 747
Comprising (net of reinsurance)		
Life	2 121	1 593
Bank embedded cover	2	3
Credit life	702	423
Funeral business	445	302
Group life	212	156
Home mortgage protection	434	416
Other	326	293
Short-term	2 084	2 154
Commercial business	45	6
Personal business	2 039	2 148
	4 205	3 747

	Group 2020 Rm	Group 2019 Rm
33. Changes in investment and insurance contract liabilities		
Change in insurance contract liabilities (refer to note 23.2)	104	19
Change in investment contract liabilities (refer to note 22)[1]	2 158	1 570
	2 262	1 589

	Group 2020 Rm	Group 2019 Rm
34. Gains and losses from banking and trading activities		
Net (losses)/gains on investments	(77)	297
Debt instruments designated at FVTPL	179	117
Equity instruments mandatorily measured at FVTPL	(288)	160
Unwind from reserves for debt instruments measured at FVOCI	32	20
Net trading result	6 593	5 221
Net trading income excluding the impact of hedge accounting	6 016	4 980
Ineffective portion of hedges	577	241
Cash flow hedges	566	225
Fair value hedges	11	16
Other losses	(137)	(110)
	6 379	5 408
Net trading result and other losses on financial instruments		
Net trading income excluding the impact of hedge accounting	6 016	4 980
Gains/(losses) on financial instruments designated at FVTPL	10 190	(6 867)
Net gains on financial assets designated at FVTPL	3 543	9 173
Net gains/(losses) on financial liabilities designated at FVTPL	6 647	(16 040)
(Losses)/gains on financial instruments mandatorily measured at FVTPL	(4 174)	11 847
Other losses	(137)	(110)
Gains/(losses) on financial instruments designated at FVTPL	841	(62)
Losses on financial instruments mandatorily measured at FVTPL	(978)	(48)

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

35. Gains and losses from investment activities

	Group 2020 Rm	Group 2019 Rm
Net gains on investment activities	2 216	1 583
Policyholder insurance contracts	231	275
Policyholder investment contracts[1]	1 701	865
Shareholder funds	284	443
Other (losses)/gains	(17)	17
	2 199	1 600
Classification of gains/(losses) from investment activities		
Gains on financial instruments designated at fair value through profit and loss	2 217	1 586
Other	(1)	(3)
	2 216	1 583

36. Other operating income

	Group 2020 Rm	Group 2019 Rm
Foreign exchange differences, including amounts recycled from other comprehensive income	143	(134)
Income from investment properties	—	18
Change in fair value (refer to note 12)	(5)	12
Rentals	5	6
Revenue arising from contracts with customers	112	117
Income from maintenance contracts	36	33
Profit on sale of investment property	—	1
Profit on sale of property and equipment	65	27
Profit on disposal of developed properties	7	31
Gross sales	13	143
Cost of sales	(6)	(112)
Profit on sale of repossessed properties	4	25
Gross sales	22	57
Cost of sales	(18)	(32)
Rental income	31	36
Sundry income[2]	456	474
	742	511

37. Impairment losses

	Group 2020 Rm	Group 2019 Rm
Impairment losses raised during the reporting period	21 193	8 523
Stage 1 expected losses	2 391	(578)
Stage 2 expected losses	5 452	1 876
Stage 3 expected losses	13 350	7 225
Losses on modifications	33	119
Recoveries of loans and advances previously written off	(657)	(826)
	20 569	7 816

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

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

38. Operating expenses

	Group 2020 Rm	Group 2019 Rm
Administration fees	529	579
Amortisation of intangible assets (refer to note 14)	2 017	1 368
Auditors' remuneration	414	378
Audit fees – current reporting period	381	331
Audit fees – under provision	3	12
Audit-related fees	20	19
Other services	10	16
Cash transportation	1 181	1 304
Depreciation (refer to note 13)	3 942	3 638
Equipment costs	353	358
Maintenance	243	257
Rentals	110	101
Information technology	4 247	3 793
Marketing costs	1 624	1 743
Other (includes fraud losses, travel and entertainment costs)	1 951	2 887
Printing and stationery	342	344
Professional fees	2 717	2 463
Property costs	1 970	1 826
Staff costs	25 407	26 262
Bonuses	1 308	2 085
Deferred cash and share-based payments (refer to note 55)	468	671
Other	1 316	1 075
Salaries and current service costs on post-retirement benefit funds	21 910	21 981
Training costs	405	450
Straight-line lease expenses on short-term leases and low value assets	183	177
Telephone and postage	1 121	1 178
TSA direct costs	113	469
	48 111	48 767

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: R96m). 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.

39. Other impairments

	Group 2020 Rm	Group 2019 Rm
Goodwill (refer to note 14)	2	—
Intangible assets (refer to note 14)[1]	195	122
Investments in associates and joint ventures (refer to note 11)[2]	11	—
Non-current assets held for sale[3]	33	—
Property and equipment (refer to note 13)[4]	223	208
	464	330

[1] The Group has impaired certain software assets totalling **R195m** (2019: R122m) for which the value in use is determined to be zero.

[2] Integrated Processing Solutions' board of directors has approved the dissolution of IPS. As a result, an impairment loss of **R11m** (2019: Rnil) has been recognised.

[3] The Group has impaired certain assets totalling **R33m** (2019: Rnil) which have been classified as held for sale under IFRS 5.

[4] The Group 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 the assets to non-current assets held for sale. In addition, property and equipment amounting to **R204m** (2019: R144m) was impaired without a related transfer to non-current assets held for sale.

40. Indirect taxation

	Group 2020 Rm	Group 2019 Rm
Training levy	177	201
VAT net of input credits	1 867	1 475
	2 044	1 676

41. Taxation expense

	Group 2020 Rm	Group 2019 Rm
Current		
Foreign and other taxation	337	407
Current tax	4 313	6 029
Current tax – previous reporting period	312	(418)
	4 962	6 018
Deferred		
Deferred tax (refer to note 15)	(1 806)	(246)
Capital allowances	123	17
Impairment losses	(1 040)	(202)
Provisions	(207)	(89)
Movements in prepayments, accruals and other provisions	(745)	(178)
Fair value and similar adjustments through profit and loss	(57)	127
Fair value and similar adjustments in relation to prior year	(74)	57
Share-based payments	194	7
Retirement benefit fund liability	—	15
	3 156	5 772
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	10 369	21 752
Share of post-tax results of associates and joint ventures (refer to note 11)	36	(221)
	10 405	21 531
Tax calculated at a tax rate of 28%	2 913	6 029
Effect of different tax rates in other countries	(23)	52
Expenses not deductible for tax purposes[1]	484	602
Recognition of previously unrecognised deferred tax assets	9	37
Dividend income	(519)	(447)
Non-taxable interest[2]	(344)	(315)
Other income not subject to tax	(33)	(3)
Other	557	(177)
Items of capital in nature	112	(6)
	3 156	5 772

[1] This includes donations, non-deductible expenses.

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

	Group 2020 Rm	Group 2019 Rm
42. Earnings per share		
42.1 Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders, by the weighted average number of ordinary shares in issue during the reporting period.		
Basic earnings attributable to ordinary equity holders	**5 880**	14 256
Weighted average number of ordinary shares in issue (million)	**826.1**	830.0
Issued shares at the beginning and end of the reporting period (million)	**847.8**	847.8
Treasury shares held by Group entities (million)	**(21.7)**	(17.8)
Basic earnings per share (cents)	**711.8**	1 717.6
42.2 Diluted earnings per share		
Diluted earnings are determined by adjusting profit or loss attributable to the ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares.		
Diluted earnings attributable to ordinary equity holders	**5 880**	14 256
Diluted weighted average number of ordinary shares in issue (million)	**826.6**	831.2
Weighted average number of ordinary shares in issue (million)	**826.1**	830.0
Adjustments for share options issued at no value (million)	**0.5**	1.2
Diluted earnings per share (cents)	**711.3**	1 715.1

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

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

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

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

	Group 2020 Gross Rm	Group 2020 Net Rm	Group 2019 Gross Rm	Group 2019 Net Rm
43. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Group		5 880		14 256
Total headline earnings adjustment:		158		270
IFRS 3 – Goodwill impairment (refer to note 39)	2	2	—	—
IFRS 3 – Gain on bargain purchase (refer to note 56)	(86)	(86)	—	—
IFRS 5 – Profit on disposal of non-current assets held for sale	(1)	1	(19)	(15)
IFRS 5 – Re-measurement of non-current assets held for sale (refer to note 39)	33	29	(9)	(6)
IAS 16 – Profit on disposal of property and equipment (refer to note 36)	(65)	(49)	(27)	(21)
IAS 21 – Recycled foreign currency translation reserve	(118)	(92)	118	81
IAS 28 – Impairment of investments in associates and joint ventures (refer to note 39)	11	11	—	—
IAS 36 – Impairment of intangible assets (refer to note 39)	223	162	208	153
IAS 36 – Impairment of intangible assets (refer to note 39)	195	176	122	88
IAS 40 – Change in fair value of investment properties (refer to note 36)	5	4	(12)	(9)
IAS 40 – Profit on sale of investment property (refer to note 36)	—	—	(1)	(1)
Headline earnings/diluted headline earnings		**6 038**		14 526
Headline earnings per ordinary share (cents)		**730.9**		1 750.1
Diluted headline earnings per share (cents)		**730.5**		1 747.6

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

	Group 2020 Rm	Group 2019 Rm
44. Leases		
The following amounts have been recognised in the statement of comprehensive income in respect of leases for which the Group is the lessee:		
Depreciation charge for right-of-use assets (refer to note 13)	1 145	1 106
Property	1 129	1 093
Computer equipment	7	8
Motor vehicles	9	5
Interest expense on lease liabilities (refer to note 29)	417	349
Expenses related to short-term leases	241	230
Expenses related to low-value assets	25	45
Variable lease payments	28	17
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 13)	3 262	3 221
Property	3 219	3 161
Computer equipment	10	21
Motor vehicles	33	39
Total additions to right-of-use assets recognised during the year (refer to note 13)	**1 277**	4 531
Total cash outflow included in the statement of cash flows related to leases	**1 550**	1 466
Maturity analysis of lease liabilities – contractual undiscounted cash flows:		
Less than one year	1 118	1 217
Between one and five years	2 750	2 698
More than five years	833	815
Total undiscounted lease liabilities	**4 701**	4 730
Lease liabilities included in the statement of financial position (refer to note 18)	**3 905**	3 935

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

	Group 2020 Rm	Group 2019 Rm
45. Retirement benefit obligations		
Surplus disclosed in 'Other assets'		
Absa Pension Fund defined benefit plan (refer to notes 6 and 45.1.1)	393	466
Other defined benefit plans of subsidiaries (refer to notes 6 and 45.2.1)	12	7
	405	473
Obligations disclosed in 'Other liabilities'		
Subsidiaries' post-retirement medical aid plans (refer to notes 18 and 45.3)	264	230
Other defined benefit plans of subsidiaries (refer to notes 18 and 45.2.1)	588	195
	852	425
Statement of comprehensive income charge included in staff costs		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 45.1.6)	(30)	(33)
Other defined benefit plans of subsidiaries in a deficit position (refer to note 45.2.6)	91	27
Other defined benefit plans of subsidiaries in a surplus position (refer to note 45.2.6)	11	11
Subsidiaries' post-retirement medical aid plans	60	40
	132	45
Recognised in other comprehensive income		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 45.1.6)	104	34
Other defined benefit plans of subsidiaries in a deficit position (refer to note 45.2.6)	438	71
Other defined benefit plans of subsidiaries in a surplus position (refer to note 45.2.6)	(4)	4
Subsidiaries' post-retirement medical aid plans	(5)	33
	533	142

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

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.

45.1 The Absa Pension Fund

The Absa Pension Fund (the Fund) is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of the Fund be carried out at least once every three years. The most recent statutory valuation of the Fund was effected on 31 March 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.

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 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.

Members who joined the Fund before 1 July 2015 have the choice to receive either a conventional annuity or a living annuity from the Fund or to purchase a pension from a registered insurer. Members who joined 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 who joined prior to 1 July 2015 elect a conventional annuity, the Group 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 Group 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 assets relating to these pensioners that have elected to receive a living annuity, amount to **R3 541m** (2019: R3 742m).

45. Retirement benefit fund obligations (continued)

45.1 Absa Pension Fund (continued)

	Group Absa Pension Fund 2020	Group Absa Pension Fund 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 Group has measured the liability for the defined contribution portion of the Fund at the fair value of the assets upon which the benefits are based.

The Fund is financed by employer and employee contributions and investment income. Employer contributions in respect of the defined benefit portion are based on actuarial advice. The expense or income recorded in profit or loss includes the current service cost, interest income on plan assets as well as interest expense on the defined benefit obligation and the irrecoverable surplus. It is the Group'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 managed 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.

45.1.1 Reconciliation of the net defined benefit plan surplus

	Group 2020 Rm	Group 2019 Rm
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

	Group 2020 Rm	Group 2019 Rm
45. Retirement benefit fund obligations (continued)		
45.1 Absa Pension Fund (continued)		
45.1.2 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)
45.1.3 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
45.1.4 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)

45. Retirement benefit fund obligations (continued)
45.1 Absa Pension Fund (continued)
45.1.5 Nature of the pension fund assets
Plan assets relating to the defined benefit plan

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

	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

	Group 2020 Rm	Group 2019 Rm

45. Retirement benefit fund obligations (continued)

45.1 Absa Pension Fund (continued)

45.1.6 Movements in the defined benefit plan presented in the statement of comprehensive income

	2020 Rm	2019 Rm
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

45.1.7 Actuarial assumptions used:

	2020	2019
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

45.1.8 Sensitivity analysis of the significant actuarial assumptions

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

2019	Reasonable possible change Rm	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

45.1.9 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: R19 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.

45. Retirement benefit fund obligations (continued)

45.2 Other subsidiaries plans

Defined benefit structure

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

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

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

Defined contribution structure

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

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

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

The funds are governed by legislation applicable in the various countries in which the funds are based. The funds are operated on a pre-funded basis. That is, assets are accumulated on a monthly basis with the aim that sufficient funding exists to meet the benefits payable under all modes of exit. Actuarial funding valuations are performed every three years regardless whether or not these are required by legislation. The most recent actuarial valuations of the funds were carried out as at 31 March 2019. Contributions are generally determined by the employer in consultation with the actuary following the funding valuation to ensure the sustainability and financial soundness of the funds. The staff costs expense for the defined contribution plans is **R184m** (2019: R200m). Surpluses and deficits are dealt with in a manner which is consistent with the funds' rules and applicable legislation. Minimum funding requirements are limited to the deficits of the funds.

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

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

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

45. Retirement benefit fund obligations (continued)

45.2 Other subsidiaries plans (continued)

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

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

	2019						
	Absa Bank Botswana	Absa Bank Kenya	Kenya First Assurance	Absa Bank Zambia	Absa Bank Seychelles	Absa Bank Mauritius	Absa Bank Mozambique
Membership							
Defined benefit active members	—	3	85	—	7	221	597
Defined benefit deferred pensioners	—	832	43	14	8	72	—
Defined benefit pensioners	187	1 481	9	663	3	278	1 026
Defined contribution active members	—	2 098	2 098	829	221	574	1 270
Duration of the scheme (years)	10	7	12	3	15	17	8
Expected contributions to the plan for the next 12 months (Rm)	—	4.6	—	6.1	2.0	15.1	2.7

	Group	
	2020 Rm	2019 Rm
45.2.1 Defined benefit plan reconciliations		
Present value of funded defined benefit obligations	(2 643)	(2 438)
Fair value of the defined benefit plan assets	2 271	2 434
Funded defined benefit plan status	(372)	(4)
Irrecoverable surplus (effect of asset ceiling)	(204)	(184)
Net deficit arising from defined benefit obligation	(576)	(188)
45.2.2 Reconciliation of movement in the defined benefit obligation		
Balance at the beginning of the reporting period	(2 438)	(2 540)
Actuarial losses	(340)	63
Actuarial (losses)/gains – changes in financial assumptions	(414)	(14)
Actuarial gains – experience adjustments	74	77
Benefits paid	178	199
Current service costs	(33)	(29)
Interest expense	(261)	(267)
Past service costs including curtailments	(22)	(2)
Foreign exchange differences	273	138
Balance at the end of the reporting period	(2 643)	(2 438)

45. Retirement benefit fund obligations (continued)

45.2 Other subsidiaries plans (continued)

	Group 2020 Rm	Group 2019 Rm
45.2.3 Reconciliation of movement in the plan assets		
Balance at the beginning of the reporting period	**2 434**	2 551
Benefits paid	**(178)**	(199)
Employer contributions	**62**	40
Interest income on plan assets	**280**	282
Remeasurement – return on plan assets in excess of interest	**(77)**	(110)
Employee contributions	**—**	1
Settlement gains losses[1]	**(38)**	—
Foreign exchange differences	**(212)**	(131)
Balance at the end of the reporting period	**2 271**	2 434
45.2.4 Reconciliation of movement in the irrecoverable surplus		
Balance at the beginning of the reporting period	**(184)**	(132)
Interest on irrecoverable surplus	**(28)**	(22)
Changes in the irrecoverable surplus in excess of interest	**(17)**	(28)
Foreign exchange differences	**25**	(2)
Balance at the end of the reporting period	**(204)**	(184)

45.2.5 Nature of the defined benefit plan assets

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

	2019 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Quoted fair value	263	527	414	1 204
Unquoted fair value	712	59	394	1 165
Own transferable financial instruments	—	26	—	26
Own occupied or used property	—	—	39	39
	975	612	847	2 434

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

[1] This relates to the settlement of voluntary retirement obligation in Mauritius.

	Group 2020 Rm	Group 2019 Rm
45. Retirement benefit fund obligations (continued)		
45.2 Other subsidiaries plans (continued)		
45.2.6 Movements in the defined benefit plan presented in the statement of comprehensive income		
Recognised in profit or loss:		
Net interest expense	9	7
Current service cost	33	29
Past service cost including curtailments	22	2
Settlements losses	38	—
	102	38
Recognised in other comprehensive income:		
Actuarial losses – changes in financial assumptions	414	14
Actuarial gains – experience adjustments	(74)	(77)
Remeasurement – return on the plan assets in excess of interest	77	110
Changes in the irrecoverable surplus in excess of interest	17	28
	434	75
45.2.7 The actuarial assumptions (weighted averages) include:		
Discount rate (%)	8.2	10.7
Inflation (%)	4.5	6.5
Future pension increases (%)	4.1	4.9
Future salary increases (%)	3.4	5.1
Average life expectancy in years of pensioner retiring at 60 – male	18.2	17.9
Average life expectancy in years of pensioner retiring at 60 – female	22.0	21.6

	Group 2020 Reasonable possible change	Group 2020 Increase/(decrease) on defined benefit obligation Rm
45.2.8 Sensitivity analysis of significant assumptions (weighted averages)		
Significant actuarial assumption		
Increase in discount rate (%)	0.5	(146)
Increase in inflation (%)	0.5	63
Increase in life expectancy (years)	1	84

	2019 Reasonable possible change	2019 Increase/(decrease) on defined benefit obligation Rm
Significant actuarial assumption		
Increase in discount rate (%)	0.5	(118)
Increase in inflation (%)	0.5	60
Increase in life expectancy (years)	1	64

45. Retirement benefit fund obligations (continued)

45.2 Other subsidiaries plans (continued)

45.2.9 Sensitivity analysis

The sensitivity analysis presented in this note may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. For the purpose of the sensitivity analysis, it is assumed that any change in inflation impacts other inflation-dependent assumptions, i.e. certain pension increases and salary growth.

45.3 Post-retirement medical aid plans

Certain of the Group's subsidiaries subsidise either medical aid contributions or actual incurred medical costs after retirement. The accrued and future liabilities in respect of these post-retirement medical costs are valued either annually, or every three years, on the reporting date, and projected thereafter. These liabilities were actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions, as well as appropriate medical inflation and discount rates.

The present value of the post-retirement medical aid plan liabilities is **R264m** (2019: R230m) and the fair value of related plan assets is **R2m** (2019: R2m).

	Group	
	2020 Rm	2019 Rm
46. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend[1] **(2020: 0 cents per share (cps)** (13 August 2019: 505 cps)	—	4 280
Final dividend[1] **(15 March 2021: 0 cps)** (11 March 2020: 620 cps)	—	5 256
	—	9 536
Dividends declared to ordinary equity holders (net of treasury shares)		
Interim dividend[1] **(2020: 0 cps)** (13 August 2019: 505 cps)	—	4 196
Final dividend[1] **(15 March 2021: 0 cps)** (11 March 2020: 620 cps)	—	5 137
	—	9 333
Dividends declared to non-controlling preference equity holders		
Interim dividend[1] **(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 holders		
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

[1] In the current economic climate, capital conservation, including proactive and appropriate management thereof, is regarded paramount to the Group'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 interim 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.

	Group 2020 Rm	Group 2019 Rm
46. Dividends per share (continued)		
Dividends paid to ordinary equity holders (net of treasury shares)[1]		
Final dividend **(20 April 2020: 620 cps)** (15 April 2019: 620 cps)	**5 115**	5 130
Interim dividend **(2020: 0 cps)** (16 September 2019: 505 cps)	**—**	4 247
	5 115	9 377
Dividends paid to non-controlling 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)** (16 September 2019: 3 595.89 cps)	**135**	178
	307	352
Distributions paid to additional Tier 1 capital note holders		
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

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

47.1 Reverse repurchase agreements and securities borrowed

As part of the reverse repurchase agreements and securities borrowing agreements, the Group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **R97 274m** (2019: R92 511m) of which **R55 577m** (2019: R55 248 m) have been sold or repledged.

47.2 Repurchase agreements and securities lent

The following table shows the carrying amount of transferred assets that have not resulted in any derecognition, together with the associated liabilities.

Group 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**

Group 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	23 712	(23 079)	23 712	(23 079)	633
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.

[1] The dividends paid on treasury shares are calculated on payment date.

48. Transfer of financial assets

48.1 Transfer of financial assets involving structured entities

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

48.2 Transfer of financial assets that does not result in derecognition

	Group				
	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

48.3 Transfer of financial assets that does not result in derecognition

Balances included within loans and advances to customers, represent instances where substantially all the risks and rewards (credit risk and prepayment risk) of the financial asset have been retained by the Group.

The relationship between the transferred assets and the associated liabilities is that holders of the associated liabilities may only look to cash flows from the transferred assets for payments due to them, although the contractual terms may differ from those of the transferred assets.

48.4 Transfer of financial assets that results in partial derecognition

The Group may invest in notes of certain SEs. The interest on these notes represents a continuing exposure to the prepayment risk and credit risk of the underlying assets (the transferred assets) which comprise corporate loans. As at the year end, the Group has not invested in SEs requiring a transfer of financial assets that result in partial derecognition (2019: None).

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

The instance may arise where the Group transfers a financial asset to an SE in its entirety but may have continuing involvement in it. Continuing involvement largely arises from providing financing to the SE in the form of retained notes, which do not bear first losses as they are not considered equity instruments of the SE. As at 31 December 2020, the Group had no continuing involvement where financial assets have been derecognised in their entirety (2019: None).

49. Offsetting financial assets and financial liabilities

Where relevant, the Group reports derivative financial instruments and reverse repurchase and repurchase agreements and other similar secured lending and borrowing agreements on a net basis.

The following table shows the impact of netting arrangements on the statement of financial position for recognised financial assets and financial liabilities that are reported net on the statement of financial position. Also presented are derivative financial instruments and reverse repurchase and repurchase agreements and other similar lending and borrowing agreements that are subject to enforceable master netting or similar agreements which do not qualify for presentation on a net basis. The table also shows potential netting not recognised on the statement of financial position that results from arrangements that do not meet all the IAS 32 netting criteria, because there is no intention to net settle or realise simultaneously, and related financial collateral that mitigates credit risk.

The net amounts presented are not intended to represent the Group's actual credit exposure as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

Group

	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 enforce-able netting arrange-ments[3] Rm	Total per statement of financial position[4] Rm
Derivative financial assets	122 782	(24 368)	98 414	(74 288)	(3 169)	20 957	11 440	109 854
Reverse repurchase agreements and other similar secured lending	72 005	—	72 005	—	(72 005)	—	—	72 005
Total assets	194 787	(24 368)	170 419	(74 288)	(75 174)	20 957	11 440	181 859
Derivative financial liabilities	(115 091)	24 883	(90 208)	74 288	—	(15 920)	(2 587)	(92 795)
Repurchase agreements and other similar secured borrowings	(52 373)	—	(52 373)	—	52 373	—	—	(52 373)
Total liabilities	(167 464)	24 883	(142 581)	74 288	52 373	(15 920)	(2 587)	(145 168)

[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'.

49. 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	67 966	(9 813)	58 153	(43 982)	(1 212)	12 959	2 793	60 946
Reverse repurchase agreements and other similar secured lending	71 972	—	71 972	—	(71 972)	—	—	71 972
Total assets	139 938	(9 813)	130 125	(43 982)	(73 184)	12 959	2 793	132 918
Derivative financial liabilities	(56 310)	10 213	(46 097)	43 982	—	(2 115)	(1 306)	(47 402)
Repurchase agreements and other similar secured borrowings	(64 256)	—	(64 256)	—	64 256	—	—	(64 256)
Total liabilities	(120 566)	10 213	(110 353)	43 982	64 256	(2 115)	(1 306)	(111 658)

Offsetting and collateral arrangements

Derivative assets and liabilities

Credit risk is mitigated where possible through netting arrangements, such as the International Swaps and Derivative Association (ISDA) Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral (cash and non-cash) is also obtained, often daily, for the net exposure between counterparties where possible to further mitigate credit risk.

Repurchase and reverse repurchase agreements and other similar secured lending and borrowing

Credit risk is mitigated where possible through netting arrangements such as global master repurchase agreements and global master securities lending agreements whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral is obtained and typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

These offsetting and collateral arrangements and the credit risk mitigation strategies used by the Group are further explained in the Credit risk mitigation, collateral and other credit enhancements section of note 62.

[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'.

50. Related parties

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

Related parties – 2019

Maria Ramos announced her retirement as the CEO of Absa Group Limited effective from 28 February 2019. The Board appointed René van Wyk as Absa's Chief Executive Officer for an interim period, with effect from 1 March 2019 to 14 January 2020.

50.1 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), including those acting in a capacity of decision makers even when not formally appointed to the Exco. A number of banking and insurance transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions. The outstanding balances at the reporting date with related parties and related-party transactions conducted during the reporting period are as follows:

	Group	
	2020 Rm	2019 Rm
Key management personnel compensation		
Directors		
Deferred cash payments	2	3
Non-deferred cash payments	3	17
Post-employment benefit contributions	1	1
Salaries and other short-term benefits	50	49
Share-based payments	14	18
	70	88
Other key management personnel		
Deferred cash payments	3	9
Non-deferred cash payments	—	21
Post-employment benefit contributions	1	2
Salaries and other short-term benefits	50	48
Share-based payments	27	42
	81	121

	Group			
	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
50. Related parties (continued)				
50.1 Transactions with key management personnel (continued)				
Loans				
Balance at the beginning of the reporting period	48	11	87	11
(Discontinuance)/inception of related-party relationships[1]	(11)	7	(31)	—
Loans issued and interest earned	37	3	22	—
Loans repaid	(37)	(5)	(30)	—
Balance at the end of the reporting period	37	16	48	11
Interest income	(3)	(1)	(5)	—
Deposits				
Balance at the beginning of the reporting period	3	—	27	6
(Discontinuance)/inception of related-party relationships[1]	—	—	(17)	(6)
Deposits received	158	9	104	—
Deposits repaid and interest paid	(138)	(9)	(111)	—
Balance at the end of the reporting period	23	—	3	—
Interest expense	1	—	1	—
Guarantees	92	24	114	25
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	1	1	56	—
Value of withdrawals/disinvestments	(3)	(8)	(70)	(2)
Fees and charges	—	—	—	—
Investment returns	32	—	(18)	—
Balance at the end of the reporting period	90	35	54	42

Insurance premiums paid and claims received

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

[1] Includes balances relating to key management personnel who were appointed/resigned during the reporting period.

50. Related parties (continued)

50.2 Subsidiaries and consolidated structured entities

The following information provided is in respect of the Group's main subsidiaries. The main subsidiaries are those entities whose results or financial position, in the opinion of the directors, had the most significant impact, relative to all the Group's subsidiaries, on the figures shown in the consolidated financial statements. The significance of this impact is judged from both a qualitative and a quantitative perspective and is assessed on a half-yearly basis.

			Group	
Name	Nature of business	Country of incorporation	2020 % holding	2019 % holding
Absa Group Limited and its subsidiaries				
Absa Capital Securities Proprietary Limited	Stockbrokers.	South Africa	**100**	100
Absa Development Company Holdings Proprietary Limited	Specialises in township development and sale of residential, commercial and industrial land.	South Africa	**100**	100
Absa Manx Insurance Company Limited	Captive insurance company for the Group and responsible for investment in insurances markets.	Isle of Man	**100**	100
Absa Stockbrokers and Portfolio Management Proprietary Limited	Enables customers to trade online or by telephone in shares, warrants and exchange-traded funds.	South Africa	**100**	100
Absa Securities United Kingdom Limited	Solicitation, syndication, selling and arranging of equity and debt products.	United Kingdom	**100**	100
Absa Bank of Ghana Limited	Provides retail and corporate banking.	Ghana	**100**	100
Absa Bank of Kenya Limited	Provides retail and corporate banking.	Kenya	**69**	69
Absa Bank Mocambique S.A.	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.	Mozambique	**99**	99
Absa Bank of Botswana Limited	Provides retail and corporate banking.	Botswana	**68**	68
Absa Bank Mauritius Limited	Provides retail and corporate banking.	Mauritius	**100**	100
Absa Bank Seychelles Limited	Provides retail and corporate banking.	Seychelles	**100**	100
Absa Bank Tanzania Limited	Provides retail and corporate banking.	Tanzania	**100**	100
Absa Bank Uganda Limited	Provides retail and corporate banking.	Uganda	**100**	100
Absa Bank of Zambia PLC	Provides retail and corporate banking.	Zambia	**100**	100
Absa Securities Nigeria Limited	Licence for issuing house and underwriter.	Nigeria	**100**	100
Absa Stockbrokers Nigeria Limited	Stockbroking, financial consulting, investment advisors and managers.	Nigeria	**100**	100
National Bank of Commerce Limited (NBC)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.	Tanzania	**55**	55
Woolworths Financial Services Proprietary Limited	Provides credit cards, in-store cards and personal loans.	South Africa	**50**	50
Absa Bank Limited and its subsidiaries	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers and clients.	South Africa	**100**	100
Absa Representative Office (Nigeria) Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	**100**	100
Absa Vehicle Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	**100**	100
Home Obligor Mortgages Enhanced Securities (RF) Limited	Securitisation vehicle for Absa Home Loans division.	South Africa	**n/a**	n/a
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	**100**	100

A full list of subsidiaries and consolidated SEs is available, on request, at the registered address of the Group.

During the 2019 financial year, the re-branding process was successfully completed in relation to the following subsidiaries namely Mozambique, Nigeria, Uganda. In addition, the re-branding process for the resulting subsidiaries in Botswana, Zambia, Kenya, Tanzania, Mauritius and Ghana was completed by June 2020.

50. Related parties (continued)

50.2 Subsidiaries and consolidated structured entities (continued)

Name	Nature of business	Country of incorporation	Group 2020 % holding	Group 2019 % holding
Absa Financial Services and its subsidiaries	Holding company of financial service-related entities.	South Africa	**100**	100
Absa Financial Services Africa Holdings Proprietary Limited	Holding company of African financial service-related entities.	South Africa	**100**	100
Absa Fund Managers (RF) Proprietary Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.	South Africa	**100**	100
Absa Alternative Asset Management Proprietary Limited	Asset management.	South Africa	**100**	100
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.	South Africa	**100**	100
Absa Insurance Risk Management Services Limited	Providers short-term insurance and other related insurance products.	South Africa	**100**	100
Absa Life Botswana Proprietary Limited	Provides life assurance products focusing on risk and investment products that Absa's offering to various market segments in Botswana.	Botswana	**100**	100
Absa Life Limited	Provides life assurance products, focusing on risk and investment products, that complement the Group's offerings to various market segments.	South Africa	**100**	100
Absa Trust Limited	Trust administrative services.	South Africa	**100**	100
Absa Life Zambia Limited	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments in Zambia.	Zambia	**100**	100
Global Alliance Seguros, S.A.	Provides non-life insurance in Mozambique.	Mozambique	**100**	100
First Assurance Holdings Limited	Provides short-term insurance and other related insurance products.		**100**	100
Instant Life Proprietary Limited	Provides life assurance products through cell arrangements.	South Africa	**100**	75
Share trusts				
Absa Group Employee Incentive Trust	Share purchase and option scheme available to senior staff.	South Africa	**n/a**	n/a
Absa Empowerment Trust	To be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment scheme.	South Africa	**n/a**	n/a
Newshelf 1405 (RF) Proprietary Limited	To be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment scheme.	South Africa	**n/a**	n/a
Structured entities				
Absa Foundation Trust	Provides funding for community upliftment. It receives a percentage of the Group's dividends which it distributes to identified community-related projects.	South Africa	**n/a**	n/a
NewFunds Collective Investment Scheme	Collective investment scheme.	South Africa	**n/a**	n/a
iMpumelelo CP Note Programme 1 (RF) Limited	Special purpose, bankruptcy-remote company incorporated for the purpose of issuing Absa Bank guaranteed Commercial Paper and medium-term notes.	South Africa	**n/a**	n/a
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 SEs is available, on request, at the registered address of the Group.

During the current year the Group increased its shareholding in Instant Life Proprietary Limited from 75% to 100%. Instant Life Proprietary Limited remains a subsidiary before and after the increase; it is now considered a wholly owned subsidiary.

50. Related parties (continued)

50.2 Subsidiaries and consolidated structured entities (continued)

	Group 2020 Rm	Group 2019 Rm
Subsidiaries' aggregate profits and losses after taxation	**4 059**	13 188

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

There are significant restrictions on the ability of the Group to require distributions of capital, access the assets, or repay the liabilities of members of its group arising from regulatory and contractual requirements and from the protective rights of non-controlling interests.

Regulatory requirements

The Group's banking and insurance subsidiaries are subject to the regulatory capital (RC) requirements of the countries in which they operate. These require, inter alia, that these entities maintain minimum capital ratios which restrict the ability of these entities to make distributions to the parent company. Distributions are also restricted by leverage constraints, large exposure limits and local legal licence requirements.

The requirements to maintain capital also affect certain equity and non-equity instruments in these subsidiaries such as Tier 1 and Tier 2 capital instruments and other subordinated liabilities which enable subsidiaries to meet their ratios. To the extent that these are retired, they must be replaced with instruments of similar terms.

The minimum amount of RC required to be maintained by the Group was **R105.2bn** (2019: R100.1bn).

Contractual requirements

Certain of the Group's securitisation and SEs hold assets or interests in assets that are only available to meet the liabilities of those entities and may have issued public debt securities. The Group has the ability to wind up these structures and repay the notes, but only on the occurrence of certain contingencies, such as changes in tax laws or regulatory requirements. The carrying amount of the assets and liabilities of the entities to which these restrictions apply as at 31 December 2020 was **R10.5bn** and **R10.4bn** respectively (2019: R10.6bn and R10.5bn respectively).

Protective rights of non-controlling interests

Absa Bank Limited has issued equity preference shares in issue, which are non-controlling interests of the Group. Under the terms of these instruments, the preference shareholders will not be entitled to vote at any meeting of Absa Bank Limited, unless the preference dividend is declared, but remains in arrear and unpaid after six months from the due date. Alternatively, voting rights will be granted if a resolution of Absa Bank Limited is proposed which directly affects the rights attached to the Absa Bank Limited preferences shares, which shall include any resolutions for the winding up of Absa Bank Limited or for the reduction of its share capital or share premium accounts.

The particulars of these instruments are shown in note 27.

50. Related parties (continued)

50.4 Associates, joint ventures and retirement benefit fund

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

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

	Group		
	2020		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments	—	581	—
Value of Absa defined contribution pension fund investments	—	—	—
Value of Absa Group Limited shares held by defined benefit pension fund	—	36	36
Value of other Absa Group Limited securities held by defined benefit pension fund	—	556	556
Statement of financial position			
Other assets	6	—	6
Loans and advances to customers	26 885	—	26 885
Other liabilities	(12)	—	(12)
Deposit due to customer	(211)	—	(211)
Statement of comprehensive income			
Interest income from joint ventures and associates and on pension plan assets[1]	1 614	99	1 713
Interest expense on defined benefit obligation[1]	(14)	(99)	(113)
Fee and commission income	73	—	73
Fee and commission expense	(3)	—	(3)
Current service costs (refer to note 45)[1]	—	—	—
Past service curtailments	—	—	—
Operating expenses	(1 182)	—	(1 182)
Operating income	1	—	1

	2019		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments[2]	—	620	620
Value of Absa defined contribution pension fund investments[2]	—	—	—
Value of Absa Group Limited shares held by defined benefit pension fund[2]	—	52	52
Value of other Absa Group Limited securities held by defined benefit pension fund[2]	—	632	632
Statement of financial position			
Other assets[2]	—	—	—
Loans and advances to customers	28 490	—	28 490
Other liabilities[2]	—	—	—
Statement of comprehensive income			
Interest income from joint ventures and associates and on pension plan assets[1, 2]	2 031	130	2 161
Interest expense on defined benefit obligations[1, 2]	—	(130)	(130)
Fee and commission income	158	—	158
Fee and commission expense	(114)	—	(114)
Current service costs (refer to note 45)[1, 2]	—	—	—
Past service curtailments[2]	—	—	—
Operating expenses	(1 193)	—	(1 193)

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

[2] Disclosure of defined benefit and defined contribution plan investments managed by the group has been updated as follows: investments managed by Global Alliance, a 100% held subsidiary, have been included for both 2020 and 2019, per the above table. This was previously inadvertently omitted from the disclosures; and investments managed by Absa Consultants and Actuaries (Pty) Ltd have been removed from the 2019 disclosure, as the entity is no longer a related party per IAS 24. The impact was a reduction in the amount disclosed of R6 529m in value of defined benefit pension fund and post-retirement medical aid plan investments, R19 561m in value of Absa defined contribution pension fund investments, R473m in other assets, R425m in other liabilities, R1 054m in interest income from joint ventures and associates and on pension plan assets, R831m in interest expense on defined benefit obligation, R42m in current costs services, R2m in past curtailments, and increased by R44m in value of Absa Group Limited shares held by defined benefit pension fund and R605m in value of other Absa Group Limited securities held by defined benefit pension fund in 2019 disclosure.

50. Related parties (continued)

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

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

		Group	
Name	Nature of business	2020 Ownership %	2019 Ownership %
Equity-accounted associates			
SBV Services Proprietary Limited	Cash transportation services.	**25**	25
Document Exchange Association	Facilitates the electronic exchange of documents between the banks.	**25**	25
South African Bankers Services Company Proprietary Limited	Automatic clearing house.	**23**	23
Equity-accounted joint ventures			
FFS Finance South Africa (RF) Proprietary Limited	Provides financing solutions to Ford Motor Company customers.	**50**	50
Integrated Processing Solutions Proprietary Limited	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	**50**	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 Group.

SBV Services Proprietary Limited and The South Africa Bankers Services Company Proprietary Limited have a reporting date 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 Group, as well as Standard Bank have given an official notice to exit cheque instruments with effect from 31 December 2020 and consequently no longer requiring the services of cheque processing provided by Integrated Processing Solutions Proprietary Limited (IPS).

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.

51. 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 Group will act in this capacity. The Group may therefore hold a direct interest in the fund, but the magnitude of such interest will vary with sufficient regularity. Whether the Group consolidates any of the funds depends on the magnitude of the interest held therein, as well as on the Group's ability to direct the relevant activities of the fund, either directly or indirectly. The Group, through its contractual undertaking to act as market maker, ensures that liquidity is always maintained. The Group earns management fee income from its involvement in the funds. To the extent that the Group holds participatory units in the funds, the Group will receive distributions recognised as investment income, as well as unrealised gains and losses on the revaluations thereof. ETFs are regulated by the Financial Sector Conduct Authority and the Collective Investment Schemes Control Act, No. 45 of 2002.

Securitisation vehicles

The Group has used SEs in order to securitise loans that were originated by the Group. These entities have minimal equity and therefore rely on funding in the form of notes in order to acquire the underlying loans. The Group transfers the contractual right to receive cash flows on the underlying loans, but in many instances, does not relinquish 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 Group purchases either senior notes or junior notes and sells derivatives to the entity. When the securitisation vehicles are established to run entirely on autopilot or when the only relevant activity of the entity constitutes recovery of the securitised loans in the event of default, then provided such activity is not directed by the Group, the Group will not have power over the relevant activities of the vehicle. The Group earns interest income on the notes issued by the vehicles, together with management fees from the Group's ongoing involvement. To the extent that the notes are fair valued, unrealised gains and losses are generated, which are recognised by the Group in profit or loss.

51. Structured entities (continued)

Fund management

The Group manages a number of unit trust funds, ranging from lower risk fixed income funds to higher risk specialist equity funds, which are either managed solely by the Group or form part of the Group's multi-management offering. Unit trusts are regulated by the Financial Sector Conduct Authority and the Collective Investment Schemes Control Act. The Group's interest is generally restricted to fund service and asset management fees, which are based on assets under management. The Group may hold direct interests in a number of the funds; however, the magnitude of such interest varies with sufficient regularity. Whether the Group consolidates any of these funds through its direct interest depends on the magnitude of the interest held therein, as well as on the Group's ability to direct the relevant activities of the fund, either directly or indirectly. The Group earns management fee income from its involvement in the funds, as well as unrealised gains and losses as a result of revaluations of the units held directly in the funds.

Structured investment vehicles

The Group holds investments in a number of vehicles which were established and are managed by third-party fund managers. These vehicles are generally not consolidated by the Group on the basis that the relevant activities of the vehicles are directed by the fund manager, and no substantive kick-out rights exist. The investments held in the vehicles are measured at fair value with changes therein being recognised in profit or loss. Distributions made by the vehicles will be recognised as investment income in profit or loss. The vehicles are funded through the commitment and provision of capital by investors.

Preference share funding vehicles

The Group provides financing to a number of SEs, established and managed by clients, in the form of a subscription for cumulative redeemable preference shares. These instruments typically have the economic characteristics of vanilla debt instruments, and as such the Group recognises interest income from its investments. Often the Group subscribes for preference shares in these vehicles together with other financial institutions on a syndicated basis. The Group does not have the ability to direct the relevant business activities in these vehicles and therefore in the absence of control, the vehicles are not consolidated. An entity which forms part of the same group of companies as the preference share funding vehicle, most commonly the parent company, writes the Group a financial guarantee or a put option, so as to provide security in the event of default.

Funding vehicles

The Group provides funding in the form of loans to bankruptcy remote SEs to enable them to purchase fixed assets, such as property. The loans are fully collateralised by the underlying asset, and the repayment of principal and interest is met through the receipt of lease income. The loans are subject to guarantees received from the parent company, or from other trading entities within the same group of companies. The Group earns interest on the loans. The loans are either measured at amortised cost, or are designated as at fair value through profit or loss.

51.1 Consolidated structured entities

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

			Group	
Name	Nature of support	Reason for providing support	2020 Rm	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 Group has consolidated The Absa Foundation Trust since 2006 and new ETFs since 2017.

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

51. Structured entities (continued)

51.2 Unconsolidated structured entities

The level of risk that the Group is exposed to is determined by the nature and purpose of it holding an interest in the entity.

Owing to the large number of SEs in which the Group holds an interest, information about such entities has been aggregated according to the purpose for which the entity was established.

	Group						
	2020						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
Assets							
Investment securities	—	187	213	—	3 374	—	3 774
Debt securities	—	—	213	—	—	—	213
Equity securities	—	187	—	—	3 374	—	3 561
Loans and advances to customers	23 745	—	—	707	—	37	24 489
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	—	272	—	—	272
	23 745	187	213	979	3 374	37	28 535
Liabilities							
Derivatives held for trading	—	—	—	—	—	—	—
Interest rate derivatives (carrying value)	—	—	—	—	—	—	—
Interest rate derivatives (notional value)[1]	—	—	—	—	—	—	—
Deposits due to customers	—	—	—	—	—	—	—
	—	—	—	—	—	—	—
Maximum exposure to loss[2]	23 745	187	213	979	3 374	37	28 535
Total size of entities[3]	117 510	165 624	213	1 840	31 214	37	316 438

[1] There are no liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interest in unconsolidated structured assets.

[2] The Group's maximum exposure to loss has been calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance. The actual loss, due to the collateral held by the entities, the availability of netting and credit protection held is likely to be less in most cases.

[3] Total size of entities is measured relative to total assets.

51. Structured entities (continued)

51.2 Unconsolidated structured entities (continued)

	2019						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
Assets							
Investment securities	—	303	506	—	1 384	—	2 193
Debt securities	—	—	506	—	—	—	506
Equity securities	—	303	—	—	1 384	—	1 687
Loans and advances to customers	20 660	—	—	767	—	32	21 459
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	—	341	—	—	341
	20 660	303	506	1 108	1 384	32	23 993
Liabilities							
Derivatives held for trading	—	—	—	—	—	—	—
Interest rate derivatives (carrying value)	—	—	—	—	—	—	—
Interest rate derivatives (notional value)[1]	—	—	—	—	—	—	—
Maximum exposure to loss[2]	20 660	303	506	1 108	1 384	32	23 993
Total size of entities[3]	128 375	144 040	506	1 998	29 346	32	304 297

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

Financial support provided or to be provided to unconsolidated structured entities

The Group did not provide any financial support during the current financial reporting period (2019: Rnil) to unconsolidated structured entities.

51.3 Sponsored entities

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

Assets transferred to unconsolidated sponsored structured entities

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

[1] There are no liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interest in unconsolidated structured assets.

[2] The Group's maximum exposure to loss has been calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance. The actual loss, due to the collateral held by the entities, the availability of netting and credit protection held is likely to be less in most cases.

[3] Total size of entities is measured relative to total assets.

	Group	
	(Unaudited) 2020 Rm	(Unaudited) 2019 Rm
52. Assets under management and administration		
Alternative asset management and exchange-traded funds	**68 039**	70 249
Deceased estates	**3 234**	2 474
Other	**274 620**	24 506
Portfolio management	**18 765**	17 962
Trusts	**5 294**	5 346
Unit trusts	**211 059**	215 830
	581 011	336 367

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

	Group	
	2020 Rm	2019 Rm
53. Contingencies, commitments and similar items		
Guarantees	**45 405**	45 325
Irrevocable debt facilities	**176 264**	174 827
Irrevocable equity facilities	**—**	7
Letters of credit	**12 722**	10 463
Other	**—**	1
	234 391	230 623
Authorised capital expenditure		
Contracted but not provided for	**758**	1 174

Guarantees include performance guarantee contracts and financial guarantee contracts.

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

Irrevocable facilities are commitments to extend credit where the Group does not have the right to terminate the facilities by written notice.

Irrevocable debt facilities do not include other lending facilities which are revocable but for which an impairment provision has been raised (i.e. revolving products). The value of exposure to these other lending facilities is included in the credit risk disclosure, whereas the above table presents only those gross loan commitments that are contractually committed and are legally irrevocable.

Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

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

53. Contingencies, commitments and similar items (continued)

Legal matters

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

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

At the present time, the Group does not expect the ultimate resolution of any of these other matters to have a material adverse effect on its financial position. However, in light of the uncertainties involved in such matters 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 Group's results of operations or cash flow for a particular period, depending on, among other things, the amount of the loss resulting from the matter(s) and the amount of income otherwise reported for the reporting period.

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

Regulatory 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 Group's control. Some of these are likely to have an impact on the Group's businesses, systems and earnings.

The Group is continuously evaluating its programmes and controls in general relating to compliance with regulation. The Group undertakes monitoring, review and assurance activities, and the Group 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 Group is subject to income taxes in numerous jurisdictions and the calculation of the Group'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 Group's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority.

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

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

	Group 2020 Rm	Group 2019 Rm
54. Cash and cash equivalents		
Cash, cash balances and balances with central banks[1]	14 403	14 033
Loans and advances to banks[2]	2 393	4 255
	16 796	18 288

	Group 2020 Rm	Group 2019 Rm
55. Deferred cash and share-based payments		
Share-based payments expense	386	509
Equity-settled arrangements:		
Absa Group Share Incentive Plan Performance Award (SIPP)	171	214
Absa Group Limited Share Incentive Plan Retention Buyout Award (SIPRB)	18	27
Absa Group Limited Share incentive Plan Deferred Award (SIPD)	218	207
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)	(18)	18
Absa Group Limited Share Incentive Plan Retention Buyout Award (SIPRB)	1	—
Absa Group Limited Phantom Joiners Share Award Plan (JSAP)	0	9
Absa Group Limited Share incentive Plan Deferred Award (SIPD)	(4)	4
Absa Group Limited Role Based Pay (RBP)	0	0
Absa Group Limited Restricted Share Value Plan (RSVP)	(5)	11
Deferred cash expense		
Absa Group Limited Cash Value Plan (CVP)	82	162
Total deferred cash and share-based payments (refer to note 38)	468	671
Total carrying amount of liabilities for cash-settled arrangements (refer to note 18)	184	339
Total carrying amount of the equity-settled share-based payment arrangements (refer to the statement of changes in equity)	383	926

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Absa Group Limited share price.

During 2020, new Share Incentive Plan scheme rules replaced the previous Long-Term Incentive Plan and Share Value Plan rules, with awards from 2020 onwards made under the new scheme rules. The terms of awards granted prior to 2020 were not modified and as such there was no impact on the accounting treatment of such awards.

Absa Group Limited Share Incentive Plan Performance Award (previously Long-Term Incentive Plan – LTIP)

Qualifying participants of the Share Incentive Plan Performance Award (SIPP) will be entitled to Absa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Absa Group Limited ordinary shares. The Group retains the obligation to settle in cash certain SIPP awards that are prohibited from being equity-settled. The award will be issued by Absa Group Limited. In order for the participant to be entitled to these awards, the participant needs to render three years or five years (depending on the grant received) of service and the requisite performance conditions need to be met. Dividends may accumulate and are reinvested over the vesting period.

Absa Group Limited Share Incentive Plan Retention Buyout Award (previously Joiners Share Value Plan – JSVP)

The Share Incentive Plan Retention Buyout Award (SIPRB) enables the Group to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends may accumulate and are reinvested over the vesting period, which will align with the vesting period of the previous employer.

[1] Includes coins and bank notes.

[2] Includes call advances, which are used as working capital by the Group.

Notes to the consolidated financial statements

for the reporting period ended 31 December

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

Absa Group Limited Share Incentive Plan Deferred Award (previously Share Value Plan – SVP)

The Share Incentive Plan Deferred Award (SIPD) (and any associated notional dividends) are awarded at no cost to the participants. The awards typically vest in equal tranches after one to five years. The Group retains the obligation to settle in cash certain SVP awards that are prohibited from being equity-settled. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends may accumulate and are reinvested over the vesting period.

Absa Group Limited Restricted Share Value Plan

The Restricted Share Value Plan (RSVP) awards (and any associated notional dividends) are awarded at no cost to the participants. Vesting periods range from two to five years, with each tranche subject to its own independent non-market-related performance condition on vesting. The Group retains the obligation to settle in cash certain restricted SVP awards that are prohibited from being equity-settled. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends may accumulate and are reinvested over the vesting period.

Absa Group Limited 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 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 Group 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 Base Pay

The Role Based Pay (RBP) is a cash-settled share scheme for code staff. It limits the maximum level of variable compensation that may be paid to certain employees to 1x fixed pay, or 2x fixed pay with shareholder approval. The cash element will be paid at the same time as the salaries and the share element will be delivered quarterly, with the shares subject to a holding period. Dividends accumulate and are reinvested over the vesting period

	Number of awards '000									
	2020					2019				
	Opening balance	Granted	Forfeited	Exercised	Closing balance	Opening balance	Granted	Forfeited	Exercised	Closing balance
Equity-settled:										
SIPP	14 465	8 270	(3 693)	(4 650)	14 392	8 197	6 935	(664)	(3)	14 465
SIPRB	262	160	(30)	(178)	214	398	151	(69)	(218)	262
SIPD	2 758	4 010	(322)	(1 272)	5 174	2 991	1 418	(284)	(1 367)	2 758
SIA	—	—	—	—	—	74	—	(25)	(49)	—
RSVP	364	—	—	(293)	71	1 348	—	(106)	(878)	364
SVP Cliff	5	—	(1)	(4)	—	22	—	(4)	(13)	5
Cash-settled:										
SIPP	921	314	(248)	(359)	628	701	313	(93)	—	921
SIPRB	25	9	—	(13)	21	27	12	—	(14)	25
SIPD	42	43	(18)	(13)	54	53	9	(1)	(19)	42
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.

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

	Weighted average share price at the exercise date (Rands)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (Rands)	
	2020	2019	2020	2019	2020	2019
Equity-settled:						
SIPP	**144.69**	144.69	**2.02**	1.57	**75.00**	156.06
SIPRB	**157.44**	152.04	**0.93**	0.85	**119.42**	161.76
SIPD	**174.99**	167.66	**1.07**	0.91	**75.10**	167.12
SIA	**—**	198.50	**—**	—	**—**	—
RSVP	**142.00**	144.22	**0.30**	0.92	**—**	—
SVP Cliff	**145.37**	145.97	**—**	0.34	**—**	—
Cash-settled:						
SIPP	**80.48**	—	**1.96**	1.29	**75.00**	153.69
SIPRB	**88.08**	151.14	**0.95**	1.22	**80.14**	155.94
SIPD	**119.62**	166.68	**1.10**	0.74	**75.00**	167.12
RSVP	**102.10**	160.78	**—**	0.75	**—**	—
RBP	**105.12**	165.25	**—**	0.30	**—**	—

Future cash flow effects associated with equity-settled share-based payments

	Group			
	2020			
	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Estimate of amount expected to be transferred to tax authorities	**142**	**185**	**—**	**327**

	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	473	111	—	584

The estimates provided above indicate the amounts which are expected to be transferred to tax authorities relating to the employees' tax obligations on equity schemes which have been granted but which vest in future periods. The amounts were estimated based on the number of awards expected to vest, the share price as at year end and an estimate of the average applicable employee effective tax rate.

Deferred cash

Absa Group Limited Cash Value Plan

The Cash Value Plan (CVP) is a deferred cash-settled payment arrangement. The award will vest in equal tranches over a period of three and five years, subject to the rules which include a 10% service credit for the final anniversary of the CVP award date. The service credit for awards granted in 2020 is **10%** (2019: 10%) of the initial value of the award that vests.

56. Acquisitions and disposals of businesses and other similar transactions

56.1 Acquisitions of businesses during the current reporting period

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

In terms of IFRS 10 Consolidated Financial Statements, an entity should be consolidated once an investor has sufficient exposure to the variable returns of the entity, as well as the ability to effect the returns through its power over the investee. The Absa Balanced Fund is a unit trust fund managed by the Group; and therefore has sufficient exposure to and the ability to effect its returns. In addition, policyholders invest in the fund through investment products; for which the Group does not achieve derecognition in terms of IFRS.

Consequently the Group recognised the policyholders' investment in the fund (previously as 'investments linked to investment contracts'); together with an obligation to transfer all benefits to the policyholders as 'liabilities under investment contracts'. The effective holding in the Absa Balanced Fund, a unit trust managed by the Group, increased to the extent that the Group has a right to a significant component of the variable returns from the fund; therefore warranting consolidation. At the time of consolidation of the fund, the assets and liabilities of the fund (before eliminating assets already owned by the Group) amounted to **R1 593m** each; with a net asset value of **Rnil**. After the effect of eliminating assets already owned by the Group, the attributable fair value of the net assets acquired is **R530m**, fair value of investment at point of consolidation is **R530m**, and following the requirements of IFRS 3, no gain nor goodwill was recognised in connection with the increased holdings acquired.

	Group		
	Societe Generale Rm	Absa Balanced Fund Rm	2020 Fair value recognised on acquisition Rm
Recognised amounts of identifiable assets acquired and liabilities assumed			
Cash and balances at central banks	220	7	227
Property and equipment	1	—	1
Investment securities	—	533	533
Loans and advances to customers	159	—	159
Other assets	—	3	3
Investments linked to investment contracts	—	1 050	1 050
Intangible assets	35	—	35
Deposits due to customers	(317)	—	(317)
Liabilities to customers under investment contracts	—	(1 044)	(1 044)
Other liabilities	—	(19)	(19)
Provisions	(12)	—	(12)
Total identifiable net assets	86	530	616
Fair value of investment at point of consolidation	—	(530)	(530)
Gain on bargain purchase	86	—	86

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

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

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

56.3 Acquisitions and disposals of businesses during the previous reporting period

There were no acquisitions or disposals of businesses during the previous reporting period.

Notes to the consolidated financial statements

for the reporting period ended 31 December

57. Segment report

57.1 Summary of segments

The Group has identified its operating model with 'geography' and 'customer' as primary dimensions, creating a platform for increased focus and dedicated management capacity. The identified reportable segments are in a manner in which the Group's businesses are managed and reported to the Chief Operating Decision Maker (CODM).

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

- **RBB South Africa:** offers retail, business banking and insurance products within South Africa.
- **CIB South Africa:** offers corporate and investment banking solutions in South Africa and Absa Regional Operations.
- **ARO:** offers a range of banking products to businesses, as well as individual customers on the African continent, outside of South Africa.
- **Head Office, Treasury and other operations in South Africa:** consists of various non-banking activities and includes investment income earned by the Group, as well as income earned by Absa Manx Holdings and Corporate Real Estate Services.
- **Barclays separation:** Barclays PLC contributed R12.1 billion to the Group in June 2017, primarily in recognition of the investments required for the Group 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 Group over time. The separation process will increase the capital base of the Group in the near term and generate endowment revenue thereon, with increased costs over time as the separation investments are concluded. The Group has therefore included an additional reconciling stripe, 'Barclays separation effects' in its segment results.

The divisions 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:**
  - **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 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 and digital 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 the business units and associated products, where a named relationship exists and was formed to provide customers with a single 'warm-body' relationship manager rather than multiple touch points with the Group. The businesses consolidated into Relationship Banking include Card Acquiring, Commercial Asset Finance (CAF), Business Banking (including associated lending, transactional and deposit products), Private Banking, Wealth and Financial Advisory. Relationship Banking also includes an Equity portfolio which is being reduced in an orderly manner.
  - **Insurance Cluster:**
    - **Life Insurance** – offers life insurance, covering death, disability and retrenchment, as well as funeral and life wrapped investment products.
    - **Short-term Insurance** – provides short-term insurance solutions to the retail and commercial market segments. A direct-to-client short-term solution, Absa idirect, is also available to the retail market.
  - **Retail and Business Banking Other (RBB Other):** includes investment spend, cost associated with the restructure, holding companies and related consolidation entries and allocated shareholder overhead expenses.

57. Segment report (continued)

57.1 Summary of segments (continued)

- **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 sales, trading and research activities across all major asset classes and products in our presence markets, 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.
- **ARO:**
  - **RBB ARO:** offers a comprehensive suite of retail and business banking products and services to individual and commercial customers on the African continent outside of South Africa.
  - **CIB ARO:** 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 ARO includes the following sub-divisions:
    - **Corporate** – provides corporate banking solutions spanning financing and transactional banking requirements, trade and working capital, and a full suite of cash management solutions, including payments and liquidity products. These services are provided across our combined pan-African institutional and corporate client base, including public sector.
    - **Investment Bank comprising:**
      - * 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 to meet clients' strategic advisory, financing and risk management requirements across various sectors.

Other reconciling stripes

- **Head Office, Treasury and other operations in South Africa:** consists of various non-banking activities.
- **Barclays separation effects:** Barclays PLC contributed R12.1 billion to the Group in June 2017, primarily in recognition of the investments required for the Group 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 Group over time. The separation process will increase the capital base of the Group in the near term and generate endowment revenue thereon, with increased costs over time as the separation investments are concluded. The Group has therefore included an additional reconciling stripe, 'Barclays separation effects' in its segment results.

	Group		
	2020		
	South Africa and other international operations Rm	Africa Regions Rm	Total Rm
57.2 Segment report per geographical segment			
Net interest income – external	34 965	13 892	48 857
Non-interest income – external	25 939	6 797	32 736
Total assets	1 304 499	226 621	1 531 120

	2019		
	South Africa and other international operations Rm	Africa Regions Rm	Total Rm
Segment report per geographical segment			
Net interest income – external	33 907	12 594	46 501
Non-interest income – external	27 144	6 475	33 619
Total assets	1 179 039	220 136	1 399 175

57. Segment report (continued)

	RBB South Africa		CIB South Africa	
	2020 Rm	2019 Rm	2020 Rm	2019[1] Rm
Statement of comprehensive income (Rm)				
Net interest income	27 182	26 191	8 276	7 278
Non-interest income	21 395	23 381	4 258	3 762
Total income	48 577	49 572	12 534	11 040
Impairment losses	(14 621)	(6 253)	(1 951)	(367)
Operating expenses	(26 406)	(28 581)	(6 490)	(6 503)
Depreciation and amortisation	(1 969)	(1 948)	(164)	(166)
Other operating expenses	(24 437)	(26 633)	(6 326)	(6 337)
Other expenses	(697)	(814)	(118)	(113)
Other impairments	(123)	(147)	—	(6)
Indirect taxation	(574)	(667)	(118)	(107)
Share of post-tax results of associates and joint ventures	(61)	196	(3)	13
Operating profit before income tax	6 792	14 120	3 972	4 070
Tax expenses	(1 907)	(3 922)	(495)	(534)
Profit for the reporting period	4 885	10 198	3 477	3 536
Profit attributable to:				
Ordinary equity holders	4 173	9 416	3 121	3 226
Non-controlling interest – ordinary shares	172	306	—	—
Non-controlling interest – preference shares	186	212	121	140
Non-controlling interest – additional Tier 1 capital	354	264	235	170
	4 885	10 198	3 477	3 536
Headline earnings	4 270	9 510	3 035	3 230
Statement of financial position (Rm)				
Loans and advances to customers	517 253	506 478	303 402	298 229
Loans and advances to banks	15 458	14 411	58 203	41 881
Investment securities	31 212	31 436	43 122	42 382
Other assets	404 169	364 739	408 004	278 320
Total assets	968 092	917 064	812 731	660 812
Deposits due to customers	416 395	372 564	282 771	207 461
Debt securities in issue	—	—	18 276	16 612
Other liabilities	540 246	528 014	506 309	430 658
Total liabilities	956 641	900 578	807 356	654 731

[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 R398 035m (previously reported as R365 775m) and simultaneously increased Investment Bank SA's reliance on funding from Group Treasury (other liabilities) to R714 353m (previously reported as R682 093m). 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 Group.

ARO		Head Office, Treasury and other operations in South Africa		Total before Barclays separation effects		Barclays separation effects		Group	
2020 Rm	2019 Rm	2020 Rm	2019[1] Rm	2020 Rm	2019 Rm	2020 Rm	2019 Rm	2020 Rm	2019 Rm
13 879	12 564	(547)	273	48 790	46 306	67	195	48 857	46 501
6 270	6 041	669	471	32 592	33 655	144	(36)	32 736	33 619
20 149	18 605	122	744	81 382	79 961	211	159	81 593	80 120
(3 995)	(1 213)	(2)	17	(20 569)	(7 816)	—	—	(20 569)	(7 816)
(12 085)	(10 753)	(595)	(520)	(45 576)	(46 357)	(2 535)	(2 410)	(48 111)	(48 767)
(784)	(736)	(2 170)	(1 814)	(5 087)	(4 664)	(872)	(342)	(5 959)	(5 006)
(11 301)	(10 017)	1 575	1 294	(40 489)	(41 693)	(1 663)	(2 068)	(42 152)	(43 761)
(537)	(367)	(886)	(599)	(2 238)	(1 893)	(270)	(113)	(2 508)	(2 006)
—	(1)	(222)	(165)	(345)	(319)	(119)	(11)	(464)	(330)
(537)	(366)	(664)	(434)	(1 893)	(1 574)	(151)	(102)	(2 044)	(1 676)
—	—	28	12	(36)	221	—	—	(36)	221
3 532	6 272	(1 333)	(346)	12 963	24 116	(2 594)	(2 364)	10 369	21 752
(1 556)	(1 903)	352	49	(3 606)	(6 310)	450	538	(3 156)	(5 772)
1 976	4 369	(981)	(297)	9 357	17 806	(2 144)	(1 826)	7 213	15 980
1 595	3 661	(977)	(300)	7 912	16 003	(2 032)	(1 747)	5 880	14 256
381	708	(4)	2	549	1 016	(112)	(79)	437	937
—	—	—	—	307	352	—	—	307	352
—	—	—	1	589	435	—	—	589	435
1 976	4 369	(981)	(297)	9 357	17 806	(2 144)	(1 826)	7 213	15 980
1 589	3 635	(929)	(110)	7 965	16 265	(1 927)	(1 739)	6 038	14 526
108 249	111 465	1 065	806	929 969	916 978	—	—	929 969	916 978
18 910	14 847	(8 033)	(11 394)	84 538	59 745	—	—	84 538	59 745
47 165	35 675	32 005	7 254	153 504	116 747	—	—	153 504	116 747
50 914	56 000	(505 134)	(398 035)	357 953	301 024	5 156	4 681	363 109	305 705
225 238	217 987	(480 097)	(401 369)	1 525 964	1 394 494	5 156	4 681	1 531 120	1 399 175
159 233	150 388	93 495	95 880	951 894	826 293	—	—	951 894	826 293
2 105	2 855	125 359	140 327	145 740	159 794	—	—	145 740	159 794
42 585	42 248	(788 356)	(714 353)	300 784	286 567	399	(2 162)	301 183	284 405
203 923	195 491	(569 502)	(478 146)	1 398 418	1 272 654	399	(2 162)	1 398 817	1 270 492

57. Segment report (continued)

	Home Loans 2020 Rm	Home Loans 2019 Rm	Vehicle and Asset Finance 2020 Rm	Vehicle and Asset Finance 2019 Rm	Everyday Banking 2020 Rm	Everyday Banking 2019 Rm
Statement of comprehensive income						
Net interest income	**4 478**	4 072	**2 604**	2 320	**12 621**	12 872
Non-interest income	**457**	467	**540**	530	**11 332**	12 241
Total income	**4 935**	4 539	**3 144**	2 850	**23 953**	25 113
Impairment losses	**(2 189)**	(182)	**(3 062)**	(1 099)	**(7 337)**	(4 653)
Operating expenses	**(1 940)**	(1 979)	**(1 339)**	(1 493)	**(13 415)**	(14 867)
Depreciation and amortisation	**(8)**	(6)	**(13)**	(25)	**(98)**	(128)
Other operating expenses	**(1 932)**	(1 973)	**(1 326)**	(1 468)	**(13 317)**	(14 739)
Other	**(46)**	(38)	**(29)**	(30)	**(120)**	(173)
Other impairments	**(1)**	—	**(3)**	(3)	**(14)**	(15)
Indirect taxation	**(45)**	(38)	**(26)**	(27)	**(106)**	(158)
Share of post-tax results of associates and joint ventures	**—**	—	**(17)**	179	**—**	—
Operating profit before income tax	**760**	2 340	**(1 303)**	407	**3 081**	5 420
Tax expenses	**(173)**	(636)	**372**	(55)	**(852)**	(1 503)
Profit for the reporting period	**587**	1 704	**(931)**	352	**2 229**	3 917
Profit attributable to:						
Ordinary equity holders	**453**	1 588	**(995)**	296	**1 953**	3 489
Non-controlling interest – ordinary shares	**—**	—	**—**	—	**152**	299
Non-controlling interest – preference shares	**46**	52	**22**	25	**43**	58
Non-controlling interest – additional Tier 1 capital	**88**	64	**42**	31	**81**	71
	587	1 704	**(931)**	352	**2 229**	3 917
Headline earnings	**453**	1 588	**(993)**	299	**1 967**	3 500
Statement of financial position						
Loans and advances to customers	**247 679**	237 391	**89 129**	83 740	**58 022**	61 386
Loans and advances to banks	**641**	417	**—**	—	**12 720**	12 044
Investment securities	**12 369**	12 311	**4 284**	4 267	**3 395**	3 714
Other assets	**20 214**	12 576	**3 438**	3 218	**247 280**	231 330
Total assets	**280 903**	262 695	**96 851**	91 225	**321 417**	308 474
Deposits due to customers	**1 833**	1 508	**—**	—	**247 328**	227 212
Debt securities in issue	**—**	—	**—**	—	**—**	—
Other liabilities	**277 781**	259 113	**96 770**	90 027	**70 837**	76 735
Total liabilities	**279 614**	260 621	**96 770**	90 027	**318 165**	303 947

	Relationship Banking 2020 Rm	Relationship Banking 2019 Rm	Insurance Cluster 2020 Rm	Insurance Cluster 2019 Rm	Retail and Business Banking Other 2020 Rm	Retail and Business Banking Other 2019 Rm	RBB South Africa 2020 Rm	RBB South Africa 2019 Rm
	8 058	7 538	9	27	(588)	(638)	27 182	26 191
	5 588	6 349	2 917	3 208	561	586	21 395	23 381
	13 646	13 887	2 926	3 235	(27)	(52)	48 577	49 572
	(2 032)	(322)	—	—	(1)	3	(14 621)	(6 253)
	(7 717)	(8 175)	(1 179)	(1 224)	(816)	(843)	(26 406)	(28 581)
	(317)	(278)	(57)	(59)	(1 476)	(1 452)	(1 969)	(1 948)
	(7 400)	(7 897)	(1 122)	(1 165)	660	609	(24 437)	(26 633)
	(115)	(102)	(142)	(134)	(245)	(337)	(697)	(814)
	(75)	(17)	(2)	—	(28)	(112)	(123)	(147)
	(40)	(85)	(140)	(134)	(217)	(225)	(574)	(667)
	(45)	17	—	—	1	—	(61)	196
	3 737	5 305	1 605	1 877	(1 088)	(1 229)	6 792	14 120
	(1 079)	(1 460)	(474)	(598)	299	330	(1 907)	(3 922)
	2 658	3 845	1 131	1 279	(789)	(899)	4 885	10 198
	2 452	3 673	1 111	1 272	(801)	(902)	4 173	9 416
	—	—	20	7	—	—	172	306
	71	76	—	—	4	1	186	212
	135	96	—	—	8	2	354	264
	2 658	3 845	1 131	1 279	(789)	(899)	4 885	10 198
	2 522	3 672	1 114	1 273	(793)	(822)	4 270	9 510
	122 422	123 960	—	—	1	1	517 253	506 478
	401	170	1 025	1 326	671	454	15 458	14 411
	6 241	6 615	4 705	3 460	218	1 069	31 212	31 436
	89 494	68 048	27 915	32 003	15 828	17 564	404 169	364 739
	218 558	198 793	33 645	36 789	16 718	19 088	968 092	917 064
	167 223	143 833	—	—	11	11	416 395	372 564
	47 502	49 728	30 752	33 515	16 604	18 896	540 246	528 014
	214 725	193 561	30 752	33 515	16 615	18 907	956 641	900 578

57. Segment report (continued)

Disaggregation of non-interest income

The following table disaggregates non-interest income splitting it into income received from contracts with customers by major service lines and per reportable segment, and other items making up non-interest income:

	Group					
	2020					
	RBB South Africa Rm	CIB South Africa Rm	ARO Rm	Head Office, Treasury and other operations in SA Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	18 950	2 439	3 435	296	—	25 120
Consulting and administration fees	371	102	91	11	—	575
Transactional fees and commissions	14 686	1 665	2 958	(8)	—	19 301
Cheque accounts	4 945	134	33	—	—	5 112
Credit cards	2 135	—	205	—	—	2 340
Electronic banking	4 185	1 015	133	—	—	5 333
Other[1]	1 788	516	2 569	(8)	—	4 865
Savings accounts	1 633	—	18	—	—	1 651
Merchant income	2 094	—	115	—	—	2 209
Trust and other fiduciary services fees	187	33	5	1 166	—	1 391
Other fees and commissions	201	275	148	(134)	—	490
Insurance commissions received	1 394	—	110	(739)	—	765
Investment banking fees	17	364	8	—	—	389
Other income from contracts with customers	68	—	11	34	0	113
Other non-interest income, net of expenses	2 377	1 819	2 824	339	144	7 503
Total non-interest income	**21 395**	**4 258**	**6 270**	**669**	**144**	**32 736**

	2019					
	RBB South Africa Rm	CIB South Africa Rm	ARO Rm	Head Office, Treasury and other operations in SA Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	20 408	2 341	3 549	461	—	26 759
Consulting and administration fees	348	92	97	11	—	548
Transactional fees and commissions	16 104	1 640	2 979	(28)	—	20 695
Cheque accounts	5 334	138	25	—	—	5 497
Credit cards	2 719	—	204	—	—	2 923
Electronic banking	4 377	1 020	113	—	—	5 510
Other[1]	1 680	482	2 618	(28)	—	4 752
Savings accounts	1 994	—	19	—	—	2 013
Merchant income	2 097	—	184	8	—	2 289
Trust and other fiduciary services fees	238	3	5	1 262	—	1 508
Other fees and commissions	204	257	178	(105)	—	534
Insurance commissions received	1 371	—	102	(688)	—	785
Investment banking fees	46	349	4	1	—	400
Other income from contracts with customers	88	—	24	7	(2)	117
Other non-interest income, net of expenses	2 886	1 421	2 467	3	(34)	6 743
Total non-interest income	**23 382**	**3 762**	**6 040**	**471**	**(36)**	**33 619**

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

58. Derivatives

58.1 Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks.

The derivative instrument contract value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group's net interest income, net trading income, net fee and commission income and derivative assets and liabilities.

At the reporting date, the Group did not have any compound financial instruments with multiple embedded derivatives in issue.

The Group trades the following derivative instruments:

Foreign exchange derivatives

The Group's principal exchange rate-related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Interest rate derivatives

The Group's principal interest rate-related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount.

Credit derivatives

The Group's principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default, or downgrades by a rating agency.

A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer of the protection in return receives a predetermined amount.

Equity derivatives

The Group's principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Group also enters into fund-linked derivatives, being swaps and options which include mutual funds, hedge funds, indices and multi-asset portfolios as underlying.

Commodity derivatives

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

58.2 Notional amount

The gross notional amount is the sum of the absolute value of all contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Group's participation in derivative contracts and not the market risk position nor the credit exposure arising on such contracts.

The absolute value of all contracts is also not indicative of the Group's net exposure to, or position in any of the markets that the Group trades in.

58. Derivatives (continued)

58.3 Derivative financial instruments

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

	Group					
	2020			2019		
	Assets Rm	Liabilities Rm	Notional contract amount Rm	Assets Rm	Liabilities Rm	Notional contract amount Rm
Derivatives held for trading (refer to note 5 and note 17)	98 852	(87 928)	6 329 076	57 582	(46 023)	6 834 352
Derivatives designated as hedging instruments (refer to note 5 and note 17)	11 000	(4 868)	214 749	3 358	(1 379)	129 339
Other	2	—	2	6	—	253
Total derivatives	109 854	(92 796)	6 543 827	60 946	(47 402)	6 963 944

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

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

	Group					
	2020			2019		
	Assets Rm	Liabilities Rm	Notional contract amount Rm	Assets Rm	Liabilities Rm	Notional contract amount Rm
Foreign exchange derivatives	23 244	(20 895)	548 902	13 051	(12 249)	618 586
Forwards	3 210	(3 868)	78 513	2 339	(2 310)	64 434
Futures	0	—	7 065	0	0	40 393
Swaps	16 936	(15 924)	373 922	8 957	(9 317)	417 860
Options	3 098	(1 103)	89 402	1 755	(622)	95 899
Interest rate derivatives	69 825	(62 792)	5 592 085	38 530	(31 211)	5 946 541
Forwards	4 360	(4 905)	2 620 043	1 162	(1 278)	2 854 684
Futures	0	0	160 137	0	0	730 893
Swaps	65 362	(57 854)	2 808 935	37 280	(29 902)	2 353 673
Options	103	(33)	2 970	88	(31)	7 291
Equity derivatives	4 997	(3 152)	172 458	5 544	(1 882)	250 104
Forwards	1 630	(2 539)	27 604	314	(228)	11 888
Futures	—	0	74 432	0	0	80 098
Swaps	1 747	(525)	21 563	1 403	(677)	17 283
Options	1 620	(88)	34 791	3 827	(977)	42 617
Options – exchange traded	0	0	2 056	—	—	86 183
Other – OTC	0	0	12 012	—	—	12 035
Commodity derivatives	627	(765)	8 504	302	(475)	10 203
Forwards	319	(396)	8 342	225	(374)	7 363
Swaps	304	(367)	136	13	(40)	614
Options	4	(2)	26	64	(61)	2 226
Default swaps	159	(324)	7 127	155	(206)	8 918
Derivatives held for trading	98 852	(87 928)	6 329 076	57 582	(46 023)	6 834 352
Note	5	17		5	17	

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.

58. Derivatives (continued)

58.5 Derivative held for investment purposes

Derivatives held for investment purposes for the 2020 period had a notional value of **R2m** (2019: R253m) and an asset value of **R2m** (2019: R6m).

58.6 Counterparty netting and collateral

Derivative assets subject to counterparty netting agreements amounted to **R98 414m** (2019: R58 153m). Additionally, the Group 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 Group. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

58.7 Hedge accounting

Risk management strategy

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the Group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate to the risks being hedged. The assessment of the effectiveness of hedge relationships is performed on a cumulative life to date basis.

In order to hedge the risks to which the Group is exposed, the hedging instruments employed are interest rate swaps, inflation swaps, cross currency swaps and forward foreign exchange contracts. The economic relationship between the hedge instrument and the hedged items is aligned since all hedging instruments are exposed to the same risks as the hedged items, being interest rate risk, inflation risk and/or foreign currency risk.

Interest rate derivatives, designated as hedging instruments in a cash flow hedge, 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 hedging instruments in a cash flow hedge, primarily hedge the exposure to highly probable forecast foreign denominated expenditure.

Foreign exchange derivatives, designated as hedging instruments in a net investment hedge, primarily hedge the foreign currency exposure to a net investment in a foreign operation.

Interest rate derivatives designated as hedging instruments in a fair value hedge 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 Group employs a governed interest rate risk management strategy (hedging programme) through the interest rate cycle to reduce volatility associated with structural balances (i.e. rate insensitive liabilities as well as the endowment associated with equity).

The hedge ratio between the hedged item and the hedging instruments is typically determined with reference to the sensitivity of the hedged item, on designation, to the risk factor, compared to the hedging instrument. In many cases the hedge ratio is directly proportional to the hedged item.

In some hedging relationships, the Group would designate risk components of hedged items as follows:

(i) Benchmark interest rate risk;
(ii) Inflation risk as a contractually specified component of a debt instrument;
(iii) Spot exchange rate risk for foreign currency denominated financial assets or financial liabilities;
(iv) Spot or forward exchange rate risk for highly probable forecast foreign denominated expenditure or a net investment in a foreign operation;
(v) Components of cash flows of hedged items, for example certain interest payments for part of the life of an instrument.

Sources of ineffectiveness which may affect the Group's designated hedge relationships are as follows:

(i) Mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences between the hedged risk and the risk exposure of the hedging instrument;
(ii) Changes in credit risk of the hedging instruments;
(iii) If a hedge accounting relationship becomes overhedged. This might occur in hedges of net investments if the net asset value designated at the start of the period falls below the amount of the hedging instrument.

No other source of ineffectiveness has arisen during the period.

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.1 Fair value hedge accounting

Fair value hedges are used by the Group to protect against changes in fair value of financial instruments due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include investment securities, loans and advances to customers, debt securities and borrowed funds. The profile and timing of hedging instruments designated in fair value hedge relationships based on the notional amounts are as follows:

	Group						
	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

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

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.1 Fair value hedge accounting (continued)

If the hedge accounting objective changes, the relevant hedge accounting relationship is de-designated; in some cases a de-designated relationship is replaced with a different hedge accounting relationship.

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

	Group				
	2020				
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2020 Rm	Ineffectiveness recognised in profit and loss Rm
Total	60 261	1 543	(4 505)	(1 963)	(11)
Interest rate risk	58 631	1 531	(4 101)	(1 756)	6
Interest rate swaps – hedge of investment securities	41 517	247	(3 639)	(2 299)	1
Interest rate swaps – hedge of loans and advances 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)

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 are presented within hedging portfolio assets on the statement of financial position.

	2019				
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2019 Rm	Ineffectiveness recognised in profit and 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 at FVOCI	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 hedge ineffectiveness in profit and loss is presented within gains and losses from banking and trading activities on the statement of comprehensive income, and the hedging instruments of the Group are presented within and hedging portfolio assets on the statement of financial position.

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

58. Derivatives (continued)
58.7 Hedge accounting (continued)
58.7.1 Fair value hedge accounting (continued)

	Group			
	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 classified as FVOCI	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)

Notes to the consolidated financial statements

for the reporting period ended 31 December

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.2 Cash flow hedge accounting

Cash flow hedges are used by the Group to protect against the potential cash flow variability arising from the Group exposure to interest rate and foreign currency risk. The 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:

	Group						
	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:

	Group	
	2020 Average price or rate %	2019 Average price or rate %
Interest rate risk		
Interest rate swaps		
Average fixed interest rate	7%	8%
Foreign currency risk		
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

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.

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.2 Cash flow hedge accounting (continued)

The following amounts relate to items designated as hedging instruments in cash flow hedge relationships:

	Group					
	2020					
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffective-ness recognised in profit or loss Rm
Interest rate risk						
Interest rate swaps – hedge of loans and advances to customers	151 093	9 300	(0)	6 231	8 860	(560)
Foreign currency risk						
Forwards – hedge of forecast expenditure	3 397	155	(363)	23	179	(6)

	2019					
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffective-ness recognised in profit or loss Rm
Interest rate risk						
Interest rate swaps – hedge of loans and advances 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	(66)	3

The hedging instruments are presented within hedging portfolio assets/liabilities, on the statement of financial position.

Hedge accounting has not been applied to any forecast transactions that have not subsequently occurred.

The hedge ineffectiveness in profit and loss is presented within gains and losses from banking and trading activities on the statement of comprehensive income.

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.2 Cash flow hedge accounting (continued)

Impact on the income statement and OCI of recycling amounts in respect of cash flow hedges during the period:

	Group					
	2020			2019		
	Amount recycled from OCI to profit or loss due to continuing hedges Rm	Amount recycled from OCI to profit or loss due to discontinued hedges Rm	Total Rm	Amount recycled from OCI to profit or loss due to continuing hedges Rm	Amount recycled from OCI to profit or loss due to discontinued hedges Rm	Total Rm
Cash flow hedge of interest rate risk	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:

	Group					
	2020			2019		
	Change in value used for calculating hedge ineffectiveness Rm	Cash flow hedge reserve in respect of continued hedges Rm	Cash flow hedge reserve in respect of discontinued hedges Rm	Change in value used for calculating hedge ineffectiveness Rm	Cash flow hedge reserve in respect of continued hedges Rm	Cash flow hedge reserve in respect of discontinued hedges Rm
Loans and advances to customers						
Interest rate risk	(5 755)	7 538	25	(1 607)	1 831	63
Highly probable forecast transactions						
Foreign currency risk	(23)	(185)	—	86	(67)	—

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.3 Hedges of net investments in foreign operations

Net investment hedges are used by the Group to protect against the potential risk arising from the Group's exposure to foreign currency risk in relation to its investment in foreign operations.

At 31 December 2020 the Group held the following foreign currency forward exchange contracts as hedging instruments in a net investment hedge.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

	Group						
	2020						
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used to calculate hedge ineffectiveness Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffectiveness recognised in profit or loss Rm	Presentation of hedge ineffectiveness in profit or loss Rm
Foreign currency risk							
Forwards	—	—	—	(5)	(5)	—	—
	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 ineffectiveness recognised in profit or loss Rm	Presentation of hedge ineffectiveness in profit or loss Rm
Foreign currency risk							
Forwards	—	—	—	7	7	—	—

The hedging instruments 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.

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.4 Reconciliation of equity

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items (before tax) resulting from hedge accounting:

	Group					
	2020			2019		
	Cash flow hedge reserve Rm	Net investment hedge reserve Rm	Foreign currency translation reserve Rm	Cash flow hedge reserve Rm	Net investment hedge reserve Rm	Foreign currency translation reserve Rm
Balance at the beginning of the year	1 826	—	65	558	—	58
Foreign currency translation movements	—	—	—	—	—	—
Hedging (losses)/gains for the reporting period	9 039	(5)	—	2 074	7	—
Interest rate risk	8 860	—	—	2 140	—	—
Foreign currency risk	179	(5)	—	(66)	7	—
Amounts reclassified to profit or loss						
In relation to cash flows affecting profit or loss	(3 488)	—	—	(806)	—	—
Amounts transferred within OCI	—	5	(5)	—	(7)	7
Balance at the end of the year	7 377	—	60	1 826	—	65

58.8 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 programme

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.

58. Derivatives (continued)

58.8 Interest rate benchmark reform (continued)

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

	Group								
	Notional 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	—	294
Forwards	—	—	—	—	—	—	—	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

	Group								
	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 notional 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)

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	2020			
		Fair value through profit or loss		
	Mandatorily held at fair value Rm	Designated at fair value Rm	Hedging instruments Rm	Total Rm
59. Consolidated statement of financial position summary – IFRS 9 classification				
Assets				
Cash, cash balances and balances with central banks	4 503	—	—	4 503
Investment securities	8 718	2 447	—	11 165
Loans and advances to banks	31 709	121	—	31 830
Trading portfolio assets	212 439	—	—	212 439
Hedging portfolio assets[2]	—	—	11 000	11 000
Other assets	19	—	—	19
Loans and advances to customers	37 889	26 012	—	63 901
Investments linked to investment contracts	21 273	—	—	21 273
Non-current assets held for sale	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	316 550	28 580	11 000	356 130
Liabilities				
Deposits from banks	—	32 722	—	32 722
Trading portfolio liabilities	108 976	—	—	108 976
Hedging portfolio liabilities[3]	—	—	4 868	4 868
Other liabilities	—	34	—	34
Deposits due to customers	—	54 211	—	54 211
Debt securities in issue	—	24 103	—	24 103
Liabilities under investment contracts	—	27 533	—	27 533
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	108 976	138 603	4 868	252 447

[1] Includes non-financial assets and liabilities and financial instruments outside the scope of IFRS 9.
[2] Includes derivative assets to the amount of **R9 455m** (2019: R2 332m) 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 **R917m** (2019: R802m) 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	Outside the scope of IFRS 9[1] Rm	Total assets and liabilities Rm
2 868	—	—	2 868	53 311	—	53 311	—	60 682
83 468	2 027	25 071	110 566	31 773	—	31 773	—	153 504
—	—	—	—	52 708	—	52 708	—	84 538
—	—	—	—	—	—	—	1 082	213 521
—	—	—	—	—	—	—	—	11 000
—	—	—	—	17 123	—	17 123	3 275	20 417
—	—	—	—	862 741	3 327	866 068	—	929 969
—	—	—	—	—	—	—	—	21 273
—	—	—	—	—	—	—	144	144
—	—	—	—	—	—	—	36 072	36 072
86 336	2 027	25 071	113 434	1 017 656	3 327	1 020 983	40 573	1 531 120
—	—	—	—	63 384	—	63 384	—	96 106
—	—	—	—	—	—	—	—	108 976
—	—	—	—	—	—	—	—	4 868
—	—	—	—	29 068	—	29 068	4 803	33 905
—	—	—	—	897 683	—	897 683	—	951 894
—	—	—	—	114 613	7 024	121 637	—	145 740
—	—	—	—	—	—	—	—	27 533
—	—	—	—	13 741	7 020	20 761	—	20 761
—	—	—	—	—	—	—	9 034	9 034
—	—	—	—	1 118 489	14 044	1 132 533	13 837	1 398 817

59. 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	6 463	—	—	6 463
Investment securities	7 197	925	—	8 122
Loans and advances to banks	28 220	1 233	—	29 453
Trading portfolio assets	157 680	—	—	157 680
Hedging portfolio assets[2]	—	—	3 358	3 358
Other assets	20	—	—	20
Loans and advances to customers	45 903	21 753	—	67 656
Investments linked to investment contracts	20 042	—	—	20 042
Non-current assets held for sale	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	265 525	23 911	3 358	292 794
Liabilities				
Deposits from banks	—	40 680	—	40 680
Trading portfolio liabilities	59 224	—	—	59 224
Hedging portfolio liabilities[3]	—	—	1 379	1 379
Other liabilities	—	52	—	52
Deposits due to customers	—	56 690	—	56 690
Debt securities in issue	—	28 948	—	28 948
Liabilities under investment contracts	—	29 700	—	29 700
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	59 224	156 070	1 379	216 673

[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 332m) 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 **R917m** (2019: R802m) that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

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	Outside the scope of IFRS 9[1] Rm	Total assets and liabilities Rm
	2 273	—	—	2 273	43 796	—	43 796	—	52 532
	72 474	901	26 871	100 246	8 379	—	8 379	—	116 747
	—	—	—	—	30 292	—	30 292	—	59 745
	—	—	—	—	—	—	—	668	158 348
	—	—	—	—	—	—	—	—	3 358
	—	—	—	—	26 883	—	26 883	3 440	30 343
	—	—	—	—	845 232	4 090	849 322	—	916 978
	—	—	—	—	—	—	—	—	20 042
	—	—	—	—	3 865	—	3 865	127	3 992
	—	—	—	—	—	—	—	37 090	37 090
	74 747	901	26 871	102 519	958 447	4 090	962 537	41 325	1 399 175
	—	—	—	—	76 743	—	76 743	—	117 423
	—	—	—	—	—	—	—	—	59 224
	—	—	—	—	—	—	—	—	1 379
	—	—	—	—	18 876	—	18 876	27 427	46 355
	—	—	—	—	769 603	—	769 603	—	826 293
	—	—	—	—	121 031	9 815	130 846	—	159 794
	—	—	—	—	—	—	—	—	29 700
	—	—	—	—	13 009	8 409	21 418	—	21 418
	—	—	—	—	—	—	—	8 906	8 906
	—	—	—	—	999 262	18 224	1 017 486	36 333	1 270 492

60. Fair value disclosures

60.1 Assets and liabilities held at fair value

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

	Group							
	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								
Cash, cash balances and balances with central banks	461	6 910	—	7 371	2 674	6 062	—	8 736
Investment securities	44 363	65 456	11 912	121 731	37 726	56 444	14 198	108 368
Loans and advances to banks	—	31 830	—	31 830	—	29 453	—	29 453
Trading and hedging portfolio assets	91 382	129 555	2 502	223 439	71 868	82 914	6 256	161 038
Debt instruments	55 577	11 545	95	67 217	40 547	12 608	210	53 365
Derivative assets	—	108 151	1 701	109 852	—	57 268	3 672	60 940
Commodity derivatives	—	622	5	627	—	302	—	302
Credit derivatives	—	—	159	159	—	—	155	155
Equity derivatives	—	3 510	1 487	4 997	—	2 090	3 454	5 544
Foreign exchange derivatives	—	23 244	—	23 244	—	13 044	7	13 051
Interest rate derivatives	—	80 775	50	80 825	—	41 832	56	41 888
Equity instruments	35 243	—	—	35 243	30 775	—	—	30 775
Money market assets	562	9 859	706	11 127	546	13 038	2 374	15 958
Other assets	—	19	—	19	—	20	—	20
Loans and advances to customers	—	50 304	13 597	63 901	—	56 752	10 904	67 656
Investments linked to investment contracts	15 412	5 243	618	21 273	16 985	2 976	81	20 042
Total financial assets	151 618	289 317	28 629	469 564	129 253	234 621	31 439	395 313
Financial liabilities								
Deposits from banks	—	32 722	—	32 722	—	40 680	—	40 680
Trading and hedging portfolio liabilities	21 048	92 623	173	113 844	13 201	46 271	1 131	60 603
Derivative liabilities	—	92 623	173	92 796	—	46 271	1 131	47 402
Commodity derivatives	—	764	1	765	—	475	—	475
Credit derivatives	—	183	141	324	—	74	132	206
Equity derivatives	—	3 135	17	3 152	—	1 175	707	1 882
Foreign exchange derivatives	—	20 894	1	20 895	—	12 234	15	12 249
Interest rate derivatives	—	67 647	13	67 660	—	32 313	277	32 590
Short positions	21 048	—	—	21 048	13 201	—	—	13 201
Other liabilities	—	34	—	34	—	33	19	52
Deposits due to customers	128	49 401	4 682	54 211	156	52 077	4 457	56 690
Debt securities in issue	486	23 617	—	24 103	1 043	27 905	—	28 948
Liabilities under investment contracts	—	27 533	—	27 533	—	29 700	—	29 700
Total financial liabilities	21 662	225 930	4 855	252 447	14 400	196 666	5 607	216 673
Non-financial assets								
Commodities	1 082	—	—	1 082	668	—	—	668
Investment properties	—	—	496	496	—	—	513	513
Non-recurring fair value measurements								
Non-current assets held for sale[1]	—	—	144	144	—	—	126	126
Non-current liabilities held for sale[1]	—	—	—	—	—	—	112	112

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

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60. Fair value disclosures (continued)

60.2 Reconciliation of Level 3 assets and liabilities

A reconciliation of the opening balances to closing balances for all movements on Level 3 assets and liabilities is set out below:

	Group		
	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	14 198
Net interest income	—	246	83
Gains and losses from banking and trading activities	(1 928)	523	(442)
Purchases	38	544	384
Sales	(176)	(931)	(2 570)
Movement in other comprehensive income	—	—	(699)
Issues	—	—	—
Settlements	—	—	—
Transfer to Level 3	142	2 807	2 353
Transfer out of Level 3	(1 830)	(496)	(1 395)
Closing balance at the end of the reporting period	2 502	13 597	11 912

	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	11 991
Net interest income	—	439	88
Other income	—	—	—
Gains and losses from banking and trading activities	1 973	(471)	36
Gains and losses from investment activities	—	—	19
Purchases	1 101	4 602	1 401
Sales	(333)	(1 767)	(836)
Movement in other comprehensive income	—	—	(95)
Issues	—	—	—
Settlements	—	—	(7)
Transferred to/(from) assets/liabilities	—	—	
Transfer to Level 3	962	52	2 134
Transfer out of Level 3	(896)	(2 612)	(533)
Inter-business transfer in/(out)	—	—	—
Closing balance at the end of the reporting period	6 256	10 904	14 198

60.2.1 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. Covid 19 did not have an impact on transfers between levels.

	Group							
	2020							
	Investment properties Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
	513	81	31 952	—	1 131	19	4 457	5 607
	—	—	329	—	—	—	—	—
	(5)	—	(1 852)	—	(706)	—	306	(400)
	—	537	1 503	—	—	—	—	—
	(44)	—	(3 721)	—	—	—	—	—
	32	—	(667)	—	—	—	(55)	(55)
	—	—	—	—	38	34	1 804	1 876
	—	—	—	—	(263)	(53)	(1 104)	(1 420)
	—	—	5 302	—	—	—	77	77
	—	—	(3 721)	—	(27)	—	(803)	(830)
	496	618	29 125	—	173	—	4 682	4 855

	2019							
	Investment properties Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
	508	192	26 801	19	1 454	45	2 823	4 341
	—	—	527	—	—	—	—	—
	12	—	12	—	—	—	—	—
	—	—	1 538	—	276	—	96	372
	—	—	19	—	—	—	—	—
	1	—	7 105	—	—	—	—	—
	(2)	(111)	(3 049)	—	—	—	—	—
	(6)	—	(101)	—	—	—	2	2
	—	—	—	—	36	8	4 850	4 894
	—	—	(7)	—	—	—	(2 317)	(2 317)
	—	—	3 148	—	—	—	—	—
	—	—	(4 041)	(19)	(635)	—	(997)	(1 651)
	—	—	—	—	—	(34)	—	(34)
	513	81	31 952	—	1 131	19	4 457	5 607

60. Fair value disclosures (continued)

60.3 Unrealised gains and losses on Level 3 assets and liabilities

The total unrealised gains and losses for the reporting period on Level 3 positions held at the reporting date are set out below:

	Group				
	2020				
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	**1 774**	**3 192**	**(115)**	**—**	**4 851**

	2019				
	Trading and hedging portfolio assets Rm	Loans and advances to customers[1] Rm	Investment securities[1] Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	3 197	871	342	—	4 410

	Group		
	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 Group 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.

60. Fair value disclosures (continued)

60.4 Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes, we perform a sensitivity analysis on the significant unobservable parameters, in order to determine the impact of reasonably possible alternative assumptions on the valuation of level 3 financial assets and liabilities. The assets and liabilities that impact this sensitivity analysis most are those with more illiquid and/or structured portfolios. The alternatives 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	
	Significant unobservable parameters	Potential effect recorded in profit or loss Favourable/(Unfavourable) Rm	Potential effect recorded directly in equity Favourable/(Unfavourable) Rm
Deposits due to customers	**Absa Group Limited/ Absa funding spread**	**344/(394)**	**—/—**
Investment securities and investments linked to investment contracts	**Risk adjustment yield curves, future earnings and marketability discount**	**—/—**	**(170)/175**
Loans and advances 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**	**—/—**

60. Fair value disclosures (continued)

60.4 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 and investments linked to investment contracts	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	—/—

60.5 Unrecognised losses/(gains) as a result of the use of valuation models using unobservable inputs

The amount that is to be recognised in the statement of comprehensive income that relates to the difference between the transaction price and the amount that would have arisen had valuation models using observable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	Group	
	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)

60.6 Third-party credit enhancements

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

60. Fair value disclosures (continued)

60.7 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.

	Group				
	2020				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with other central banks	13 441	13 441	13 441	—	—
Balances with the SARB	25 467	25 467	25 467	—	—
Coins and bank notes	14 403	14 403	14 403	—	—
Cash, cash balances and balances with central banks	53 311	53 311	53 311	—	—
Investment securities	31 773	34 246	32 498	321	1 427
Loans and advances to banks	52 708	52 669	23 564	28 984	121
Other assets	17 123	17 123	8 195	3 244	5 684
RBB South Africa	517 253	512 203	—	—	512 203
Home Loans	247 679	245 702	—	—	245 702
Vehicle and Asset Finance	89 129	87 739	—	—	87 739
Everyday Banking	58 022	57 305	—	—	57 305
Card	36 405	36 405	—	—	36 405
Personal Loans	18 410	17 693	—	—	17 693
Transactions and Deposits	3 207	3 207	—	—	3 207
Relationship Banking	122 423	121 457	—	—	121 457
CIB South Africa	239 502	243 869	—	—	243 869
Absa Regional Operations	108 249	107 596	—	—	107 596
ARO RBB	55 321	55 420	—	—	55 420
ARO CIB	52 928	52 176	—	—	52 176
Head Office, Treasury and other operations in South Africa	1 064	1 064	—	—	1 064
Loans and advances to customers – net of impairment losses	866 068	864 732	—	—	864 732
Total assets (not held at fair value)	1 020 983	1 022 081	117 568	32 549	871 964
Financial liabilities					
Deposits from banks	63 384	63 679	16 489	47 079	111
Other liabilities	29 068	29 068	11 025	18 043	—
Call deposits	108 258	108 258	108 258	—	—
Cheque account deposits	268 696	268 696	268 696	—	—
Credit card deposits	2 033	2 033	2 033	—	—
Fixed deposits	187 777	191 690	—	185 430	6 260
Foreign currency deposits	46 824	46 824	—	46 824	—
Notice deposits	74 139	74 139	28 742	45 397	—
Other deposits	1 267	1 267	—	1 267	—
Saving and transmission deposits	208 689	208 689	53 378	8 348	146 963
Deposits due to customers	897 683	901 596	461 107	287 266	153 223
Debt securities in issue	121 637	122 334	—	122 334	—
Borrowed funds	20 761	20 902	—	20 902	—
Total liabilities (not held at fair value)	1 132 533	1 137 579	488 621	495 624	153 334

60. Fair value disclosures (continued)

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

	Group 2019 Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with other central banks	13 176	13 176	13 176	—	—
Balances with the SARB	16 587	16 587	16 587	—	—
Coins and bank notes	14 033	14 033	14 033	—	—
Cash, cash balances and balances with central banks	43 796	43 796	43 796	—	—
Investment securities	8 379	8 356	7 120	736	500
Loans and advances to banks	30 292	30 292	16 979	12 885	428
Other assets	26 883	26 883	17 228	3 366	6 289
RBB South Africa	506 478	507 926	—	—	507 926
Home Loans	237 391	237 391	—	—	237 391
Vehicle and Asset Finance	83 740	84 080	—	—	84 080
Everyday Banking	61 386	61 998	—	—	61 998
Card	37 054	37 463	—	—	37 463
Personal Loans	20 857	21 022	—	—	21 022
Transactions and Deposits	3 475	3 513	—	—	3 513
Relationship Banking	123 960	124 456	—	—	124 456
RBB Other	1	1	—	—	1
CIB South Africa	230 573	230 573	—	—	230 573
Absa Regional Operations[1]	111 465	111 465	—	—	111 465
ARO RBB	52 027	52 027	—	—	52 027
ARO CIB	59 438	59 438	—	—	59 438
Head Office, Treasury and other operations in South Africa	806	806	—	—	806
Loans and advances to customers – net of impairment losses	849 322	850 770	—	—	850 770
Non-current assets held for sale	3 865	3 865	—	—	3 865
Total assets (not held at fair value)	962 537	963 962	85 123	16 987	861 852
Financial liabilities					
Deposits from banks	76 743	76 786	17 359	59 334	93
Other liabilities	18 876	18 892	444	12 517	5 931
Call deposits	82 773	82 773	82 773	—	—
Cheque account deposits	204 187	204 187	204 187	—	—
Credit card deposits	1 862	1 862	1 862	—	—
Fixed deposits	189 121	189 544	318	155 692	33 534
Foreign currency deposits	41 567	41 567	60	23 975	17 532
Notice deposits	68 997	68 997	23 616	45 381	—
Other deposits	943	943	218	719	6
Repurchase agreements	261	261	—	—	261
Saving and transmission deposits	179 892	179 892	55 593	2 059	122 240
Deposits due to customers	769 603	770 026	368 627	227 826	173 573
Debt securities in issue	130 846	133 583	—	130 801	2 782
Borrowed funds	21 418	21 418	—	21 418	—
Total liabilities (not held at fair value)	1 017 486	1 020 705	386 430	451 896	182 379

[1] The ARO segment has been expanded to provide more comprehensive disclosures in relation to ARO RBB and ARO CIB.

61. Credit risk of financial instruments designated at fair value

The following table represents the maximum exposure to credit risk of financial assets designated at fair value through profit or loss at the reporting date before taking into account collateral held or other credit enhancements:

	Group		Credit risk mitigation	
	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 Group utilised credit derivatives and credit linked notes as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss. The value of collateral has been limited to the fair value of the instrument.

Contractual obligation at maturity of financial liabilities designated at fair value through profit or loss

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

	Group			
	2020		2019	
	Carrying amount Rm	Contractual obligation Rm	Carrying amount Rm	Contractual obligation Rm
Liabilities				
Deposits from banks	32 722	35 800	40 680	42 597
Other liabilities	34	34	52	52
Deposits due to customers	54 211	65 262	56 690	68 562
Debt securities in issue	24 103	28 054	28 948	30 858
Liabilities under investment contracts	27 533	27 533	29 700	29 700
	138 603	156 683	156 070	171 769

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

	Group	
	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 own credit risk for deposits from banks and customers designated at fair value through profit or loss:

- The carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data, such as spreads on Absa Group issued funding. Most market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

62. Risk management

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

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.

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

The ERMF includes those risks taken by the Group that are probable, and material enough to merit establishing specific group-wide control frameworks. These are known as key risks and are grouped into five 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 take 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.

Risk appetite

Risk appetite and stress testing are key components of the Group'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 Group is prepared to take in executing its strategy. The Group'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 Group manages its risk profile in a forward-looking manner through a trigger and management action framework. Key indicators and triggers have been developed to serve as an early warning system in the event of deteriorating circumstances. The indicators include, inter alia, economic indices directly correlated with risk measures and key financial indicators. The indicators and triggers have been implemented at Group, Business Unit, country, and product levels, and are routinely monitored by management and reported to the GRCMC on a quarterly basis.

Stress testing

Stress testing is a key element of the Group's integrated planning process. Through the use of stress testing and scenario analysis, the Group is able to assess the performance of the Group'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 Group's capital planning process and enhance the stress scenarios employed. The Group takes into account the results of all such stress testing when assessing the Group's internal and regulatory capital requirements including the setting of capital buffers.

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

Credit risk

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

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62. Risk management (continued)

62.2 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'.

Maximum exposure to credit risk	Group 2020 Gross maximum exposure Rm	Stage 1[1] DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Balances with other central banks	13 451	3 500	9 882	—
Balances with the SARB	25 460	25 460	—	—
Money market assets	2 867	2 867	—	—
Cash, cash balances and balances with central banks	**41 778**	**31 827**	**9 882**	**—**
Government bonds	65 970	65 202	768	—
Other	53 145	37 252	12 101	—
Treasury bills	21 205	16 061	5 043	—
Investment securities	**140 320**	**118 515**	**17 912**	**—**
Loans and advances to banks	**52 771**	**43 164**	**6 919**	**371**
Accounts receivable	9 393	6 516	2 826	—
Settlement accounts	7 799	2 671	5 128	—
Other assets	**17 192**	**9 187**	**7 954**	**—**
RBB South Africa	551 663	39 603	375 958	23 210
Home Loans	255 131	10 111	191 811	8 815
Vehicle and Asset Finance	94 877	1 293	65 769	9 494
Everyday Banking	73 731	10 952	32 992	4 901
Card	45 875	10 470	19 203	2 053
Personal Loans	23 785	228	12 246	2 421
Transactions and Deposits	4 071	254	1 543	427
Relationship Banking	127 871	17 247	85 386	—
RBB Other	53		—	—
CIB South Africa	242 361	120 265	75 238	2
ARO	115 065	8 838	84 726	151
RBB	59 920	3 612	46 667	150
CIB	55 145	5 226	38 059	1
Head Office, Treasury and other operations in South Africa	612	369	21	—
Loans and advances to customers	**909 701**	**169 075**	**535 943**	**23 363**
Off-statement of financial position exposure				
Guarantees	45 405	21 190	16 684	63
Letters of credit	12 722	1 555	7 335	3
Revocable and irrevocable debt facilities	225 589	97 438	116 087	536
Total off-statement of financial position exposure	**283 716**	**120 183**	**140 106**	**602**

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

Stage 2[1]			Stage 3[1]
DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm	Default Rm
—	69	—	—
—	—	—	—
—	—	—	—
—	69	—	—
—	—	—	—
792	3 000	—	—
—	101	—	—
792	3 101	—	—
778	1 476	63	—
50	1	—	—
—	—	—	—
50	1	—	—
4 651	40 073	14 882	53 286
3 101	10 299	7 180	23 814
1 230	5 084	4 291	7 716
114	7 110	3 411	14 251
56	4 496	1 622	7 975
19	1 690	1 591	5 590
39	924	198	686
206	17 580	—	7 452
—	—	—	53
11 749	27 576	1 503	6 028
92	10 988	3 095	7 175
—	2 641	2 896	3 954
92	8 347	199	3 221
—	222	—	—
16 492	78 859	19 480	66 489
357	5 813	302	996
221	3 410	107	91
1 508	6 573	477	2 970
2 086	15 796	886	4 057

62. Risk management (continued)

62.2 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 other central banks	13 181	4 843	8 085	—
Balances with the SARB	16 587	16 587	—	—
Money market assets	2 272	1 966	306	—
Cash, cash balances and balances with central banks	32 040	23 396	8 391	—
Government bonds	35 338	35 181	157	—
Other	44 966	33 888	9 362	—
Treasury bills	27 419	21 237	2 595	—
Investment securities	107 723	90 306	12 114	—
Loans and advances to banks	30 316	17 957	11 779	—
Accounts receivable	10 175	6 814	3 340	—
Settlement accounts	16 748	11 581	5 167	—
Other assets	26 923	18 395	8 507	—
RBB South Africa	530 280	45 624	385 659	20 319
Home Loans	242 826	11 081	191 335	7 531
Vehicle and Asset Finance	86 933	2 120	65 455	6 109
Everyday Banking	72 596	11 934	34 873	6 679
Card	44 445	11 066	19 847	2 066
Personal Loans	23 940	571	13 324	4 150
Transactions and Deposits	4 211	297	1 702	463
Relationship Banking	127 872	20 489	93 996	—
RBB Other	53	—	—	—
CIB South Africa	232 008	126 035	75 175	89
ARO[2]	116 474	10 308	91 676	230
RBB	55 386	4 242	43 905	230
CIB	61 088	6 066	47 771	—
Head Office, Treasury and other operations in South Africa	296	270	17	—
Loans and advances to customers	879 058	182 237	552 527	20 638
Off-statement of financial position exposure				
Guarantees	45 325	23 281	15 716	30
Letters of credit	10 463	647	5 762	14
Revocable and irrevocable debt facilities	224 197	45 162	160 006	8 947
Total off-statement of financial position exposure	279 985	69 090	181 484	8 991

[1] Refer to note 1.2.1.3 for DG bucket definitions.
[2] The ARO segment has been expanded to provide more comprehensive disclosures in relation to ARO RBB and ARO CIB.

Stage 2[1]			Stage 3[1]
DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm	Default Rm
—	253	—	—
—	—	—	—
—	—	—	—
—	253	—	—
—	—	—	—
322	1 394	—	—
3 097	490	—	—
3 419	1 884	—	—
—	537	43	—
19	2	—	—
—	—	—	—
19	2	—	—
593	26 714	11 788	39 583
227	8 414	5 282	18 956
4	4 315	3 677	5 253
115	6 132	2 829	10 034
38	3 825	1 219	6 384
22	1 355	1 411	3 107
55	952	199	543
247	7 853	—	5 287
—	—	—	53
8 646	16 056	4 204	1 803
—	5 692	2 961	5 607
—	1 309	2 450	3 250
—	4 383	511	2 357
—	9	—	—
9 239	48 471	18 953	46 993
97		15 716	30
258	3 730	44	8
735	4 796	1 277	3 274
1 090	13 780	1 999	3 551

62. Risk management (continued)

62.2 Credit risk (continued)

The following table sets out information about the credit quality of financial instruments to which are classified at fair value through profit or loss:

Maximum exposure to credit risk	2020 Gross carrying amount Rm	DG1 – 9[1] Rm	DG10 – 19[1] Rm	DG 20 – 21[1] Rm
Cash, cash balances and balances with central banks	4 503	4 503	—	—
Money market assets	4 503	4 503	—	—
Investment securities	7 913	7 739	174	—
Government bonds	15	15	—	—
Other	5 154	4 980	174	—
Treasury bills	2 744	2 744	—	—
Loans and advances to banks	31 830	24 396	7 434	—
Trading and hedging portfolio assets[2]	188 197	136 700	51 270	227
Debt instruments	67 218	47 872	19 346	—
Derivative assets	109 852	80 398	29 227	227
Money market assets	11 127	8 430	2 697	—
Other assets	19	19	—	—
Accounts receivable	19	19	—	—
Loans and advances to customers	63 901	29 841	34 060	—
Reinsurance assets	680	680	—	—
Insurance contracts	680	680	—	—
Investment linked to investment contracts	3 013	3 013	—	—
Debt instruments	1 705	1 705	—	—
Derivative instruments	2	2	—	—
Money market assets	1 306	1 306	—	—
Total	300 056	206 891	92 938	227

[1] Refer to note 1.2.1.3 for DG bucket definitions.
[2] Includes hedging portfolio assets, which was separately disclosed in the prior reporting period.

62. Risk management (continued)

62.2 Credit risk (continued)

	2019			
Maximum exposure to credit risk	Gross carrying amount Rm	DG1 – 9[1] Rm	DG10 – 19[1] Rm	DG 20 – 21[1] Rm
Cash, cash balances and balances with central banks	6 463	6 463	—	—
Money market assets	6 463	6 463	—	—
Investment securities	3 743	2 813	929	—
Government bonds	925	925	—	—
Other	2 818	1 888	929	—
Treasury bills	—	—	—	—
Loans and advances to banks	29 453	16 406	13 047	—
Trading and hedging portfolio assets[2]	130 263	100 471	29 743	49
Debt instruments	53 364	41 649	11 715	—
Derivative assets	60 940	48 368	12 523	49
Money market assets	15 959	10 454	5 505	—
Other assets	20	20	—	—
Accounts receivable	20	20	—	—
Loans and advances to customers	67 656	33 399	34 026	231
Reinsurance assets	886	886	—	—
Insurance contracts	886	886	—	—
Investment linked to investment contracts	2 625	2 625	—	—
Debt instruments	816	816	—	—
Derivative instruments	6	6	—	—
Money market assets	1 803	1 803	—	—
Total	241 109	163 083	77 745	280

[1] Refer to note 1.2.1.3 for DG bucket definitions.
[2] Includes hedging portfolio assets, which was separately disclosed in the prior reporting period.

62. Risk management (continued)

62.2 Credit risk (continued)

Concentration of credit risk

Concentration of credit risk exists when a number of counterparties are located in a geographical region, such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions:

	Group				
	2020				
Geographical concentration of risk	Asia, Americas and Australia Rm	Europe Rm	Africa Regions Rm	South Africa Rm	Total Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	—	15	16 805	29 461	46 281
Investment securities	10 947	955	42 765	93 566	148 233
Loans and advances to banks	14 757	33 627	25 377	10 840	84 601
Trading portfolio assets	2 291	22 529	18 313	134 064	177 197
Hedging portfolio assets	—	—	2	10 998	11 000
Other assets	150	247	3 521	13 293	17 211
Loans and advances to customers	24 840	17 626	124 091	807 045	973 602
Reinsurance assets	—	—	418	262	680
Investments linked to investment securities	—	—	—	3 013	3 013
Subject to credit risk	52 985	74 999	231 292	1 102 542	1 461 818
Off-statement of financial position exposures					
Guarantees	210	4 211	12 795	28 189	45 405
Letters of credit	1 688	522	9 746	766	12 722
Revocable and irrevocable debt facilities	111	15	21 030	204 433	225 589
Subject to credit risk	2 009	4 748	43 571	233 388	283 716

62. Risk management (continued)

62.2 Credit risk (continued)

	2019				
Geographical concentration of risk	Asia, Americas and Australia Rm	Europe Rm	Africa Regions Rm	South Africa Rm	Total Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	—	—	15 566	22 937	38 503
Investment securities	3 274	2 238	33 570	72 384	111 466
Loans and advances to banks	10 088	15 089	25 075	9 517	59 769
Trading portfolio assets	967	13 257	21 833	90 848	126 905
Hedging portfolio assets	—	—	3	3 355	3 358
Other assets	112	672	2 540	23 619	26 943
Loans and advances to customers	12 448	14 142	120 831	799 294	946 715
Reinsurance assets	—	—	598	288	886
Investments linked to investment securities	—	—	—	2 625	2 625
Subject to credit risk	26 889	45 398	220 016	1 024 867	1 317 170
Off-statement of financial position exposures					
Guarantees	705	4 405	14 103	26 112	45 325
Letters of credit	838	28	8 664	933	10 463
Revocable and irrevocable debt facilities	26	1	30 004	194 166	224 197
Subject to credit risk	1 569	4 434	52 771	221 211	279 985

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 is described in note 1.2.1.

The Group offsets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Group has a legally enforceable right to do so. Amounts disclosed in the maximum exposure category are stated net of these.

The collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying amount and the undrawn facility of the related credit exposure where a loan is possibly over-collateralised.

The Group may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount of this collateral and the value of this collateral is not reported.

During the period there were no changes in the Group's collateral policies.

Collateral includes:

- Guarantees and/or letters of credit from third parties.
- Credit default swaps and other credit derivatives.
- Credit insurance.
- Physical collateral including fixed charges over property.
- Cash collateral.
- Other forms including master netting agreements, put options, and highly liquid securities held under reverse repo agreements.

62. Risk management (continued)

62.2 Credit risk (continued)

	Group				
	2020 Collateral – credit impaired financial assets				
Analysis of credit risk mitigation and collateral	Gross maximum exposure[1] Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm
Loans and advances to banks	84 601	—	—	—	—
Debt instruments	67 218	—	—	—	—
Derivative assets	109 852	—	—	—	—
Money market assets	11 127	—	—	—	—
Trading and hedging portfolio assets	188 197	—	—	—	—
RBB South Africa	677 201	31	31 190	57	53
Home Loans	308 820	—	21 583	—	—
Vehicle and Asset Finance	96 167	—	5 673	—	—
Everyday Banking	111 207	—	2	—	—
Card	77 676	—	—	—	—
Personal Loans	24 343	—	—	—	—
Transactions and Deposits	9 188	—	2	—	—
Relationship Banking	160 954	31	3 932	57	53
RBB Other	53	—	—	—	—
CIB South Africa	384 658	354	532	—	35
ARO	136 720	135	2 339	32	928
RBB	65 092	49	1 152	32	191
CIB	71 628	86	1 187	—	737
Head Office, Treasury and other operations in South Africa	612	—	—	—	—
Loans and advances to customers	1 199 191	520	34 061	89	1 016
Off-balance sheet					
Guarantees	45 405	23	156	0	11
Letters of credit	12 722	—	26	—	—
Total off-statement of financial position exposure	58 127	23	182	0	11

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

[1] Included in the gross maximum exposure is the off-statement of financial position exposure for revocable and irrevocable debt facilities.

2020							
		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
—	—	390	—	—	18 664	65 547	84 601
—	—	—	—	—	—	67 218	67 218
—	—	—	—	3 169	74 288	32 395	109 852
—	—	—	—	—	—	11 127	11 127
—	—	—	—	3 169	74 288	110 740	188 197
24 683	56 014	2 129	448 510	1 221	195	169 132	621 187
2 307	23 890	—	263 420	—	—	21 510	284 930
2 043	7 716	—	48 809	—	—	39 642	88 451
16 826	16 828	—	—	—	—	94 379	94 379
10 475	10 475	—	—	—	—	67 201	67 201
5 607	5 607	—	—	—	—	18 736	18 736
744	746	—	—	—	—	8 442	8 442
3 454	7 527	2 129	136 281	1 221	195	13 601	153 427
53	53	—	—	—	—	—	—
5 107	6 028	537	49 177	—	35 392	293 524	378 630
3 979	7 413	10 652	34 640	1 846	8 238	73 931	129 307
2 637	4 061	2 028	15 969	938	1 771	40 325	61 031
1 342	3 352	8 624	18 671	908	6 467	33 606	68 276
—	—	—	—	—	—	612	612
33 769	69 455	13 318	532 327	3 067	43 825	537 199	1 129 736
806	996	724	5 796	784	217	36 888	44 409
65	91	325	1 406	1 249	476	9 175	12 631
871	1 087	1 049	7 202	2 033	693	46 063	57 040

62. Risk management (continued)

62.2 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	59 769	—	—	—	—
Debt instruments	53 365	—	—	—	—
Derivative assets	57 582	—	—	—	—
Money market assets	15 958	—	—	—	—
Trading and hedging portfolio assets[2]	126 905	—	—	—	—
RBB South Africa	658 698	18	24 001	26	24
Home Loans	294 916	—	17 349	—	—
Vehicle and Asset Finance	88 585	—	3 985	—	—
Everyday Banking	118 409	—	1	—	—
Card	84 974	—	—	—	—
Personal Loans	24 466	—	—	—	—
Transactions and Deposits	8 969	—	1	—	—
Relationship Banking	156 735	18	2 666	26	24
RBB Other	53	—	—	—	—
CIB South Africa	365 236	187	150	—	40
ARO[2]	146 683	86	1 742	4	561
RBB	60 776	58	1 174	3	78
CIB	85 907	28	568	1	483
Head Office, Treasury and other operations in South Africa	295	—	—	—	—
Loans and advances to customers	1 170 912	291	25 893	30	625
Off-balance sheet					
Guarantees	45 325	0	10	0	4
Letters of credit	10 463	—	3	—	—
Total off-statement of financial position exposure	55 788	0	13	0	4

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

[1] Included in the gross maximum exposure is the exposure for revocable and irrevocable debt facilities.
[2] The ARO segment has been expanded to provide more comprehensive disclosures in relation to ARO RBB and ARO CIB.

Notes to the consolidated financial statements

for the reporting period ended 31 December

		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	33 406	59 769
—	—	—	—	—	—	53 365	53 365
—	—	74	—	1 212	43 992	12 304	57 582
—	—	—	—	—	—	15 958	15 958
—	—	74	—	1 212	43 992	81 627	126 905
18 610	42 679	201	426 764	853	272	187 929	616 019
1 671	19 020	—	255 389	—	—	20 507	275 896
1 267	5 252	—	45 237	—	—	38 096	83 333
13 006	13 007	—	—	—	—	105 402	105 402
9 321	9 321	—	—	—	—	75 653	75 653
3 119	3 119	—	—	—	—	21 347	21 347
566	567	—	—	—	—	8 402	8 402
2 613	5 347	201	126 138	853	272	23 924	151 388
53	53	—	—	—	—	—	—
1 427	1 804	9 393	46 873	—	40 771	266 395	363 432
3 386	5 779	10 156	38 345	1 647	7 377	83 379	140 904
2 085	3 398	1 579	23 250	636	1 511	30 402	57 378
1 301	2 381	8 577	15 095	1 011	5 866	52 977	83 526
—	—	—	—	—	—	295	295
23 423	50 262	19 750	511 982	2 500	48 420	537 998	1 120 650
255	269	1 187	5 384	1 266	187	37 032	45 056
5	8	94	1 077	483	174	8 627	10 455
260	277	1 281	6 461	1 749	361	45 659	55 511

62. Risk management (continued)

62.2 Credit risk (continued)

Financial assets written off during the financial period but still subject to enforcement activities

Contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity:

	Group 2020 Rm	Group 2019 Rm
Assets written off during financial period still subject to enforcement activities	**7 415**	9 423

Reconciliation of impairment loss allowance

The following tables show reconciliations from the opening to closing balance of the loss allowances by classes of financial assets:

Group 2020 Cash, cash balances and balances with central banks at amortised cost	Stage 1 Rm	Lifetime expected credit losses ('LEL') Stage 2 Rm	Lifetime expected credit losses ('LEL') Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	**4**	**0**	**—**	**4**
Asset moved/allowance transferred to stage 1	—	—	—	—
Asset moved/allowance transferred to stage 2	(0)	0	—	—
Current period provision	(2)	0	(0)	(2)
Foreign exchange movements	—	—	—	—
Balance at the end of the reporting period	**2**	**0**	**(0)**	**2**

2019 Cash, cash balances and balances with central banks at amortised cost	Stage 1 Rm	Lifetime expected credit losses ('LEL') Stage 2 Rm	Lifetime expected credit losses ('LEL') Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	2	8	—	10
Asset moved/allowance transferred to stage 1	2	(2)	—	—
Asset moved/allowance transferred to stage 2	(0)	0	—	—
Current period provision	0	(6)	—	(6)
Foreign exchange movements	—	—	—	—
Balance at the end of the reporting period	4	0	—	4

62. Risk management (continued)

62.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

Investment securities at amortised cost and FVOCI	Group 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	50	15	—	65
Asset moved/allowance transferred to stage 1	3	(3)	—	—
Asset moved/allowance transferred to stage 2	0	(0)	—	—
Current period provision	111	53	—	164
Foreign exchange movements	(6)	(3)	—	(9)
Balance at the end of the reporting period	158	62	—	220

Investment securities at amortised cost and FVOCI	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	59	101	10	170
Asset moved/allowance transferred to stage 1	94	(94)	—	—
Asset moved/allowance transferred to stage 2	(8)	8	—	—
Current period provision	(90)	(3)	(10)	(102)
Foreign exchange movements	(6)	3	—	(3)
Balance at the end of the reporting period	50	15	—	65

Loans and advances to banks at amortised cost	Group 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	21	3	—	24
Asset moved/allowance transferred to stage 1	(0)	0	—	—
Asset moved/allowance transferred to stage 2	(1)	1	—	—
Current period provision	39	3	—	42
Foreign exchange movements	—	(3)	—	(3)
Balance at the end of the reporting period	59	4	—	63

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	9	14	—	23
Asset moved/allowance transferred to stage 1	1	(1)	—	—
Current period provision	10	(10)	0	(0)
Foreign exchange movements	1	0	—	1
Balance at the end of the reporting period	21	3	0	24

62. Risk management (continued)

62.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

	Group			
	2020			
		Lifetime expected credit losses ('LEL')		
Loans and advances to customers at amortised cost and undrawn facilities	**Stage 1 Rm**	**Stage 2 Rm**	**Stage 3 Rm**	**Total expected credit losses Rm**
Balance at the beginning of the reporting period	**4 599**	**5 232**	**20 550**	**30 381**
Asset moved/allowance transferred to stage 1	**1 368**	**(1 070)**	**(298)**	**—**
Asset moved/allowance transferred to stage 2	**(382)**	**681**	**(299)**	**—**
Asset moved/allowance transferred to stage 3	**(302)**	**(1 522)**	**1 824**	**—**
Current period provision	**2 185**	**5 362**	**12 803**	**20 350**
Amounts written off	**—**	**—**	**(7 415)**	**(7 415)**
Foreign exchange movements	**(122)**	**(126)**	**(1 283)**	**(1 531)**
Transfer to non-current assets held for sale	**—**	**—**	**—**	**—**
Net change in interest	**—**	**—**	**2 442**	**2 442**
Balance at the end of the reporting period	**7 346**	**8 557**	**28 324**	**44 227**

	2019			
		Lifetime expected credit losses ('LEL')		
Loans and advances to customers at amortised cost and undrawn facilities	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	4 268	5 067	21 329	30 664
Asset moved/allowance transferred to stage 1	1 593	(1 038)	(555)	—
Asset moved/allowance transferred to stage 2	(419)	855	(436)	—
Asset moved/allowance transferred to stage 3	(238)	(1 287)	1 525	—
Current period provision	(449)	1 890	6 640	8 081
Amounts written off	—	—	(9 423)	(9 423)
Foreign exchange movements	(49)	(39)	(168)	(256)
Transfer to non-current assets held for sale	(107)	(216)	(514)	(837)
Net change in interest	—	—	2 152	2 152
Balance at the end of the reporting period	4 599	5 232	20 550	30 381

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 Group 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 portfolios.
- The Edcon loan book with a gross carrying amount of R4 666m was disposed of during the reporting period. The ECL at the date of disposal amounted to R107m for stage 1, R216m for stage 2 and R514m for stage 3.

62. Risk management (continued)

62.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

The net change in interest relates only to stage 3 assets where contractual interest is suspended, and interest income is recognised based on the net carrying value of the exposures. The amount of **R2 442m** (2019: R2 152m) disclosed is therefore reflective of the amount of interest not recognised during the current reporting period.

	Group			
	2020			
		Lifetime expected credit losses ('LEL')		
Guarantees and letters of credit	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	73	37	48	158
Asset moved/allowance transferred to stage 1	1	(1)	—	—
Asset moved/allowance transferred to stage 2	(3)	3	—	—
Asset moved/allowance transferred to stage 3	—	(4)	4	—
Current period provision	58	35	87	180
Foreign exchange movements	(9)	(5)	(1)	(15)
Balance at the end of the reporting period	120	65	138	323

	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	79	70	22	171
Asset moved/allowance transferred to stage 1	39	(39)	—	—
Asset moved/allowance transferred to stage 2	(8)	8	—	—
Asset moved/allowance transferred to stage 3	—	(1)	1	—
Current period provision	(38)	5	26	(7)
Foreign exchange movements	1	(6)	(1)	(6)
Balance at the end of the reporting period	73	37	48	158

Other financial assets measured at amortised cost:

The ECL recognised on other assets for the current financial year amounted to **R69m** (2019: R42m).

Modified financial assets

The following table provides information on financial assets that were modified during the reporting period, without resulting in derecognition, while they had a loss allowance measured at an amount equal to lifetime ECL:

	Group	
	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)

62. Risk management (continued)

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

Approach

The Group's governance of equity investments is based on the following key fundamental principles:
- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Group's equity investments are held in CIB and RBB – Business Banking. Equity and other investments held by insurance entities are addressed in the insurance risk management section of this report.

Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and economic capital (EC) requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Group employs the market-based simple risk weight approach as prescribed by Regulation 31 of the Regulations relating to Banks to calculate risk-weighted assets (RWA) and regulatory capital (RC) and a historical simulation approach with volatility scaling to calculate EC for ERBB.

Consequently, the RWA requirement is calculated using adjusted risk weightings of **318%** (2019: 300%) and **424%** (2019: 400%) for listed and unlisted equity investments, respectively. For investments in which the Group owns between 10% and 20% of the issued common share capital of a financial entity, a 250% risk weight is applied. For investments not in the common share capital of financial entities, as well as any investments in financial entities (in common and non-common share capital) with a shareholding percentage of more than 20%, the Group applies a common equity Tier 1 capital deduction, also referred to as the threshold deduction, in accordance with Regulation 38 of the Regulations relating to Banks. RC requirements in respect of investments in associates and joint ventures, defined as financial companies in the Regulations relating to Banks, are calculated with reference to either the pro rata consolidation methodology or the deduction approach.

The approach in determining the EC requirement employs a historical simulation, which assumes that historical price movements of a different industry sector can be used to proxy the changes in the market value of the portfolio and a volatility forecast is applied to scale the historical returns to better reflect current market conditions. This allows for the capturing of diversification between individual industry sectors.

The Solvency Assessment Management (SAM) regime is a risk-based regulatory and solvency regime, prescribed by the Insurance Act of 2017, and applies to regulated insurance entities and insurance groups. Absa Financial Services entities' liabilities, capital and solvency positions will continue to be reported under parallel processes accordingly.

Analysis of equity investment risk in the banking book

The table below illustrates the equity sensitivity analysis and discloses the impact on pre-tax profit or loss and equity after the effect of hedges. Debt instruments have been excluded from the sensitivity analysis.

62. Risk management (continued)

62.3 Equity investment risk in banking book (continued)

	Group									
	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
Insurance activities' listed and unlisted equity investments[2,3]	**(79)**	**(46)**	**2 208**	**79**	**46**	(82)	—	1 646	82	—
Listed equity investments	**(50)**	**(46)**	**1 919**	**50**	**46**	(80)	—	1 598	80	—
Unlisted equity investments	**(29)**	**—**	**289**	**29**	**—**	(2)	—	48	2	—
Group listed and unlisted equity investments, excluding insurance activities' investments	**(184)**	**(99)**	**3 070**	**184**	**99**	(137)	(45)	3 636	137	45
Listed equity investments	**(11)**	**(13)**	**487**	**11**	**13**	(50)	(6)	1 117	50	6
Unlisted equity investments	**(173)**	**(86)**	**2 583**	**173**	**86**	(87)	(39)	2 519	87	39
Total on Group equity investments	**(263)**	**(145)**	**5 278**	**263**	**145**	(219)	(45)	5 282	219	45

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

[2] The above sensitivities were only calculated on shareholder and non-linked policyholder assets (for unit linked policyholder liabilities there is no impact on the sensitivity analysis due to the fact that the asset and liability are 100% matched) and exclude all assets linked to investment and unit linked contracts due to the fact that the asset and liability are 100% matched.

[3] The figures exclude all associates and joint ventures, which account for the differences in fair value compared to that shown in the table titled equity investments in the banking book.

62. Risk management (continued)

62.4 Market risk

Traded market risk

Traded market risk is the risk of the Group's earnings or capital being adversely impacted by changes in the level or volatility of prices affecting positions in its trading activities across the Group. This includes but is not limited to changes in interest rates, credit spreads, commodity prices, equity prices and foreign exchange levels.

The Traded Market Risk Committee (TMRC) meets monthly to review, challenge and make recommendations concerning the traded market risk profile, including risk appetite, policies, limits, risk utilisation, valuation risk and the effectiveness of the control environment.

The Trading Risk Committee (TRC) and Market Risk Infrastructure, Data, Governance and Control Committee (MRIDGCC) are subcommittees of the TMRC that provide oversight of specific traded market risks and the traded market risk control environment.

Approach

Traded market risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, providing risk management solutions, generating revenues from assuming and managing risk, and execution of syndications.

Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported separately as 'Interest rate risk in the banking book' as part of the Treasury Risk Framework.

Risk appetite

The risk appetite for market risk is based on:

- proposed business strategy;
- budgeted revenue growth;
- statistical modelling measures; and
- risk equated to capital projection under normal and stressed market conditions.

Risk measurement

A number of techniques are used to measure and control traded market risk on a daily basis, which include:

- value at risk (VaR) based measures including both VaR and stressed value at risk (sVaR);
- tail metrics;
- position and sensitivity reporting;
- stress testing;
- backtesting; and
- standardised general and specific risk, as relevant.

Daily value at risk

Daily value at risk (DVaR) is an estimate of the potential loss that may arise from unfavourable market movements if current positions were to be held unchanged for one business day.

The Group uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data (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 six times over the two-year period.

This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level for regulatory back testing and regulatory capital (RC) calculation purposes, respectively. The VaR internal model has been approved by the PA to calculate RC for trading book portfolios in South Africa. The approval covers general position risk across interest rate, foreign exchange, commodity, equity and traded credit products. As part of this approval, the PA has assigned a DVaR and sVaR model multiplier to be used in RC calculations. 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 capitalised under the standardised approach.

Issuer-specific risk is currently reported in accordance with the regulatory standardised approach across the Group. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach. General position risk in trading books in the Absa Regions is also capitalised under the regulatory standardised approach.

DVaR is an important market risk measurement and control tool that is used by the Group. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. Backtesting measures daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily.

62. Risk management (continued)

62.4 Market risk (continued)

Daily value at risk (continued)

VaR estimates have a number of limitations:

- Historical simulation assumes that the past is a good representation of the future, which may not always be the case.
- The assumed time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- VaR does not indicate the potential loss beyond the selected percentiles.
- VaR is based on positions as at the close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured.
- Prudent valuation practices are used in the VaR calculation when there is difficulty obtaining rate/price information.

sVaR uses a similar methodology to VaR, but is based on a one-year period of financial stress which is reviewed quarterly and assumes a 10-day holding period and a worst case loss. The period of stress used for RC is currently the 2008/2009 financial crisis.

Loss thresholds, tail risk metrics, position and sensitivity reporting and stress testing are used to complement VaR in the management of traded market risk.

Analysis of traded market risk exposure

The following table reflects the DVaR and expected shortfall statistics for trading book activities as measured by the internal models approach (IMA). Traded market risk exposure, as measured by average total DVaR, 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 Group level.

	Group							
	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 Group maintains different pension plans with defined benefit and defined contribution structures for current and former employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises when the estimated market value of the pension plan assets declines, their investment returns reduce, or when the estimated value of the pension liabilities increases, resulting in a weaker funding position or shortfall. In these circumstances, the Group may choose to make additional contributions or be required to make good the shortfall of the plan.

Asset management income risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of the likely volatility in the annual earnings over the next year to reflect the sensitivity of earnings to shocks in financial markets. Group policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises in the Wealth segment.

[1] The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted.

[2] Regulatory VaR and sVaR are reported with a one-day holding period at a 99% confidence level. The sVaR period is subject to quarterly review for appropriateness.

62. Risk management (continued)

62.5 Treasury risk

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

- **Liquidity risk:** The risk that the Group is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.
- **Capital risk:** The risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board-approved capital target ranges and above regulatory capital requirements.
- **Interest rate risk in the banking book (IRRBB):** The risk that the Group is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its banking book assets and liabilities.

62.5.1 Liquidity risk

Liquidity risk is the risk that the Group 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 group-specific and market-wide events.

Liquidity risk is monitored at Group level under a single comprehensive Treasury Risk Framework. The Treasury Risk Framework was designed to deliver an appropriate tenor structure and composition of funding consistent with the risk appetite set by the Board. This framework is delivered through a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring.

Priorities

The Group's liquidity risk management priorities are:

- preserve the Group's liquidity position in line with risk appetite.
- focus on growing core retail, relationship bank, corporate and public sector deposits.
- manage the funding and 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 Group 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 to liquidity risk

The efficient management of liquidity is essential for safeguarding the Group's depositors, preserving market confidence and maintaining the Group's brand. The Group considers sustainable access to appropriate liquidity for each of its entities to be extremely important. Liquidity risk is managed 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 Group established the internal liquidity stress metric (ILSM), which sets the level of liquidity risk the Group chooses to take to achieve its business objectives and in meeting its regulatory requirements. It is measured with reference to the anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to determine the appropriate size of the liquidity pool, along with the LCR.

Each entity in the Group undertakes a range of stress tests appropriate to its business. Stress tests consider both name-specific and market-wide scenarios. The results of the stress tests are used to determine the liquid asset buffer, to develop the CFP which is a component of the Group's recovery plan. Stress testing results are also considered when setting limits for the management of liquidity risk and the business planning process.

As part of stress and scenario testing, the relevant liquid assets portfolio serves as the main source of liquidity under stress. Liquidity value is also assigned to unsecured funding lines, readily marketable investment securities and price-sensitive overnight loans.

Contingency funding planning

The contingency funding plan (CFP) includes, *inter alia*:

- the roles and responsibilities of senior management in a crisis.
- authorities for invoking the plan.
- communications strategy.
- an analysis of a realistic range of market-wide and Group-specific liquidity stress tests.
- scenario analyses and the extent to which each stress test and scenario can be mitigated by the management of the balance sheet.
- a range of early warning indicators (EWIs), which assist in informing management when deciding whether the CFP should be invoked.

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.1 Liquidity risk (continued)

Contingency funding planning (continued)

Each banking entity in the Group must establish local processes and procedures to manage local liquidity stresses that are consistent with the Group's plan. The CFPs set out the specific requirements to be undertaken locally in a crisis. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets. For the Group the CFP was merged with the recovery plan.

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

The Group 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 Group 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.

	Group					
	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	57 129	3 381	174	—	(2)	60 682
Investment securities	8 885	44 020	47 976	52 630	(7)	153 504
Loans and advances to banks	23 779	50 429	6 307	4 086	(63)	84 538
Trading and hedging portfolio assets	212 443	949	8 695	1 353	—	223 440
Derivative assets	98 855	949	8 695	1 353	—	109 852
Non-derivative assets	113 588	—	—	—	—	113 588
Other financial assets	8 386	8 646	178	—	(69)	17 141
Loans and advances to customers	149 068	203 735	365 592	255 207	(43 633)	929 969
Reinsurance assets	—	456	143	81	—	680
Investments linked to investment contracts	612	6 931	3 620	10 110	—	21 273
Financial assets	460 302	318 547	432 685	323 467	(43 774)	1 491 227
Non-financial assets						39 893
Total assets						1 531 120
Liabilities[1]						
Deposits from banks	33 122	48 043	13 273	1 668	—	96 106
Trading and hedging portfolio liabilities	108 992	235	1 193	3 424	—	113 844
Derivative liabilities	87 944	235	1 193	3 424	—	92 796
Non-derivative liabilities	21 048	—	—	—	—	21 048
Other financial liabilities	14 699	10 361	137	—	—	25 197
Deposits due to customers	613 778	269 398	56 231	12 487	—	951 894
Debt securities in issue	143	64 842	66 778	13 977	—	145 740
Liabilities under investment contracts	4 601	6 981	5 048	10 903	—	27 533
Policyholder liabilities under insurance contracts	821	1 615	164	1 598	—	4 198
Borrowed funds	114	6 629	14 018	—	—	20 761
Financial liabilities	776 270	408 104	156 842	44 057	—	1 385 273
Non-financial liabilities						13 544
Total liabilities						1 398 817
Equity						132 303
Total equity and liabilities						1 531 120
Net liquidity position of financial instruments	(315 968)	(89 557)	275 843	279 410	(43 774)	105 954

[1] The above table does not include the maturity analysis of finance lease payables, which is detailed in note 44.

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.1 Liquidity risk (continued)

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
	2019 Carrying amount (excluding impairment losses on amortised cost instruments)					
Assets						
Cash, cash balances and balances with central banks	47 734	4 789	13	—	(4)	52 532
Investment securities	9 358	41 394	34 180	31 815	(0)	116 747
Loans and advances to banks	17 921	39 916	1 932	—	(24)	59 745
Trading and hedging portfolio assets	157 681	191	2 350	817	—	161 039
Derivative assets	57 583	191	2 350	817	—	60 941
Non-derivative assets	100 098	—	—	—	—	100 098
Other financial assets	17 471	9 283	189	—	—	26 943
Loans and advances to customers	129 783	214 150	345 297	257 485	(29 737)	916 978
Non-current assets held for sale	145	3 720	—	—	—	3 865
Reinsurance assets	—	570	236	80	—	886
Investments linked to investment contracts	549	4 209	5 898	9 386	—	20 042
Financial assets	380 642	318 222	390 095	299 583	(29 765)	1 358 777
Non-financial assets						40 398
Total assets						1 399 175
Liabilities[1]						
Deposits from banks	25 247	72 337	19 754	85	—	117 423
Trading and hedging portfolio liabilities	59 235	112	446	811	—	60 604
Derivative liabilities	46 034	112	446	811	—	47 403
Non-derivative liabilities	13 201	—	—	—	—	13 201
Other financial liabilities	29 710	8 159	636	—	—	38 505
Deposits due to customers	471 179	281 204	61 895	12 015	—	826 293
Debt securities in issue	372	83 557	63 075	12 790	—	159 794
Liabilities under investment contracts	5 144	4 053	9 803	10 700	—	29 700
Policyholder liabilities under insurance contracts	542	—	—	3 789	—	4 331
Borrowed funds	195	10 706	3 676	6 841	—	21 418
Financial liabilities	591 624	460 128	159 285	47 031	—	1 258 068
Non-financial liabilities						12 424
Total liabilities						1 270 492
Equity						128 683
Total equity and liabilities						1 399 175
Net liquidity position of financial instruments	(210 982)	(141 906)	230 810	252 552	(29 765)	100 709

[1] The above table does not include the maturity analysis of finance lease receivables, which is detailed in note 44.

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.1 Liquidity risk (continued)

Undiscounted maturity[1] (statement of financial position value with impact of future interest)	Group 2020 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	33 122	48 193	14 571	2 973	(2 753)	96 106
Trading and hedging portfolio liabilities	108 992	239	1 397	5 689	(2 473)	113 844
Derivative liabilities	87 944	239	1 397	5 689	(2 473)	92 796
Non-derivative liabilities	21 048	—	—	—	—	21 048
Other financial liabilities	14 699	10 423	156	—	(81)	25 197
Deposits due to customers	613 778	272 721	63 497	26 442	(24 544)	951 894
Debt securities in issue	143	65 779	76 355	21 422	(17 959)	145 740
Liabilities under investment contracts	4 601	7 086	5 874	20 437	(10 465)	27 533
Policyholder liabilities under insurance contracts	821	1 674	176	4 203	(2 676)	4 198
Borrowed funds	114	6 774	17 919	—	(4 046)	20 761
Financial liabilities	776 270	412 889	179 945	81 166	(64 997)	1 385 273
Non-financial liabilities						13 544
Total liabilities	—	—	—	—	—	1 398 817
Off-statement of financial position						
Guarantees	45 405	—	—	—	—	45 405
Loan commitments	102 161	74 103	—	—	—	176 264

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	25 247	73 260	23 083	140	(4 307)	117 423
Trading and hedging portfolio liabilities	59 235	116	557	1 484	(788)	60 604
Derivative liabilities	46 034	116	557	1 484	(788)	47 403
Non-derivative liabilities	13 201	—	—	—	—	13 201
Other financial liabilities	29 710	8 263	763	—	(231)	38 505
Deposits due to customers	471 179	286 346	75 985	24 511	(31 728)	826 293
Debt securities in issue	372	86 390	77 850	23 250	(28 068)	159 794
Liabilities under investment contracts	5 144	4 196	11 621	21 908	(13 169)	29 700
Policyholder liabilities under insurance contracts	542	—	—	14 139	(10 350)	4 331
Borrowed funds	195	10 977	7 707	14 173	(11 634)	21 418
Financial liabilities	591 624	469 548	197 566	99 605	(100 275)	1 258 068
Non-financial liabilities						12 424
Total liabilities						1 270 492
Off-statement of financial position						
Guarantees	50 738	—	—	—	—	50 738
Loan commitments	153 367	66 412	—	—	—	219 779

[1] The above table does not include the maturity analysis of finance lease receivables, which is detailed in note 44.

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.2 Capital management

Capital risk is the risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board capital target ranges and above regulatory capital requirements.

The 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 Group's capital management priorities are to:

- The Board approved CET 1 target range for 2021 will be 11% to 12.5%.
- The Group will seek to grow capital towards the middle of the Board target of 11% to 12.5%, 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.
- Contribute at an industry level to the development of a financial conglomerate supervisory framework in South Africa.
- Monitor and execute opportunities to raise tier 2 capital and/or additional tier 1 instruments in the domestic and/or international markets to optimise the level and mix of capital resources.

Various processes play a role in ensuring that the Group's capital management priorities are met, including:

- The Internal Capital Adequacy Assessment Process (ICAAP);
- Stress testing; and
- Recovery and Resolution Planning.

The capital management process in the Group encompasses all regulated entities within it (including insurance entities and banking subsidiaries in the Absa Regional Operations). Appropriate Board-approved capital buffers, above the minimum regulatory requirements, are held at an entity level. The Group ensures that all regulated entities are adequately capitalised in terms of their respective minimum capital adequacy requirements (CARs). The Group's capital target ranges for the current reporting period were set after considering the following:

- Capital risk appetite;
- The preference of rating agencies for loss absorbing capital;
- Stress scenarios and its impact on the integrated plan, including the capital position of the Group;
- Current and future Basel III requirements and accounting developments; and
- Peer analysis.

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 Group'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%).

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.2 Capital management (continued)

Capital adequacy ratios (unaudited)

Group	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	**11.2**	12.1	**11.0 – 12.0**	**7.5**	11.0 – 12.0	7.5
Tier 1	**12.2**	13.0	**12.0 – 13.0**	**9.3**	12.0 – 13.0	9.3
Total	**15.0**	15.8	**14.5 – 15.5**	**11.5**	14.5 – 15.5	11.5
Capital supply and demand for the reporting period (Rm)						
Qualifying capital	**137 454**	138 137				
Total RWA	**915 061**	870 406				

Regulatory capital comprises the following:

Common Equity Tier 1 – ordinary share capital, share premium and retained earnings including reserves, less regulatory deductions.

Tier 1 – Common Equity Tier 1 plus perpetual, non-cumulative instruments with principal loss-absorption features issued in terms of the Basel III rules.

Total Capital – Tier 1 plus other items such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under Basel III. Subordinated debt issued under Basel I and Basel II is included in total capital but is subject to regulatory phase-out requirements, over a 10-year period effective from 1 January 2013.

During the past year, the Group complied in full with all externally imposed capital requirements (2019: the same).

62.5.3 Interest rate risk in banking book (IRRBB)

Approach

IRRBB is the risk that the Group's financial position might be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, and certain structural exposures within the balance sheet from re-pricing differences between assets, liabilities and equity. These risks impact both the earnings and economic value of the Group.

The Group's objective for managing IRRBB is to ensure a higher degree of interest rate margin stability and reduced interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to local treasury or Group Treasury, which is mandated to hedge material net exposures with the external market. Interest rate risk may arise when some of the net position remains with treasury as a result of timing considerations. A limit framework is in place to ensure that the retained risk remains within approved risk appetite.

Risk mitigation

Risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Group's interest rate risk exposure within limits.
  - Where possible, hedge accounting is applied to derivatives that are used to hedge IRRBB. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules, as detailed in the Group's accounting policies, are followed.
  - Structural interest rate risk arises from the variability of income from non-interest-bearing products, managed variable rate products and the Group's equity, and is managed by Group Treasury. Interest rate risk also arises in each of the Absa Regional Operations treasuries in the normal course of managing the balance sheet and facilitating customer activity. The risk is managed by the local treasury functions, subject to risk limits and other controls.

Key assumptions

Embedded optionality risk may also give rise to IRRBB:

- Prepayment risk arises in relation to transactions where an early settlement option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the Group is unable to collect full market-related compensation. This risk is managed by modelling the loans on a behaviouralised basis for both pricing and risk measurement. This treatment is also applied to non-maturing customer deposits.
- Recruitment risk arises when the Group commits to providing a product at a predetermined price for a period into the future. Customers have the option to take up this offer. Processes are in place to enable robust management of these additional forms of IRRBB.

[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).

62. Risk management (continued)

62.5 Treasury risk (continued)

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

Risk measurement

The techniques that are used to measure and control IRRBB include re-pricing profiles, annual earnings at risk (AEaR), DVaR and tail metrics, economic value of equity (EVE) sensitivity and stress testing. DVaR and tail metrics are assessed on a daily basis while re-pricing profiles, AEaR and EVE are assessed on a monthly basis.

Re-pricing profiles

With the re-pricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. Instruments which have no explicit contractual re-pricing or maturity dates are placed in time buckets based on the most likely re-pricing behaviour. The re-pricing profiles take the assumed behavioural profile of structural product balances into account.

Annual earnings at risk (AEaR)/Net interest income (NII) sensitivity

AEaR/NII sensitivity measures the sensitivity of NII over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. AEaR is monitored against approved internal limits.

Daily value at risk (DVaR)

The Group uses a sensitivity-based approach to calculate DVaR at a 95% confidence level for measuring IRRBB. The DVaR is monitored against approved internal limits, and is used as a complementary metric to AEaR. The DVaR is supplemented by non-DVaR, stress and tail metrics.

Economic value of equity (EVE) sensitivity

EVE sensitivity measures the sensitivity of the present value of the banking book at a specific point in time (PIT) to a specified shock to the yield curve. Similar to DVaR, EVE is a present value sensitivity and is complementary to income sensitivity measures such as AEaR. EVE sensitivity is measured against regulatory guidelines and not against approved internal limits.

Stress testing

Stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. Stress testing is carried out by Market Risk to supplement the DVaR and AEaR metrics for South Africa. Stress testing for the Absa Regional 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 Group Treasury, with the exception of two businesses, where reporting is performed on a monthly basis. The re-pricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for Group Treasury.

Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Group's banking book are set out in the table that follows, namely, the re-pricing profile of the book, the potential effect of changes in market interest rates on annual earnings and impact on equity reserves.

Re-pricing profile

The re-pricing profile of the Group's banking books shows that the banking book remains asset sensitive, as interest-earning assets re-price sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates.

62. Risk management (continued)
62.5 Treasury risk (continued)
62.5.3 Interest rate risk in banking book (IRRBB) (continued)

	Group			
	2020			
Expected re-pricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	99 420	(18 587)	(54 924)	(11 609)
Derivatives[2]	(97 813)	13 051	10 090	74 672
Net interest rate sensitivity gap	1 607	(5 536)	(44 834)	63 063
Cumulative interest rate gap	1 607	(3 929)	(48 763)	14 300
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	0.1	(0.3)	(3.8)	1.1
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	28 735	1 433	(4 797)	(9 196)
Derivatives[2]	—	—	—	—
Net interest rate sensitivity gap	28 735	1 433	(4 797)	(9 196)
Cumulative interest rate gap	28 735	30 168	25 371	16 174
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	1.9	2.0	1.7	1.1
Total				
Cumulative interest rate gap	30 342	26 239	(23 392)	30 474
Cumulative gap as a percentage of the Group's total assets (%)	2.0	1.7	(1.5)	2.0

	2019			
Expected re-pricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	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 Absa Bank Limited's total assets (%)	9.2	7.8	3.8	7.2
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	26 941	(162)	4 327	22 873
Derivatives[2]	22	—	—	21
Net interest rate sensitivity gap	26 963	(162)	4 327	22 894
Cumulative interest rate gap	26 963	26 801	31 128	54 022
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	12.3	12.2	14.2	24.6
Total				
Cumulative interest rate gap	133 337	115 957	74 318	136 804
Cumulative gap as a percentage of the Group's total assets (%)	9.5	8.3	5.3	9.8

[1] Includes exposures held in the CIB banking book.
[2] Derivatives for interest rate risk management purposes (net nominal value).

62. Risk management (continued)

62.5 Treasury risk (continued)

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

Impact on earnings

The following table shows the impact on AEaR/NII for 100 and 200 bps up and down movements in market interest rates for the Group's banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of **R1.684bn** (2019: R3.805bn). A similar increase would result in an increase in projected 12-month net interest income of **R1.361bn** (2019: R3.562bn). AEaR increased to **3.4%** (2019: 8.2%) of the Group's net interest income.

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

	Group			
	2020 Change in market interest rates			
	200 bps decrease	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Domestic bank book (Rm)[1]	**(857)**	**(438)**	**267**	**534**
Foreign subsidiaries' bank books (Rm)[2]	**(827)**	**(413)**	**413**	**827**
Total (Rm)	**(1 684)**	**(851)**	**680**	**1 361**
Percentage of the Group's net interest income (%)	**(3.4)**	**(1.7)**	**1.4**	**2.8**
Percentage of the Group's equity (%)	**(1.3)**	**(0.6)**	**0.5**	**1.0**

	2019 Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book (Rm)[1]	(3 171)	(1 415)	1 467	2 928
Foreign subsidiaries' bank books (Rm)[2]	(634)	(317)	317	634
Total (Rm)	(3 805)	(1 732)	1 784	3 562
Percentage of the Group's net interest income (%)	(8.2)	(3.7)	3.8	7.7
Percentage of the Group's equity (%)	(3.0)	(1.3)	1.4	2.8

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 fair value movement on derivatives is 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.

[1] Includes exposures held in the CIB banking book.
[2] African subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.

62. Risk management (continued)

62.5 Treasury risk (continued)

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

Sensitivity of reserves to market interest rate movements

	Group					
	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 Group equity (%)	(2.3)	(2.4)	(1.7)	(1.8)	(2.1)	(1.7)

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.

62.6 Foreign exchange risk

The Group is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Group's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Group's policy, there were no significant net open currency positions outside the trading book at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

Foreign currency translation sensitivity analysis

The following table depicts the carrying value of foreign currency net investments and the pre-tax impact on equity of a 5% change in the exchange rate between the ZAR and the relevant functional foreign currencies.

Functional foreign currency

	Group			
	2020		2019	
	Foreign currency net investment Rm	Impact on equity from 5% currency translation shock Rm	Foreign currency net investment Rm	Impact on equity from 5% currency translation shock Rm
Botswana pula	3 151	158	2 949	147
Ghana cedi	4 871	244	4 046	202
Kenya shilling	6 263	313	6 276	314
Mauritian rupee	1 206	60	1 547	77
Mozambican metical	1 510	76	1 707	85
Namibian dollar	96	5	98	5
Nigerian naira	49	2	49	2
Seychelles rupee	414	21	726	36
Pound sterling	474	24	333	17
Tanzanian shilling	2 551	128	2 461	123
Uganda shilling	2 018	101	1 786	89
United States dollar	4 922	246	4 653	233
Zambia kwacha	848	42	1 172	59
	28 373	1 420	27 803	1 390

[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).

62. Risk management (continued)

62.7 Insurance risk management

Definition

Insurance risk is the risk that future claims, expenses, policyholder behaviour and investment returns will be adversely different from the allowances made in measuring policyholder liabilities and in product pricing. Insurance risk arises when:

- Aggregate insurance premiums received from policyholders under a portfolio of insurance contracts are inadequate to cover the claims arising from those policies and the expenses associated with the management of the portfolio;
- Premiums are not invested to adequately match the duration, timing and size of expected claims and expense outflows;
- Unexpected fluctuations in claims arise or when excessive exposure (e.g. in individual or aggregate exposures) relative to capacity is retained in the entity; or
- Counterparties to an agreement are unable or unwilling to fulfil their obligations. This is primarily driven by exposure on reinsurance contracts and investments, but can also arise due to outstanding premiums and broker exposure.

Strategy

The Group's insurance risk management objectives are to:

- Pursue profitable growth opportunities within the financial volatility and solvency risk appetite approved by the Board;
- Balance exposure between, and within, life and short-term insurance to allow for better diversification, and optimal risk-adjusted returns; and
- Leverage off the Absa presence and infrastructure across Africa.

Governance

Insurance entities are standalone legal entities within Absa Group and each has its own board. All Absa insurance legal entities fall within Absa Financial Services Ltd (AFS), which is a regulated insurance group. As such, AFS has its own committee structures and governance requirements.

The following AFS committees oversee all elements of the Insurance Principal Risk Management Framework (IPRMF) as well as all other risks within insurance entities:

Committee	Main objectives
AFS and entity boards	Approve risk appetite, dividends and strategy. Further, the boards are responsible for ultimate ownership of any applicable local regulatory requirements (including the Prudential Standards).
Audit, Risk and Compliance Committee (ARCC)	Committee of the AFS Board. Oversight on behalf of the AFS and entity boards. Oversees internal controls, risk, compliance, internal and external audit matters as well as capital and liquidity management. Recommends dividends to the boards, having regard to the impact on capital adequacy after allowing for stresses and the impact of the actual dividend being declared. May refer duties, or seek input from the GAC, where applicable.
Group Actuarial Committee (GAC)	Committee of the AFS Board. Provides support and assists the ARCC, AFS and entity boards with actuarial and related financial risk matters, capital and liquidity management, without detracting from, or assuming the responsibilities of the ARCC. Also assists the Head of Actuarial Function and Statutory Actuaries in fulfilling their professional and statutory duties.
Insurance Cluster Enterprise Risk Committee (ERC)	The monitoring and conformance of embedment of all Enterprise Risk Management Framework (ERMF) frameworks and policies, including the IPRMF, and assessment of their effectiveness. Reviews and challenges the control environment of the entities. Addresses general risk, regulatory and assurance matters. Act as an oversight body for the relevant Product Risk Committees. Assesses the risk profile of the organisation against the approved risk appetite. Escalates relevant matters to the insurance board(s) and Absa Group. These committees exist at an RBB SA, Insurance Cluster and entity level.
Insurance Cluster Financial Risk Committee (FRC)	Financial risk management and oversight across the Insurance Cluster. This includes recommending for approval to the Insurance Cluster ERC the risk appetite, and conducting review and challenge of financial risk practices and the risk profile as outlined in the Absa Group Enterprise Risk Management Framework, and the IPRMF. Capital risk management and holistic oversight across the Insurance Cluster, which includes guidance and monitoring to ensure capital efficiency and management of financial risks.
Insurance Actuarial Oversight Committee (IAOC)	Oversight of actuarial technical matters, including data, assumptions, methodologies, incorporating governance of model risk management. Ensures that the Prudential Standard requirements of the Actuarial Function are complied with. The committee may also provide input and guidance on specific technical actuarial matters at an AFS Group level only where required and at the request of the RBB Financial Resource Management Committee.
Insurance Governance Control Forum (IGCF)	The role of the IGCF is to provide independent oversight and challenge of the Insurance Risk control environment of all the insurance business units within AFS. The IGCF is established in line with the requirements of the ERMF which requires the Insurance Principal Risk Officer to establish a Principal Risk Forum where the effectiveness and the adherence to the IPRMF is monitored and challenged. This is required to enable assurance to be provided to the Insurance Principal Risk Officer.

62. Risk management (continued)

62.7 Insurance risk management (continued)

IPRMF and supporting policies

The IPRMF defines the management processes for the collection of related Insurance Risk management activities and is one of the supporting frameworks of the ERMF. The IPRMF is supported by policies and standards which provide more detail on expectations of business areas and employees in order to effectively manage Insurance Risk. AFS's insurance entities are required to comply with the IPRMF and the eight supporting insurance risk policies:

- Insurance Asset Liability Management Policy;
- Insurance Capital and Liquidity Risk Policy;
- Insurance Credit and Concentration Risk Policy;
- Insurance Investment Management Policy;
- Reinsurance and Risk Transfer Policy;
- Insurance Reserving Policy;
- Insurance Own Risk and Solvency Assessment (ORSA) Policy; and
- Insurance Underwriting Policy.

Other policies required by the Governance and Operational Standard for Insurers (GOI) 3 such as Operational Risk are addressed in the ERMF under other risk types.

Insurance Risk Subtypes

The types of Insurance Risk that can occur are broad and varied. The Insurance Risk Subtypes below reflect this broad spectrum of financial risk types inherent to insurance entities. Insurance Risk Subtypes are reviewed at least annually.

- **Capital risk:** The risk that an insurance entity has an insufficient level or inadequate composition of capital to support its normal business activities; and to meet its regulatory capital requirements under normal operating environments and stressed conditions (both actual and as defined for internal planning or regulatory testing purposes).
- **Concentration risk:** Concentration risk arises from insufficient diversification of counterparties, i.e. due to concentrations in asset classes, sectors, counterparties, and maturities. Primarily driven by counterparty exposure on reinsurance contracts and investments, but can also arise due to on and off-balance sheet counterparties (including policyholders with significant exposure and geographically concentrated exposures).
- **Counterparty default risk:** The risk that a counterparty to an agreement will be unable or unwilling to fulfil its obligations. This is primarily driven by counterparty exposure on reinsurance contracts and investments, but can also arise due to on and off-balance sheet counterparties.
- **Liquidity risk:** The risk that an insurance entity, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.
- **Market risk:** The exposure to movements in the value of an investment portfolio (including concentration and investment-related credit risks) and the risk that assets and liabilities are mismatched:
  - Asset-liability mismatch risk: An asset-liability mismatch arises when the assets backing insurance products do not grow as expected or their proceeds do not materialise timeously to match expected insurance policy outflows during and at the end of the policy term.
  - Investment management risk: The risk of adverse investment experience impacting the ability of the entity to provide for policy obligations and capital adequacy requirements, as well as the ability to provide shareholders with an acceptable return on assets retained in the business.
- **Reserving risk:** The risk that current reserves are insufficient to cover current and future claims and the expenses associated with the management of the portfolio.
- **Underwriting risk:** The risk that aggregate insurance premiums received from policyholders under a portfolio of insurance contracts are inadequate to cover the claims arising from those policies and the expenses associated with the management of the portfolio.
- **Reinsurance risk:** The inability to contractually agree reinsurance arrangements that provide suitable cover. Arrangements are considered suitable where they ensure that an insurance entity's risk profile remains within appetite, whilst providing a desired risk adjusted return on capital and not resulting in undue secondary risks.

Non-financial risks that insurance legal entities are exposed to are covered by the Absa Group non-financial risk frameworks.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Insurance Risk Management Methodology

The IPRMF applies the three step process evaluate-respond-monitor to insurance risk, comprising of the following elements:

Risk Management Step	Element	Description and purpose of element
Evaluate	Risk Measurement	An insurance entity must quantify all insurance liabilities and assets as required for local regulatory and financial reporting purposes. An insurance entity must quantify the capital adequacy requirements defined for local regulatory, insurance group regulatory (as required) and internal solvency purposes.
	Critical Process Assessment	Critical Process Assessment (CPA) is an integrated process-based risk and control self-assessment tool adopted by the Group. This integrated assessment covers processes end-to-end and specific process enablers such as systems, human resources and external dependencies are also included. Critical processes that underpin insurance risk have been identified and are subjected to the CPA process at least annually.
	Stress and scenario testing	Stress and scenario testing is used to assess plausible risks on a mild, adverse and extreme or stressed bases to understand the potential impacts on the business, its performance and capital cover results and the suitability of mitigating actions. This method is also used as part of the capital assessment and risk appetite setting process.
	Emerging Risk Assessment	Performed in line with the requirements set out in the Operational Risk Management Framework (ORMF), which applies to all risks within the ERMF.
	ORSA	Where required by local regulation, the insurance risk management process supports the ORSA – the internal process undertaken by an insurance entity to assess the adequacy of its risk management and its current and prospective solvency positions.
	Assurance	Assurance is performed for all material risks and key controls; it is performed across the three lines of defence and includes control testing and conformance review, and is designed to provide comfort that material risks and key controls are being effectively managed. Assurance requirements for Insurance Risk operate consistently with other risks in the ERMF and so are not covered further in the IPRMF.
Respond	Insurance Risk Appetite	Risk limits and tolerance thresholds are set for Insurance Risk so that Absa's insurance entities take risk decisions which are within Board-approved risk appetite (as expressed in quantitative and qualitative terms). Each business area also operates within defined Insurance Risk limits, with an understanding of the risks it will take and the risks it will avoid. Insurance risk appetite is considered from three perspectives: • **Capital adequacy:** Defined as the degree of capital headroom required in excess of regulatory minimum requirements in order to satisfy financial solvency expectations of stakeholders (policyholders, regulators, shareholders). • **Financial volatility:** The level of potential deviation from expected performance that the Group is prepared to sustain at an appropriate near-term return period. • **Mandates, limits and preferences:** A risk management approach that seeks to formally review and control business activities to ensure that they are within Absa's mandate, manage concentration risk in the business and are of an appropriate scale and mix to achieve a targeted risk-adjusted return. Further entity specific key metrics and influencers of risk, with associated limits, should be contained in each entity's risk appetite statements.
	Authorisation/ Delegation of Insurance Risk Activity	Insurance entities which are permitted to conduct insurance business have to meet all the regulatory and Group requirements in order to maintain this permission. This includes a clear set of criteria for the identification of insurance lines of business and product types which each insurance entity is permitted to write.
	Policies for managing Insurance Risk	Insurance Risk policies describe key components of the Insurance Risk life cycle and define clear control principles and requirements which can then be expanded on in the form of standards (as required) to articulate the specific controls required by local practice, regulation or business.
Monitor	Metrics Monitoring	Key Performance Indicators (KPI) and Key Risk Indicators (KRI) are established during the annual Medium Term Plan (MTP) and risk appetite setting process. The levels of these metrics are monitored on at least a quarterly basis to compare the actual risk and performance profiles against their associated planned thresholds and limits.
	Report	The Insurance Risk Profile, together with supporting rationale and responses, are reported to the various committees.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Life insurance risks

Life insurance underwriting activities are undertaken by Absa Life Limited, Absa Life Botswana Limited (ALB), Absa Life Zambia Limited (ALZ), Absa Life Assurance Kenya Limited (ALAK), and Global Alliance Seguros Mozambique (GAM).

The table that follows summarises the main risk exposures per life insurance product line.

Product line	Description of product	Absa Life	ALB	ALZ	ALAK	GAM (Life)	Main risk exposures
Underwritten life	Provides cover for some or all of death, disability and critical illness. Cover and associated premiums are based on an assessment of each customer's risk profile.	✓	×	×	×	×	Mortality, morbidity, lapse
Limited underwritten life	Provides cover for some or all of death, disability and critical illness. Underwriting can be a limited number of questions, the application of waiting periods, pre-existing condition exclusions, the phasing in of sums insured, or some combination thereof.	✓	✓	✓	✓	✓	Mortality, morbidity, lapse
Funeral	Provides cover for death and the costs associated with having a funeral. Underwriting is limited to the application of waiting periods which are governed by regulation in some markets.	✓	✓	✓	✓	✓	Mortality, lapse
Credit life	Provides for the payment of the obligations due under a credit agreement due to some or all of death, disability, critical illness and loss of income of the borrower. Demographic shifts might introduce additional insurance risk as premiums generally do not differ by gender, age or smoker status.	✓	✓	✓	✓	✓	Mortality, morbidity retrenchment, lapse
Embedded	Provides cover to Bank customers for some or all of death, disability and retrenchment. Typically, the policyholder and premium payer is the Bank. Demographic shifts might introduce additional insurance risk as premiums generally do not differ by gender, age or smoker status.	✓	✓	✓	✓	✓	Mortality, morbidity retrenchment, lapse
Group life	Provides cover for the employees or members of a group under a single insurance contract where the policyholder is typically an employer or an entity such as a labour organisation.	✓	✓	✓	✓	✓	Mortality, morbidity, longevity, concentration
Investments	Endowment and/or living annuity products where benefits are linked to investment returns.	✓	✓	×	×	×	Lapse, other financial risks taken by the policyholder include investment, longevity and tax
Health	Provides cover for critical illness and defined benefits upon admission to a hospital.	✓	×	✓	✓	✓	Morbidity, lapse

Underwriting risk

The underwriting process involves assessment of risk on an individual basis in order to apply terms commensurate with the overall risk. The process is automated for relatively clear applications, but experienced underwriters manually assess those with increased risk, following established underwriting guidelines. The outcome of this process may be to accept applications at normal terms, accept with increased premiums, accept with specific conditions or exclude events, or to decline the application.

Product development is managed under the Market Conduct Risk Policy and Product Risk Standard. New products or changes to existing products are informed by research and in collaboration with functional and risk subject matter experts. Proposals are then presented as either new, or major or minor amendments at the Life Insurance Product Risk Committee, under the mandate of the Insurance Cluster Exco Product Risk Committee, for approval in principle. If approved, the proposal is reviewed through a risk assessment process involving the relevant functional and risk areas. These areas provide their approval and, sometimes, raise pre- or post-launch conditions. Once the risk assessment is complete and the business is ready to launch the product, all approved-in-principle proposals are presented at the Insurance Cluster Exco Product Risk Committee, either for final sanction (new products and major amendments) or noting (minor amendments). The relevance and appropriateness of products are reviewed on an ongoing basis. This occurs at least every one to three years depending on the risk rating of the product. Various forums and committees manage the products and product performance on a regular basis.

Pricing (including re-pricing) is conducted under the requirements of the Insurance Underwriting Policy and Insurance Model Risk Standard. Various reviews and approvals are required before implementing and operationalising new premiums, including independent review by the Head of the Actuarial Function. Reviews are conducted to ensure the premiums remain appropriate and result in profit and claim ratios which are within target ranges as approved by the Insurance Cluster Financial Risk Committee. The targets aim to balance the interests of shareholders and policyholders whilst having regard to the risk associated by product line.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Underwriting risk (continued)

The experience related to all risks underwritten is reviewed regularly to determine whether underwriting guidelines and rules need to be adjusted and/or risk parameters extended. The business relies on annual experience investigations, ongoing studies and analysis of surplus investigations to set pricing and valuation parameters. The non-economic pricing and reserving assumptions (i.e. mortality, morbidity, persistency, expense assumptions) are reviewed to determine changes in trends that are likely to continue in the future.

Effective claims management processes ensure that all valid claims are honoured in line with policy documentation and appropriate allowances made in setting premiums or valuing liabilities. Proactive fraud detection capabilities continue to be developed and improved to minimise fraudulent claim payouts.

Reinsurance and reinsurer credit risk

Reinsurance is used in respect of large individual risks and in respect of risks where the life insurance entity needs to build knowledge and experience as well as obtain technical assistance from the reinsurers. Catastrophe reinsurance is used as a protection against a large number of simultaneous losses.

Reinsurer credit risk is managed by transacting solely with approved reinsurers and within mandated levels as defined in the counterparty credit risk mandates. Mandates prescribe the maximum exposure to the relevant credit rating buckets per entity, and are governed and approved by the Insurance Cluster Financial Risk Committee. The counterparty exposure is monitored against these mandates to take corrective actions should the creditworthiness of a counterparty deteriorate or if the relative nature of the exposure changes materially.

		2020		2019[2]			
Standard & Poor's rating[1]	Description	Number of reinsurers	Total premiums ceded Rm	Restated number of reinsurers	Published number of reinsurers	Restated total premiums ceded Rm	Published total premiums ceded Rm
AA- and above	Very strong	**6**	**429**	5	4	400	284
A-	Strong	**1**	**64**	1	—	81	—
BBB+ and below	Good	**4**	**31**	4	1	36	1
Unrated	N/A	**4**	**77**	3	1	85	47
Total		**15**	**601**	13	6	602	332

The total premiums received in 2020 amounted to **R3.9 billion** (2019: R3.7 billion).

The individual ratings of the various reinsurers, knowledge of disputes and collection experience are used to determine whether the reinsurance assets should be impaired. As at 31 December 2020, the reinsurance assets were unimpaired (2019: unimpaired).

Reserving risk

Reserving risk arises from weaknesses in the actuarial processes of quantifying reserves, for example inappropriate assumptions, methodology, data or approximations made.

Assumption risk

Assumption risk is the risk that the assumptions used in the most recent valuation are not appropriate. Best estimate assumptions are derived from annual investigations into the demographic experience of the business and economic assumptions are based on observable, actual, consistent economic indicators. Margins are added to best estimate assumptions to allow for variability in the assumptions. These margins include compulsory margins prescribed by the Standard of Actuarial Practice 104 (SAP 104) issued by the Actuarial Society of South Africa (ASSA). Further, judgement is applied in instances where it is deemed that past experience may not be a fair reflection of future experience. The Head of the Actuarial Function will assess the reasonability of such judgement.

The risk discount rate used to discount future profits includes a margin over assumed investment returns to reflect any risks associated with the emergence of future shareholder cash flows that are not allowed for elsewhere in the valuation. The government bond curve is used to determine the risk-free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk free rate curve. The economic assumptions used, including certain representative points on the risk-free curve, are disclosed in Annexure A: Embedded value report for the Life insurance entities.

The results of the sensitivities disclosed in the following table indicate that assumptions regarding future mortality and morbidity experience have a significant impact on the quantum of the actuarial liability. Future developments in mortality and morbidity experience, whether positive or negative, will impact profits in future years. The business is also sensitive to expense assumptions.

[1] Long Term Financial Strength International Scale Local Currency Ratings.

[2] The 2019 numbers have been restated to include ARO entities, as the numbers previously considered Absa Life only.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Sensitivity analysis (South African entities only)

Sensitivity analysis	2020 Potential effect recorded in (profit) or loss Rm	2019 Potential effect recorded in (profit) or loss Rm
Mortality and morbidity +10%	**287**	208
Lapse rate +10%	**5**	(8)
Renewal and termination expenses +10%	**80**	63
Expense inflation +1%	**67**	67
Investment return -1%	**(22)**	13

HIV and AIDS risk

The life insurance business is exposed to Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS) risk if an insufficient allowance has been made in the pricing and valuation bases. To manage risk for the business that is medically underwritten, HIV tests are performed as part of the normal underwriting process.

Mortality investigations are performed. The results of these investigations assist in setting the premium and mortality basis for life policies. Additional allowances are included in the valuation basis to allow for a worse than expected AIDS risk experience.

Lapse risk

Lapse risk is the risk of not recouping expenses such as commission and/or underwriting costs generally incurred at the inception of the policy or not generating the anticipated profit margins, as a result of adverse lapse experience. In such instances, a loss is incurred if the policy lapses before the costs have been recouped. This risk is managed by entering into clawback arrangements with financial advisers, whereby at least a portion of the commission is recouped. Annual investigations of lapse experience are performed to ensure pricing and valuation assumptions are appropriate, relevant and in line with experience.

Expense risk

Expense risk refers to the risk of variations in the expenses incurred relative to those allowed for in pricing and reserving bases in servicing insurance obligations, including the risk from the growth in expenses over and above that of inflation. An allowance for future maintenance and claim expenses, inflated at the assumed expense inflation rate, is included in liability calculations based on the current level of maintenance and claim expenses per policy. The risk of understating and pricing insufficiently for this risk is managed by:

- Conducting annual expense investigations based on the most recent operating expenditure incurred;
- Monitoring costs monthly to ensure they remain within anticipated levels and identifying trends at an early stage; and
- Basing the assumed future inflation rate on observable economic indicators and experience.

Where actual business volumes are lower than those that inform expenses assumptions in pricing and reserving exercises, further expense risk may be introduced.

Retrenchment risk

The life business is exposed to retrenchment risk if an inappropriate allowance has been made for retrenchment inception rates in the pricing and valuation bases.

Covid-19 allowances

For Absa Life a Covid-19 provision of R200m is being held to meet the expected short-term outgoes related to Covid-19 experience. The majority of this provision is for expected increased mortality claims in 2021 with the remainder for expected increased lapses in 2021. The mortality component has been derived based on South Africa excess deaths reported during 2020 as well as 2020 internal experience, allowing for the emerging increased severity of the second wave compared to the first wave largely responsible for the 2020 excess deaths. The lapse component has been based on projections of higher than expected lapses in 2021 due to poor economic conditions. It should be noted that retrenchment assumptions have also been significantly strengthened in response to expected poor economic conditions and lower eligibility criteria to provide relief to customers, but have not been included as part of the Covid-19 provision as this is expected to endure beyond the short term.

Premium relief, valued at R137m, was afforded to customers with active standalone life policies. The relief was provided for two months over and above the standard lapse rules. This excluded customers with credit life, group life and embedded policies.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Concentration risk

The risk of several claims arising simultaneously ('concentration risk') on individual lives is small, while the retained exposure per life is relatively low. The table below shows the value of benefits insured by benefit band before and after reinsurance for individual insurance business.

Benefit band per life assured (RSA entities only) (R'000)	2020 Number of policies	2020 Gross of reinsurance Total benefits assured Rm	%	2020 Net of reinsurance Total benefits assured Rm	%	2019 Number of policies[1]	2019 Gross of reinsurance Total benefits assured[2] Rm	%	2019 Net of reinsurance Total benefits assured[2] Rm	%
0 – 250	2 967 379	104 586	51	99 875	62	3 091 496	103 125	53	98 409	63
250 – 500	57 471	17 427	8	14 435	9	60 166	21 181	11	19 478	13
500+	60 328	85 062	41	47 179	29	55 737	71 417	36	38 090	24
	3 085 178	207 075	100	161 489	100	3 207 399	195 723	100	155 977	100

In the case of the Group Life business, geographic concentration of risk exists. For Absa Life Limited, the largest concentration risk is in Johannesburg introduced by the Absa Staff Group Life Scheme. In addition to comprehensive quota share reinsurance, the Company also uses catastrophe reinsurance to provide further protection against an accumulation of losses in respect of risk retained.

Asset-liability mismatch risk

Mismatch risk refers to cash flow matching as well as assets backing liabilities in the balance sheet moving differently from each other. A mismatch arises if the assets backing non-linked products do not grow sufficiently or materialise timeously to match specified amounts guaranteed on death, disability, critical illness or retrenchments, or on survival to the end of the policy. Mismatch risk is managed through setting asset allocations which appropriately match assets to underlying liabilities.

Through the use of asset-liability modelling, appropriate investment strategies for the assets backing policyholder liabilities are determined to mitigate mismatch risk as far as possible. These investment strategies are reviewed annually and the asset manager mandates amended accordingly. For guaranteed mortality, morbidity and retrenchment benefits as well as projected expenses, an asset allocation comprising cash and bonds of various terms to maturity is used. Quarterly meetings are held with asset managers to monitor adherence to the mandated asset durations and targeted levels.

Longevity risk

Longevity risk arises from claims on Group Life products such as pensions and disability income benefit where there is a guarantee to make payments in the event of the survival and/or continued disability, sickness or injury of the policyholder. It is the risk of loss or adverse change in the value of insurance obligations resulting from a decrease in mortality rates. The management of longevity risk includes the monitoring of experience and annual experience investigations; pricing philosophy; and reinsurance. The risk management process is similar to the process covered under underwriting risk.

Non-life insurance risks

Non-life insurance underwriting activities are undertaken by Absa Insurance Company Limited (AIC), Absa Insurance Risk Management Services Limited (AIRMS), Global Alliance Seguros (Mozambique) (GAM) and First Assurance Company Limited – Kenya (FAK).

The table that follows summarises the main risk exposures per non-life insurance product line.

Product line	Description of product	AIC	AIRMS	GAM (ST)	FAK	Main risk exposures
Personal lines	Protects families or individuals against financial losses. This includes Motor and Home cover including personal liability type products.	✓	×	✓	✓	Underwriting; Concentration; Reinsurer default
Commercial lines	A subset of property and liability type insurance that covers businesses, rather than property belonging to an individual.	✓	✓	✓	✓	Underwriting; Concentration; Reinsurer default
Specialist lines	Two types of products: unusual or difficult insurance and higher risk accounts.	×	✓	✓	✓	Underwriting; Investment; Reinsurer default

[1] The number of policies data for 2019 has been restated for the 0 – 250 benefit band to 3 091 496 (2019: 3 305 095), for the 200 – 500 benefit band 60 166 (2019: 70 206) and for the 500+ benefit band 55 737 (2019: 60 764) as a result of the Group previously inadvertently disclosing the incorrect breakdown of the benefit band per life assured.

[2] The gross of reinsurance and net of reinsurance total benefits assured data for 2019 has been restated for the 0 – 250 benefit band to 103 125 (2019: 106 318) and 98 409 (2019: 101 602) respectively as a result of the Group previously inadvertently disclosing the incorrect breakdown of the benefit band per life assured.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Underwriting risk

Management monitors loss ratios on a regular basis and identifies areas of the business where claims experience is not in line with expectations, and where this is found, corrective action is taken. The non-life business adopts an agile pricing methodology, enabling quick pricing and product changes to occur as and when the need arises. In addition, reviews of policy conditions are carried out, when necessary, to determine if any changes are needed. Products are regularly compared to those of competitors, and these comparisons are reported at least quarterly. Volumes of business and strike rates are monitored for increases in volumes out of line with expectations, this occurs across the portfolio as well as for any specific initiatives. Actions are then derived from this monitoring. There are extensive measures in place to control claims, which include assessing claims, checking total potential claims against the sum insured and procurement management on service providers required for repair of damaged insured items. Artificial intelligence aids the business in improving processes (improve cost to serve and reduce turnaround time) and driving out fraudulent behaviour.

Non-life insurance underwriting risk is managed through underwriting authority mandates and with oversight by an Underwriting Review Forum, as and when required. A subset of the Underwriting Review Forum is the Pricing Forum, which has representation from Risk, Business, Analytics and Actuarial. This forum ensures that all pricing model monitoring occurs timeously and rigorously, and the actions that follow are commensurate with the risk. This forum monitors lapses, cancellations, new business rates, benchmarking against competitor rates, renewal rates, marketing spend on sales initiatives, fraud prevention, lead generation and quality as well as the risk profile of the business (as measured by expected claim frequency and expected claim severity).

Reinsurance and reinsurance credit risk

The impact of large individual non-life insurance claims is limited through the purchase of reinsurance that reduces the exposure to large claims. The South African entities have a comprehensive reinsurance programme in place, which includes the following key elements:

- Automatic surplus reinsurance cover which provides protection against significant property-related claims. By covering against excessive losses, surplus treaty reinsurance provides more security for the equity and solvency coverage and when unusual or major events occur.
- Further large loss cover is purchased in the form of risk excess-of-loss cover to protect our net retention.
- Facultative reinsurance cover is bought when the risk exceeds the set underwriting limits.
- Catastrophe Cover is bought to protect the net retention following a catastrophe event. The treaty covers various perils (including Hail and Earthquake) and protection is bought in line with the output from catastrophe models that analyse risks at a location level. The Catastrophe Cover purchased cover losses of up to **R3.0bn** (2019: R3.0bn); the cover has been maintained year-on-year.

Reinsurance risk is managed through oversight from the Reinsurance Forum which includes representation from business and relevant subject matter experts. All structural changes to the reinsurance programme (e.g. change in treaty type, attachment points or cover limits) are formally approved by the entity Reinsurance Forum and Executive Committee.

The credit risk in respect of reinsurance partners is managed by ensuring the entities only transact with reinsurers with good credit ratings and within limits that are approved on an annual basis. The creditworthiness of reinsurers is regularly monitored. To qualify as a reinsurance partner, reinsurers must be assigned a minimum 'A-' rating by the Standard & Poor's (or equivalent) rating agency. An agreement with a reinsurer with a lower credit rating can qualify provided sufficient reasoning and approval has been obtained from the Insurance Cluster Financial Risk Committee. Consideration is also given to approved versus non-approved regulatory status of reinsurers.

Standard & Poor's rating[1]	Description	2020 Number of reinsurers	2020 Total premiums ceded Rm	2019 Number of reinsurers	2019 Total premiums ceded Rm
AA- and above	Very strong	8	58	7	33
A-	Strong	26	60	28	67
BBB+	Good	2	3	2	3
Unrated	N/A	—	—	—	—
Total		36	121	37	103

[1] Long Term Financial Strength International Scale Local Currency Ratings.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Reserving risk

Reserving risk includes the risk that the outstanding claims reserves and incurred but not reported claims reserves (including incurred but not enough reported claims reserves) are insufficient. Reserves calculated for the ARO entities are based on the in-country regulatory requirements.

Outstanding claims reserves are held for claims which have been notified, but which have not been fully settled. Individual estimates are sourced from claims assessors and are reviewed as and when new information regarding a claim becomes available. The claims provision includes the expected claim cost and any associated claim handling costs. Claims development patterns are regularly monitored to assess trends and to determine the appropriate level of reserving. The provision for the active South African entities at the reporting date amounted to **R348m** (2019: R378m).

A stochastic reserving model is applied to calculate the IBN(e)R claim provision for the majority of the exposures. The IBN(e)R claim provision is calculated using well-known actuarial techniques such as basic Chain Ladder and the Bornheuter-Ferguson Method. Where detailed data is not available, the provision is calculated by referencing the experience to date and prior year investigations. The IBN(e)R provision at the reporting date amounted to **R92m** (2019: R134m).

The IBN(e)R provision is determined by taking the following factors, per reserving cohort, into account: actual and expected claims experience; actual and expected reporting patterns; premium volumes and claim process changes. These factors affect the sensitivity of the IBN(e)R and are taken into account in setting the level of reserves required. These calculations, together with changes in the underlying risk profile of the business, impact the final balances. Margins are added to the best estimate assumptions in order to allow for uncertainty. The margins for the active South African entities are calculated using the Bootstrap method. The margin is equal to the difference between the 75th percentile and the best estimate reserve. This margin protects Absa from volatility in claims experience.

Claims development tables

The presentation of the claims development tables is based on the actual date of the event that caused the claim (incident year basis). The claims development tables represent the development of the actual claims paid.

Payment development

Non-life insurance claims – gross (AIC only)

Rm		Total actual claims cost	Claims paid in respect of 2020	2019	2018	2017	2016 and prior
Reporting year							
	2020	**1 864**	**1 351**	493	10	5	6
	2019	**1 876**		1 273	580	12	11
	2018	**1 572**			1 300	249	23
	2017	**1 622**				1 313	309
	2016	**1 888**					1 888
Cumulative payments to date		**8 822**	**1 351**	1 766	1 890	1 579	2 237

Reporting development

Non-life insurance claims provision – gross (AIC only)

Rm		Total claims provision	Financial year during which claims occurred 2020	2019	2018	2017	2016
Reporting year							
	2020	**409**	**348**	37	16	5	2
	2019	**443**		261	121	37	13
	2018	**412**			366	31	9
	2017	**555**				426	63
	2016	**515**					426

Cash-back reserves

These reserves allow for the cash back bonus which Absa idirect policyholders receive after a specified number of claim-free months. The cash back percentages of total premiums collected are: 10% after 36 months, 15% after the following 12 months and 20% for every 12 months thereafter. The cash-back reserve provision at the reporting date amounted to **R48.4m** (2019: R35.1m).

Assumption risk

Assumptions are required in order to set premium rates and to assess the eventual cost of liabilities. Absa continually monitors its experience relative to that assumed when setting premiums or valuing liabilities to reduce potential losses because of assumption risk.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Concentration risk

The main source of concentration risk is exposure to personal property, personal lines and commercial insurance business. The table below shows the geographical exposure based on the sum assured in each region.

	2020		2019	
	Rm	**%**	Rm	%
South Africa				
Pretoria	**102 593**	**15.2**	95 605	15.4
Johannesburg	**93 683**	**13.8**	85 833	13.8
East Rand	**79 221**	**11.7**	71 140	11.5
Others	**401 223**	**59.3**	368 319	59.3
	676 720	**100**	620 897	100

The maximum expected loss for a one in 250-year event is a loss of **R2.4bn** (2019: R2.3bn). This shows a 'real' decrease in the catastrophe exposure when compared to the premium growth achieved. The reason for the decrease is due to the declining number of high sum-insured risks in the Property book. Catastrophe cover is purchased to cover losses up to **R3.0bn** (2019: R3.0bn).

Insurance risks applicable to both life and non-life insurance

Insurance-related investment risks

Investment risk relates to the variability in the value of life and non-life shareholder assets and of assets backing policyholder liabilities. Interest rate/equity risk relates to the change in investment value of assets due to a change in market interest rates/equity performance. Foreign exchange risk is the risk that a change in the exchange rate could affect the financial results of the insurance entity. Investment risk is mitigated through diversified asset allocations and investment mandates.

For entities outside of South Africa, the shareholder funds are invested in money market type instruments and government bonds. The table below shows the shareholder funds asset allocation for Absa Life excluding the effect of intragroup transactions.

Absa Life shareholder funds – actual asset allocation (%)	2020 %	2019 %
Domestic cash and money market instruments	**100**	100
	100	100

The Life insurance shareholders' funds in South Africa are invested in domestic cash investments.

Counterparty credit risk in respect of investments is managed by investing with a spread of issuers as required by the IPRMF.

A single investment strategy is maintained for non-life insurance shareholder assets and for assets backing non-life insurance policy holder liabilities. Assets are invested in short-dated interest-earning assets. The duration of interest-earning assets is monitored against a maximum effective duration.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The life insurance businesses are less exposed to liquidity risks due to the low risk of large cumulative claims. Liquidity risk is managed through close management of potential cash outflow in discussion with asset managers, as well as the use of a liquidity fund consisting of cash and money market investments – set aside to meet large outflows.

Liquidity risk is managed in the non-life insurance businesses by investing in short-dated interest-earning assets, with limits on investments in less liquid assets such as preference shares and corporate bonds.

Capital management for insurance entities

Regulatory capital (unaudited)

SAM is a risk-based regulatory regime established for the prudential regulation of South African insurers. The Solvency Capital Requirement (SCR) under SAM is determined using prescribed South African Prudential Standards Financial Soundness Standards for Insurers (FSI) methodology which is calibrated to correspond to the value-at-risk of an insurer's basic own funds at a confidence level of 99.5% over a one-year period. The solo capital requirements for non-South African insurance entities are based on relevant local regulatory requirements.

The AFS insurance group SCR is aggregated using SAM Deduction and Aggregation approach and is based on the Financial Soundness Standards for Insurance Groups (FSG). For aggregation into the insurance group, all solo insurance entities, including non-South African insurance entities, must apply the FSI methodology.

Current target capital levels and dividend policies for South Africa entities are set with reference to the SAM regulatory reporting regime.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Solvency position

The table below shows the regulatory capital position for the solo insurance entities as at 31 December 2020.

Entity	Country	Type	Solo in-country regulatory capital cover 31 December 2020	Solo in-country regulatory capital cover 31 December 2019
Absa Life	South Africa	Life insurance	**1.5**	1.6
AIC	South Africa	Non-life insurance	**1.7**	1.9
AIRMS[1]	South Africa	Non-life insurance	**3.0**	4.2
ALB	Botswana	Life insurance	**4.2**	4.7
ALZ	Zambia	Life insurance	**1.5**	1.2
ALAK	Kenya	Life insurance	**3.5**	3.2
FAK	Kenya	Non-life insurance	**1.3**	1.3
GAM	Mozambique	Composite insurance	**2.7**	2.1

The SAM solvency position for AFS as an insurance group as at 31 December 2020 will be submitted to the regulator by 30 April 2021. AFS was solvent as at 30 June 2020 with a capital cover of **1.45** (31 December 2019: 1.43).

63. Going concern

The directors assess the Group'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 Group's ability to continue as a going concern and acknowledged the risk of lower revenue in the medium term. The directors have concluded that there are no material uncertainties that could have cast significant doubt over the Group's ability to continue as a going concern for at least one year from the date of approval of the consolidated financial statements. For this reason, these consolidated financial statements are prepared on a going concern basis.

64. 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.

65. Directors' and prescribed officers' remuneration

The Group's Remuneration Committee's (RemCo) mandate includes ensuring that reward practices are aligned with shareholder interests, both in the performance of our employees and the values they uphold. The Group strives to promote reward practices that foster sustainable high performance and accordingly, the Group rewards both short and longer term performance. All elements of remuneration are benchmarked against the market, as well as local and international best practice.

The RemCo reviews executive director and prescribed officer performance against a balanced scorecard of objectives, which ensures rigorous focus on business imperatives including, importantly, financial performance. The outcomes of this are a primary input to variable remuneration decisions. Risk management is carefully considered.

The Group's remuneration approach complies with the regulatory and statutory provisions relating to remuneration governance, in all the countries where the Group operates and in accordance with relevant requirements in Africa and other relevant jurisdictions in which we conduct business operations.

[1] Capital cover is based on the MCR due to the entity being in run-off.

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

Combined tables for 2020 total 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. Peter Matlare and Jason Quinn were appointed to the Board on 1 August 2016 and 1 September 2016 respectively. 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. In light of the passing of Peter Matlare on 7 March 2021, the Board approved the payment in cash of the short-term incentive that was made to him, as deferred awards would, in the normal course, be accelerated in the event of the death of a participant.

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		Peter Matlare		Total	
2020 R	2019 R	**2020 R**	2019 R	**2020 R**	2019 R	**2020 R**	2019 R
—	1 606 548	**5 422 836**	5 428 393	**6 501 664**	6 493 177	**21 188 024**	22 694 785
—	—	**-**	—	**—**	—	**—**	—
—	21 036	**115 128**	106 812	**188 280**	193 881	**303 408**	321 729
—	25 482	**412 862**	417 706	**537 727**	552 292	**1 105 269**	995 480
—	2 130 211	**58 487**	56 402	**31 642**	19 964	**194 073**	2 206 577
—	3 783 277	**6 009 313**	6 009 313	**7 259 313**	7 259 314	**22 790 774**	26 218 571
—	—	**—**	5 750 000	**3 300 000**	5 500 000	**3 300 000**	17 250 000
—	—	**4 800 000**	5 750 000	**—**	5 500 000	**9 800 000**	11 250 000
—	—	**4 800 000**	11 500 000	**3 300 000**	11 000 000	**13 100 000**	28 500 000
—	—	**10 000 000**	12 000 000	**—**	—	**25 000 000**	27 000 000
—	3 783 277	**20 809 313**	29 509 313	**10 559 313**	18 259 314	**60 890 774**	81 718 571

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

65. 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		—
Peter Matlare				
Share value plan 2017 – 2019[3]	2 533	—	—	2 533
Share value plan 2018 – 2020	20 286	—	—	10 142
Share value plan 2019 – 2021	31 786	—	—	10 596
Share incentive plan deferral 2020 – 2023[1]	—	59 731	92.08	—
Long-term incentive award 2017[3]	134 770	—	—	86 657
Long-term incentive award 2019[2]	84 449	—	—	—
Total	273 824	59 731		109 928
Jason Quinn				
Share value plan 2017 – 2019[3]	3 167	—	—	3 167
Share value plan 2018 – 2020	8 115	—	—	4 058
Share value plan 2019 – 2021	17 028	—	—	5 676
Share incentive plan deferral 2020 – 2023[1]	—	62 446	92.08	—
Restricted award – Share value plan 2017	7 112	—	—	7 112
Long-term incentive award 2017[3]	96 758	—	—	62 215
Long-term incentive award 2019[2]	86 615	—	—	—
Share incentive plan performance 2020[1, 2]	—	130 321	92.08	—
Total	218 795	192 767		82 228

[1] During 2020, new Share Incentive Plan scheme rules replaced the previous Long-Term Incentive Plan and Share Value Plan rules, with awards from 2020 onwards made under the new scheme rules. The terms of awards granted prior to 2020 were not modified and as such there was no impact on the accounting treatment of such awards.

[2] For all executive committee members, the award will vest over a five-year period.

[3] The scheduled vesting date for the 1 March 2020 share value plan vesting and the 31 July 2020 long-term incentive award vesting were moved to 13 March 2020 and 24 August 2020 respectively, due to the vesting dates falling within a prohibited/closed period.

Notes to the consolidated financial statements

for the reporting period ended 31 December

Market price on release date R	Value of release (pre-tax) R	Value of dividend released (pre-tax) R	Number of shares/options lapsed/(forfeited) in 2020	Number of shares under award/option at 31 December 2020	Last scheduled vesting date
—	—	—	—	162 902	2025/04/01
	—	—	—	162 902	
119.62	302 997	67 585	—	—	2020/03/13
119.62	1 213 186	172 971	—	10 144	2021/03/01
119.62	1 267 494	89 237	—	21 190	2022/03/18
—	—	—	—	59 731	2023/04/01
80.48	6 974 155	1 870 355	48 113	—	2020/08/24
—	—	—	—	84 449	2024/03/18
	9 757 832	2 200 148	48 113	175 514	
119.62	378 837	84 452	—	—	2020/03/13
119.62	485 418	69 140	—	4 057	2021/03/01
119.62	678 963	47 728	—	11 352	2022/03/18
—	—	—	—	62 446	2023/04/01
88.95	632 612	144 010	—	—	2020/09/30
80.48	5 007 063	1 342 809	34 543	—	2020/08/24
—	—	—	—	86 615	2024/03/18
—	—	—	—	130 321	2025/04/01
	7 182 893	1 688 139	34 543	294 791	

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

Outstanding share-based long-term incentives (continued)

	2020			
	Number of shares under award at 1 January 2020	Number of shares/cash awarded during 2020	Share price on award R	Number of shares/cash released during 2020
Prescribed officers				
Arrie Rautenbach[1]				
Share value plan 2017 – 2019[2]	5 699	—	—	5 699
Share value plan 2018 – 2020	18 258	—	—	9 128
Share value plan 2019 – 2021	32 638	—	—	10 880
Share incentive plan deferral 2020 – 2023[3]	—	59 731	92.08	—
Restricted award – Share value plan 2017	11 853	—	—	11 853
Long-term incentive award 2017[2]	103 669	—	—	66 659
Long-term incentive award 2019[4]	88 780	—	—	—
Share incentive plan performance 2020[3, 4]	—	130 321	92.08	—
Total	260 897	190 052		104 219
Charles Russon[5]				
Share value plan 2017 – 2019[2]	5 066	—	—	5 066
Share value plan 2018 – 2020	16 230	—	—	8 116
Share value plan 2019 – 2021	12 062	—	—	4 021
Share incentive plan deferral 2020 – 2023[3]	—	45 341	92.08	—
Restricted award – Share value plan 2017[2]	11 853	—	—	11 853
Long-term incentive award 2017[2]	93 302	—	—	59 993
Long-term incentive award 2019[4]	60 630	—	—	—
Share incentive plan performance 2020[3, 4]	—	99 370	92.08	—
Total	199 143	144 711		89 049

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

[2] The scheduled vesting date for the 1 March 2020 share value plan vesting and the 31 July 2020 long-term incentive award vesting were moved to 13 March 2020 and 24 August 2020 respectively, due to the vesting dates falling within a prohibited/closed period.

[3] During 2020, new Share Incentive Plan scheme rules replaced the previous Long-Term Incentive Plan and Share Value Plan rules, with awards from 2020 onwards made under the new scheme rules. The terms of awards granted prior to 2020 were not modified and as such there was no impact on the accounting treatment of such awards.

[4] For all executive committee members, the award will vest over a five-year period.

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

			2020		
Market price on release date R	Value of release (pre-tax) R	Value of dividend released (pre-tax) R	Number of shares/options lapsed/(forfeited) in 2020	Number of shares under award/option at 31 December 2020	Last scheduled vesting date
119.62	681 714	152 157	—	—	2020/03/13
119.62	1 091 891	155 506	—	9 130	2021/03/01
119.62	1 301 466	91 629	—	21 758	2022/03/18
—	—	—	—	59 731	2023/04/01
88.95	1 054 324	239 987	—	—	2020/09/30
80.48	5 364 716	1 438 741	37 010	—	2020/08/24
—	—	—	—	88 780	2024/03/18
—	—	—	—	130 321	2025/04/01
	9 494 111	2 078 020	37 010	309 720	
119.62	605 995	135 171	—	—	2020/03/13
119.62	970 836	138 281	—	8 114	2021/03/01
119.62	480 992	33 852	—	8 041	2022/03/18
—	—	—	—	45 341	2023/04/01
88.95	1 054 324	239 987	—	—	2020/09/30
80.48	4 828 237	1 294 843	33 309	—	2020/08/24
—	—	—	—	60 630	2024/03/18
—	—	—	—	99 370	2025/04/01
	7 940 384	1 842 134	33 309	221 496	

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

Outstanding share-based long-term incentives (continued)

The table below outlines share-based and long-term incentive awards (awarded in respect of performance in a prior period) and role-based pay delivered as phantom shares in the year.

	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	—		—
Peter Matlare				
Share value plan 2017 – 2019	5 066	—	—	2 533
Share value plan 2018 – 2020	30 430	—	—	10 144
Share value plan 2019 – 2021	—	31 786	173.18	—
Long-term incentive award 2017	134 770	—	—	—
Long-term incentive award 2019	—	84 449	173.18	—
Total	170 266	116 235		12 677
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	422 200	60 171	—	2 533	2020/03/01
166.68	1 690 802	113 676	—	20 286	2021/03/01
—	—	—	—	31 786	2022/03/18
—	—	—	—	134 770	2020/07/31
—	—	—	—	84 449	2024/03/18
	2 113 002	173 847	—	273 824	
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	

65. 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	

65. 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					
Peter Matlare					
Cash value plan 2017 – 2019	400 000	520 000	—	400 000	—
Total	400 000	520 000	—	400 000	—
Jason Quinn					
Cash value plan 2017 – 2019	500 000	650 000	—	500 000	—
Cash value plan 2018 – 2020	1 600 000	1 793 333	—	800 000	—
Cash value plan 2019 – 2021	2 949 000	3 243 900	—	983 000	—
Total	5 049 000	5 687 233	—	2 283 000	—
Prescribed officers					
Arrie Rautenbach[1]					
Cash value plan 2017 – 2019	900 000	1 170 000	—	900 000	—
Total	900 000	1 170 000	—	900 000	—
Charles Russon[2]					
Cash value plan 2017 – 2019	800 000	1 040 000	—	800 000	—
Cash value plan 2019 - 2021	2 089 000	2 297 900	—	696 333	—
Total	2 889 000	3 337 900	—	1 496 333	—

[1] Arrie Rautenbach's outstanding cash-based long-term awards include awards received prior to becoming a prescribed officer on 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.

Converted to equity R	Service credit awarded in the year R	Service credit released in the year R	Service credit lapsed/(forfeited) in the year R	Value under award at 31 December 2020 R	Maximum potential value at 31 December 2020 R	Last scheduled vesting date
—	—	120 000	—	—	—	2020/03/01
—	—	120 000	—	—	—	
—	—	150 000	—	—	—	2020/03/01
—	—	—	—	800 000	993 333	2021/03/01
—	—	—	—	1 966 000	2 260 900	2022/03/18
—	—	150 000	—	2 766 000	3 254 233	
—	—	270 000	—	—	—	2020/03/01
—	—	270 000	—	—	—	
—	—	240 000	—	—	—	2020/03/01
—	—	—	—	1 392 667	1 601 567	2022/03/18
—	—	240 000	—	1 392 667	1 601 567	

65. 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	—	—	—
Peter Matlare					
Cash value plan 2017 – 2019	800 000	920 000	—	400 000	—
Total	800 000	920 000	—	400 000	—
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.

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	
—	—	—	—	400 000	520 000	2020/03/01
—	—	—	—	400 000	520 000	
—	—	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	

Notes to the consolidated financial statements

for the reporting period ended 31 December

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

Group Chairman and non-executive directors' fees

	2020					
	Group		Subsidiary boards, committees and trusts			
	Group Board R	Group Board committees and sub-committees R	Absa Bank R	Absa Financial Services R	Other R	2020 Total[18] R
Alex Darko[1, 2, 15]	596 213	1 529 994	105 880	—	—	**2 232 087**
Colin Beggs[1, 3]	596 213	1 623 995	80 880	—	261 616	**2 562 704**
Dhanasagree (Daisy) Naidoo[4]	596 213	835 219	—	301 281	—	**1 732 713**
Daniel (Dan) Hodge[5]	317 345	454 178	—	—	—	**771 523**
Daniel (Dan) Hodge (Barclays Plc)[5]	254 457	184 870	—	—	—	**439 327**
Francis Okomo-Okello[1, 6, 7, 8]	596 213	497 593	58 333	—	24 000	**1 176 139**
Fulvio Tonelli[9]	292 934	579 800	—	—	111 597	**984 331**
Ihron Rensburg[8]	596 213	324 606	—	—	24 000	**944 819**
Mark Merson[1, 10]	596 213	1 617 940	139 213	—	529 995	**2 883 361**
Mohamed Husain[1, 11]	303 280	566 128	89 213	—	—	**958 621**
Nonhlanhla Mjoli-Mncube[12]	122 056	51 551	—	—	—	**173 607**
René van Wyk[1, 13]	244 111	276 375	—	—	—	**520 486**
Rose Keanly[14]	596 213	744 963	—	136 355	—	**1 477 531**
Sipho Pityana[1, 7, 15]	596 213	675 420	58 333	—	—	**1 329 966**
Swithin Munyantwali	596 213	495 281	—	—	—	**1 091 494**
Tasneem Abdool-Samad[1, 7, 16]	596 213	1 396 334	58 333	517 062	—	**2 567 942**
Wendy Lucas-Bull (Group Chairman)[1, 17]	6 501 939	70 287	—	—	—	**6 572 226**
Total	13 998 252	11 924 534	590 185	954 698	951 208	**28 418 877**

	2019					
	Group		Subsidiary boards, committees and trusts			
	Group Board R	Group Board committees and sub-committees R	Absa Bank R	Absa Financial Services R	Other R	2019 Total[18] R
Alex Darko[1]	660 368	1 658 364	120 934	—	—	2 439 666
Colin Beggs[1, 3]	700 749	2 014 276	190 260	—	255 064	3 160 349
Dhanasagree (Daisy) Naidoo	652 977	756 673	—	—	—	1 409 650
Daniel (Dan) Hodge[5]	584 342	334 510	—	—	—	918 852
Francis Okomo-Okello	630 664	131 060	—	—	—	761 724
Ihron Rensburg[8, 19]	146 467	33 746	—	—	—	180 213
Mark Merson	661 702	1 490 412	120 934	—	424 047	2 697 095
Mohamed Husain	660 368	1 340 785	190 260	—	—	2 191 413
René van Wyk	46 497	131 314	15 406	—	—	193 217
Rose Keanly[14]	205 635	52 666	—	—	—	258 301
Sipho Pityana[15]	403 772	261 998	—	—	—	665 770
Swithin Munyantwali[20]	181 224	39 370	—	—	—	220 594
Tasneem Abdool-Samad[16]	674 166	627 642	—	716 698	—	2 018 506
Wendy Lucas-Bull (Group Chairman)[17]	6 372 932	114 913	—	—	—	6 487 845
Yolanda Cuba[21]	280 780	275 836	—	—	—	556 616
Total	12 862 643	9 263 565	637 794	716 698	679 111	24 159 811

[1] The GACC, GRCMC, RemCo and SEC Chairmen receive fees equal to two and a half times the fee payable to members of these committees. Chairmen of the remaining committees receive fees equal to two times the member fee.

[2] Alex Darko stepped down from the DAC and Bank Board on 31 August 2020.

[3] Colin Beggs' status changed from independent to non-executive director effective 4 June 2020, and stepped down from the Bank Board, Directors' Affairs Committee and Group Audit and Compliance Committee chairmanship. He remains an attendee of the Group Audit and Compliance Committee. He is a Trustee of the Absa Group Pension Fund (reported under Other).

[4] Daisy Naidoo joined the Absa Financial Services Board, Group Actuarial and the Absa Financial Services Audit Risk and Compliance Committee on 1 July 2020; and became the Chairman of the Group Actuarial and the Absa Financial Services Audit Risk and Compliance Committee on 1 August 2020.

[5] Daniel Hodge no longer represented Barclays PLC as a nominee from 4 June 2020, but remained on the Absa Group Board as a non-executive director. He became a member of RemCo on 1 July 2020. Daniel Hodge has resigned from the Board effective 15 December 2020. Fees were paid to Barclays and not to the individual until the end of May 2020. An additional amount of R18 106, due to ad-hoc meetings, was paid in 2020.

[6] Francis Okomo-Okello became the Chairman of the SEC on 4 June 2020.

[7] Francis Okomo-Okello; Sipho Pityana and Tasneem Abdool-Samad joined the Absa Bank Board on 4 June 2020.

[8] Francis Okomo-Okello and Ihron Rensburg are trustees of the Absa Foundation Trust (reported under Other).

[9] Fulvio Tonelli joined the Board on 1 July 2020; and is also a member of the Absa Bank Kenya PLC Board and Audit and Risk Committee (reported under Other).

[10] Mark Merson is the Chairman of the Absa Securities United Kingdom Limited, a subsidiary of Absa Group Limited (reported under other).

[11] Mohamed Husain retired from the Board effective 4 June 2020.

[12] Nonhlanhla Mjoli-Mncube joined the Board on 15 October 2020.

[13] René van Wyk rejoined on 1 August 2020 as a non-executive director.

[14] Rose Keanly joined the Board on 1 September 2019 and the Absa Financial Services Board as a member on 1 July 2020.

[15] Sipho M Pityana joined the Board on 1 May 2019 and became the Chairman of the Remuneration Committee on 1 September 2020, taking over from Alex Darko.

[16] Tasneem Abdool-Samad is a member of the Absa Financial Services Board, and was a member of the Group Actuarial Committee and Chairman of the Group Actuarial and the AFS Audit Risk and Compliance Committee until 31 July 2020. Tasneem assumed this position as chairman of the Group Audit and Compliance Committee on 4 June 2020.

[17] 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).

[18] 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).

[19] Ihron Rensburg joined the Board on 1 October 2019.

[20] Swithin Munyantwali joined the Board on 15 September 2019.

[21] Yolanda Cuba retired from the Board effective 4 June 2019.

Annexure A: Embedded value report for life insurance entities (unaudited)

Scope of the embedded value report

This report deals with the embedded value of the life insurance entities (including Absa Life Limited, Absa Life Botswana Proprietary Limited, Absa Life Zambia Limited, Global Alliance Seguros S.A., Absa Life Assurance Kenya, Woolworths Financial Services and Instant Life), including the value of new business written during the current reporting period in respect of these entities.

The embedded value as at 31 December 2020 has been calculated in accordance with the principles contained in the Actuarial Society of South Africa's guidance note APN 107: Embedded value reporting.

Embedded value

The present value of in-force covered business (PVIF) is the discounted value of the projected stream of future after tax shareholder profits arising in the company's accounts from covered business in-force at the valuation date. Covered business is taken to be all long-term insurance business written on the company's licences.

The free surplus is the excess of assets over the sum of liabilities and required capital, with assets and liabilities valued according to IFRS 4. The required capital takes into account the solvency capital requirements as well as internal liquidity requirements, in line with the company's dividend policy.

Value of new business

The value of new business is the discounted value, at the date of sale, of the projected after tax shareholder profits from new covered business (net of the opportunity cost of the required capital for new business). New covered business is defined as long-term insurance contracts written by the respective life insurance licences during the financial year and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Embedded value and value of new business

	Group	
	2020 Rm	2019 Rm
Free surplus[1]	822	1 263
Required capital	735	608
Covered business adjusted net worth (ANW)	1 557	1 871
Present value of in-force business (PVIF)	4 339	4 878
Cost of required capital (CoC)	(217)	(209)
Total embedded value (EV)	5 679	6 540
Value of new business (before CoC)	455	768
CoC	(25)	(34)
Value of new business (VNB)	430	734
Present value of future premiums (gross of reinsurance premiums)	6 372	7 307
Value of new business as a percentage of the present value of future premiums[2]		
All business (%)	6.7	10.0
Excluding investment business (%)	12.5	17.1

[1] A full year dividend of **R1 073m** (2019: R975m) was proposed for the reporting period ended 31 December 2020.

[2] Reported gross of reinsurance premiums.

Annexure A: Embedded value report for life insurance entities (unaudited)

Assumptions

The value of the covered in-force and new business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the 'best estimate' assumptions. These assumptions were based on recent experience investigations.

For Absa Life Limited, the government bond curve is used to determine the risk-free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk-free rate curve. The economic assumptions used including certain representative points on the risk-free curve are as follows (gross of tax where applicable):

	2020 Absa Life Limited Rm	2019 Absa Life Limited Rm
Risk-free rate of return:		
1-year term	**4.47**	6.77
5-year term	**6.51**	8.00
10-year term	**10.32**	9.59
20-year term	**14.16**	11.18
Equity return differential	**3.36**	3.36
Cash return differential	**(2.00)**	(2.00)
Overall investment return differential	**(0.45)**	(0.45)
Risk discount rate differential	**3.15**	3.15

For the non-South African life licences, all values are discounted using an assumed country-specific risk discount rate. Each risk discount rate was set equal to the country-specific risk-free rate of return plus the fixed beta percentage of 90% multiplied by the assumed equity risk premium of 3.5%, plus a further company risk specific margin of 0.25%. The economic assumptions used including the country-specific risk-free rates for the non-South African life insurance entities are as follows (gross of tax where applicable):

	2020				2019			
	Absa Life Botswana Proprietary Limited Rm	Absa Life Zambia Limited Rm	Global Alliance Seguros S.A. Rm	Absa Life Assurance Kenya Limited Rm	Absa Life Botswana Proprietary Limited Rm	Absa Life Zambia Limited Rm	Global Alliance Seguros S.A. Rm	Absa Life Assurance Kenya Limited Rm
Risk-free rate of return	**4.3**	**18.3**	**13.0**	**13.3**	4.5	17.0	15.0	9.8
Equity return – unhedged	**n/a**	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a
Cash return	**2.3**	**16.3**	**11.0**	**n/a**	2.5	14.5	13.0	n/a
Overall investment return	**3.8**	**17.1**	**12.0**	**13.3**	4.0	16.8	14.0	9.8
Risk discount rate	**7.7**	**21.7**	**16.4**	**16.7**	7.9	20.4	18.4	15.9
Expense inflation	**3.0**	**8.7**	**8.0**	**6.0**	3.5	7.0	10.0	9.5

Sensitivities

The following table summarises the sensitivity of the embedded value and value of new business calculation of Absa Life Limited (South Africa) to changes in the underlying assumptions. In each of the scenarios, no offsetting management actions were assumed to occur.

	Group							
	2020							
Percentage change	Risk discount rate +1%	Interest rates –1%	Equity capital values x 0.9	Equity returns +1%	Mortality/ morbidity x 0.95	Mainte-nance expenses x 0.9	Lapse/ surrender x 0.9	Initial expenses x 0.9
ANW	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**n/a**
PVIF	**(3.3)**	**4.1**	**(0.6)**	**0.1**	**5.9**	**2.9**	**5.3**	**n/a**
CoC	**8.6**	**5.2**	**0.0**	**0.0**	**7.0**	**0.0**	**6.7**	**n/a**
EV	**(2.9)**	**3.0**	**(0.4)**	**0.1**	**4.4**	**2.3**	**3.9**	**n/a**
VNB	**(4.0)**	**4.6**	**(3.2)**	**(3.0)**	**3.5**	**0.7**	**11.7**	**1.3**

Sensitivities (continued)

Percentage change	2019 Risk discount rate +1%	Interest rates –1%	Equity capital values x 0.9	Equity returns +1%	Mortality/ morbidity x 0.9	Mainte-nance expenses x 0.9	Lapse/ surrender x 0.9	Initial expenses x 0.9
ANW	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n/a
PVIF	(3.6)	4.4	(0.4)	0.1	4.6	2.4	5.3	n/a
CoC	8.8	5.4	0.0	0.0	4.5	0.0	5.3	n/a
EV	(2.9)	3.2	(0.2)	0.1	3.3	1.8	3.8	n/a
VNB	(3.9)	6.8	(0.1)	(0.1)	5.5	2.8	11.1	2.2

The development of the embedded value of Absa Life Limited (South Africa) can be analysed as follows:

Components of embedded value earnings	Group 2020 Rm	 2019* Rm
Embedded value at the end of the reporting period	**4 578**	5 543
Dividends accrued or paid	**1 003**	975
Embedded value at the beginning of the reporting period	**(5 543)**	(5 605)
Embedded value earnings	**38**	913
Components of embedded value earnings:		
Value of new business at point of sale[1]	**321**	620
Expected return on covered business (unwinding)	**429**	380
Operating experience variances[2]	**(229)**	42
Operating assumption and model changes[3]	**(462)**	(327)
Covid-19 provision	**(264)**	—
Change in share-based payment (SBP) reserve	**4**	—
Release of gross-up reserve	**(5)**	(9)
Expected return on ANW	**53**	102
Embedded value operating return	**(153)**	808
Investment return variances on in-force covered business	**(3)**	(5)
Investment return variances on ANW	**36**	29
Effect of economic assumption changes	**158**	81
Embedded value earnings	**38**	913
Return on embedded value (%)	**1**	16

Review by the independent actuaries

The embedded value and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, Deloitte and Touche.

* Results as published in the FY19 HAF APN103 report in the Absa Life financial statements.

1 The 2020 reduction is mainly due to lower new business volumes due to lockdown as well as lower new business margins due to assumption strengthening.

2 The unfavourable 2020 impact is mainly due to increased mortality and retrenchment claims due to Covid-19, as well as reduced premium collections due to premium relief granted to customers.

3 The largest 2020 impacts are an unfavourable R333m mortality assumption update and a R197m retrenchment assumption update (strengthened as higher claims expected due to Covid-19). The largest 2019 impacts are an unfavourable R121m expense assumption update and a R80m data refinement impact.

Company financial statements

Company statement of financial position

as at 31 December

	Note	Company 2020 Rm	2019 Rm
Assets			
Loans and advances to banks	2	**646**	687
Investment securities	3	**6 101**	5 833
Other assets	4	**26**	28
Current tax assets		**83**	90
Deferred tax assets	8	**17**	—
Subsidiaries	5	**75 866**	75 691
Loans to group companies		**—**	4
Total assets		**82 739**	82 333
Liabilities			
Other liabilities	6	**242**	244
Borrowed funds	7	**20 576**	21 912
Deferred tax liabilities	8	**—**	59
Total liabilities		**20 818**	22 215
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Ordinary share capital	9	**1 696**	1 696
Ordinary share premium	9	**23 786**	23 786
Retained earnings		**29 385**	28 786
Other reserves		**50**	55
		54 917	54 323
Additional Tier 1 capital	10	**7 004**	5 795
Total equity		**61 921**	60 118
Total equity and liabilities		**82 739**	82 333

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2020 Rm	Company 2019 Rm
Net interest income/(expense)	11	**16**	(4)
Non-interest income		**6 739**	8 656
Gains and losses from investment activities	12	**6 022**	8 157
Other operating income	13	**717**	499
Total income		**6 755**	8 652
Operating income before operating expenditure		**6 755**	8 652
Operating expenses		**(192)**	(8)
Other expenses	14	**(38)**	(8)
Other impairments	16	**(154)**	—
Operating profit before income tax		**6 563**	8 644
Taxation expense	17	**(119)**	(258)
Profit for the reporting period		**6 444**	8 386
Profit attributable to:			
Ordinary equity holders		**5 855**	7 951
Additional Tier 1 capital		**589**	435
		6 444	8 386
Earnings per share			
Basic earnings per share	15	**690.6**	937.8
Diluted earnings per share	15	**690.6**	937.8

	Company 2020 Rm	Company 2019 Rm
Profit for the reporting period	**6 444**	8 386
Other comprehensive income		
Items that are or may be subsequently reclassified to profit or loss	**(5)**	(3)
Movement in cash flow hedging reserve	**(5)**	(3)
Fair value losses	**(5)**	(4)
Deferred tax	**—**	1
Total comprehensive income for the reporting period	**6 439**	8 383
Total comprehensive income attributable to:		
Ordinary equity holders	**5 850**	7 948
Additional Tier 1 capital	**589**	435
	6 439	8 383

Company statement of changes in equity

for the reporting period ended 31 December

Company

2020

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	Cash flow hedging reserve Rm	Total equity attributable to ordinary equity holders Rm	Additional Tier 1 capital Rm	Total equity Rm
Balance at the beginning of the reporting period	**847 750**	**1 696**	**23 786**	**28 786**	**55**	**55**	**54 323**	**5 795**	**60 118**
Total comprehensive income	—	—	—	5 855	(5)	(5)	5 850	589	6 439
Profit for the period	—	—	—	5 855	—	—	5 855	589	6 444
Other comprehensive income	—	—	—	—	(5)	(5)	(5)	—	(5)
Dividends paid during the reporting period	—	—	—	(5 256)	—	—	(5 256)	—	(5 256)
Distributions paid during the reporting period	—	—	—	—	—	—	—	(589)	(589)
Issuance of additional Tier 1 capital	—	—	—	—	—	—	—	1 209	1 209
Balance at the end of the reporting period	**847 750**	**1 696**	**23 786**	**29 385**	**50**	**50**	**54 917**	**7 004**	**61 921**
Note	9	9	9					10	

2019

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	Cash flow hedging reserve Rm	Total equity attributable to ordinary equity holders Rm	Additional Tier 1 capital Rm	Total equity Rm
Balance at the beginning of the reporting period	847 750	1 696	23 786	30 372	58	58	55 912	2 741	58 653
Total comprehensive income	—	—	—	7 951	(3)	(3)	7 948	435	8 383
Profit for the period	—	—	—	7 951	—	—	7 951	435	8 386
Other comprehensive income	—	—	—	—	(3)	(3)	(3)	—	(3)
Dividends paid during the reporting period	—	—	—	(9 537)	—	—	(9 537)	—	(9 537)
Distributions paid during the reporting period	—	—	—	—	—	—	—	(435)	(435)
Issuance of additional Tier 1 capital	—	—	—	—	—	—	—	3 054	3 054
Balance at the end of the reporting period	847 750	1 696	23 786	28 786	55	55	54 323	5 795	60 118
Note	9	9	9					10	

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		**6 563**	8 644
Adjustment of non-cash items			
Other impairments (refer to note 16)		**154**	—
Cash flow from operating activities before changes in operating assets and liabilities		**6 717**	8 644
Net (increase)/decrease in investment securities		**(273)**	124
Net decrease in other assets		**6**	278
Net decrease in other liabilities		**(621)**	(659)
Income taxes paid		**(188)**	(218)
Net cash generated from operating activities		**5 641**	8 169
Cash flow from investing activities			
Purchase of equity investment in subsidiaries		**(1 299)**	(3 054)[2]
Proceeds from equity investment in subsidiaries		**184**	339
Proceeds from debt instruments in subsidiaries		**786**	(821)
Net cash utilised in investing activities		**(329)**	(3 536)
Cash flow from financing activities			
Dividends paid		**(5 255)**	(9 537)
Proceeds from borrowed funds		**3 015**	2 966
Repayment of borrowed funds		**(3 733)**	(1 195)
Issue of additional Tier 1 capital		**1 209**	3 054
Distributions paid to Tier 1 capital holders		**(589)**	(435)
Net cash utilised in financing activities		**(5 353)**	(5 147)
Net decrease in cash and cash equivalents		**(41)**	(514)
Cash and cash equivalents at the beginning of the reporting period		**687**	1 201
Cash and cash equivalents at the end of the reporting period	2	**646**	687

As part of operating activities, net interest income amounting to **R56m** (2019: (R175m)) was received in cash.

[1] For further details of the impact of the change refer to note 1.2.

[2] The cash flows relating to investment in subsidiaries were disaggregated to better reflect the nature of the cash flows. Previously this was presented as 'Increase in investment in subsidiaries' (R3 536m).

Notes to the Company financial statements

for the reporting period ended 31 December

1. Accounting policies

The financial statements of the Company are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Group. For detailed accounting policies, refer to the Group's financial statements.

1.1 Change in accounting policy – statement of cash flows

During the current reporting period, the Group 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 Group, 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 effects the presentation of the Group'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	
Net interest (paid)/received	(175)
Net trading and other income	(1)
Cash payments to employees and suppliers	491
Dividends received from investment activities	8 157
Income taxes paid	(218)
Cash flow from operating activities before changes in operating assets and liabilities	8 254
Net decrease/(increase) in investment securities	127
Net decrease in other assets	279
Net (decrease)/increase in other liabilities	(490)
Net cash generated from operating activities	8 170
Cash flow from investing activities	
Increase in investment in subsidiaries	(3 536)
Net cash utilised in investing activities	(3 536)
Cash flow from financing activities	
Dividends paid	(9 537)
Proceeds from borrowed funds	2 966
Repayment of borrowed funds	(1 195)
Issue of additional Tier 1 capital	3 054
Distributions paid to Tier 1 capital holders	(435)
Net cash utilised in financing activities	(5 147)
Net increase in cash and cash equivalents	(513)
Cash and cash equivalents at the beginning of the reporting period	1 201
Cash and cash equivalents at the end of the reporting period	688

	Company	
	2020 Rm	2019 Rm
2. Loans and advances to banks		
Gross loans and advances to bank	646	687
	646	687

All the aforementioned loans are at variable rates.

	Company	
	2020 Rm	2019 Rm
3. Investment securities		
Debt securities	6 101	5 833
	6 101	5 833

Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2020 Rm	2019 Rm
4. Other assets		
Accounts receivable and prepayments	**26**	28
	26	28

	Company	
	2020 Rm	2019 Rm
5. Subsidiaries		
Equity investments	**60 874**	59 913
Debt instruments	**14 992**	15 778
	75 866	75 691

During the current year, the equity investments increased due to the take up of additional Tier 1 capital issued by Absa Bank Limited of **R1.2bn**.

Refer to note 50.2 of the Group's financial statements for a list of significant subsidiaries.

	Company	
	2020 Rm	2019[1] Rm
6. Other liabilities		
Unclaimed dividends	**241**	239
Other	**1**	5
	242	244

[1] In 2019, the Company inadvertently disclosed the incorrect breakdown of the total for other liabilities. As a result, unclaimed dividends have been restated from R14 987m to R239m and other has been restated from (R14 743m) to R5m.

Notes to the Company financial statements

for the reporting period ended 31 December

7. Borrowed funds

			Company	
			2020 Rm	2019 Rm
Subordinated callable notes issued by Absa Group Limited				
Interest rate	**Final maturity date**	**Note**		
10.05%	5 February 2025	i	—	807
11.365%	4 September 2025	ii	—	508
11.40%	29 September 2025	iii	—	288
11.74%	20 August 2026	iv	**140**	140
11.81%	3 September 2027	v	**737**	737
12.43%	5 May 2026	vi	**200**	200
Three-month JIBAR + 2.13%	17 May 2030	vii	**2 676**	—
Three-month JIBAR + 2.40%	11 April 2029	viii	**1 580**	1 580
Three-month JIBAR + 2.45%	29 November 2028	ix	**1 500**	1 500
Three-month JIBAR + 3.50%	5 February 2025	x	—	1 693
Three-month JIBAR + 3.50%	4 September 2025	xi	—	437
Three-month JIBAR + 3.60%	3 September 2027	xii	**30**	30
Three-month JIBAR + 4.00%	5 May 2026	xiii	**31**	31
Three-month JIBAR + 4.00%	20 August 2026	xiv	**1 510**	1 510
Three-month JIBAR + 4.00%	3 November 2026	xv	**500**	500
Three-month JIBAR + 3.78%	17 March 2027	xvi	**642**	642
Three-month JIBAR + 3.85%	25 May 2027	xvii	**500**	500
Three-month JIBAR + 3.85%	14 August 2029	xviii	**390**	390
Three-month JIBAR + 3.15%	30 September 2027	xix	**295**	295
Three-month JIBAR + 3.45%	29 September 2029	xx	**1 014**	1 014
USD 6.25%	25 April 2028	xxi	**4 952**	4 952
Other				
Accrued interest			**157**	275
Foreign exchange movements			**902**	621
			17 756	18 650
Non-subordinated debt extended by Absa Group Limited				
Three-month JIBAR + 1.20%	11 September 2025	xxii	**58**	58
Three-month JIBAR + 1.40%	15 January 2021	xxiii	**114**	114
Three-month JIBAR + 1.20%	30 January 2025	xxiv	**301**	301
Three-month JIBAR + 1.225%	29 January 2024	xxv	**197**	197
Three-month JIBAR + 1.225%	19 July 2023	xxvi	**88**	88
One-month JIBAR	1 August 2021	xxvii	—	815
Three-month LIBOR + 1.85%	26 March 2025	xxviii	**870**	803
Three-month LIBOR + 0.92%	30 March 2021	xxix	**153**	164
Three-month LIBOR + 0.89%	27 January 2021	xxx	**497**	358
Three-month LIBOR + 1.52%	16 October 2024	xxxi	**374**	374
Three-month LIBOR + 1.54%	18 March 2025	xxxii	**339**	—
Other				
Accrued interest			**84**	77
Foreign exchange movements			**(255)**	(87)
			2 820	3 262
			20 576	21 912

7. Borrowed funds (continued)

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

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

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

iv. The 11.74% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 20 August 2021. Interest is paid semi-annually in arrears on 20 August and 20 February. Absa Group 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 Group Limited not exercise the redemption option.

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

vi. The 12.43% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Absa Group 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 Group Limited not exercise the redemption option.

vii. The three month JIBAR plus 2.13% floating rate notes may be redeemed in full at the option of Absa Group Limited on 17 May 2025. Interest is paid quarterly in arrears on 17 February, 17 May, 17 August and 17 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 17 May 2030. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

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

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

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

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

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

xiii. The three month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Group Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Group 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 Group 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 Group Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Absa Group 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 Group 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 Group Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Absa Group 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 Group Limited not exercise the redemption option.

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

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

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

7. Borrowed funds (continued)

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

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

xxi. 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 Group Limited on 25 April 2023. Interest is payable semi-annually in arrears on 25 April and 25 October of each year. Absa Group Limited has the option to exercise the redemption on 25 April 2023. If Absa Group Limited does not exercise the redemption option from (and including) 25 April 2023, the interest rate per annum will be equal to the reset interest rate which shall be determined by the calculation agent on 27 April 2023. The reset margin is 3.523% per annum.

xxii. The three month JIBAR plus 1.20% floating rate notes should be redeemed in full by Absa Group Limited by 11 September 2025. Interest is paid quarterly in arrears on 11 March, 11 June, 11 September and 11 December. Absa Group Limited may redeem a portion (being a minimum of R50m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxiii. The three month JIBAR plus 1.40% floating rate notes should be redeemed in full at the option of Absa Group Limited by 15 January 2021. Interest is paid first on 31 May 2016 and after that annually 31 May. Absa Group Limited may redeem a portion (being a minimum of R50m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxiv. The three month JIBAR plus 1.20% floating rate notes should be redeemed in full by Absa Group Limited by 30 January 2025. Interest is paid semi-annually in arrears on 30 January and 31 July. Absa Group Limited may redeem a portion (being a minimum of R100m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxv. The three month JIBAR plus 1.225% floating rate notes should be redeemed in full by Absa Group Limited by 29 January 2024. Interest is paid semi-annually in arrears on 29 July and 29 January. Absa Group Limited may redeem a portion (being a minimum of R50m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxvi. The three month JIBAR plus 1.225% floating rate notes should be redeemed in full by Absa Group Limited on 19 July 2023. Interest is paid annually in arrears on 31 May. Absa Group Limited may redeem a portion (being a minimum of R50m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice..

xxvii. The one month JIBAR floating notes represents a revolving loan. Draw down of such loan may commence on any date from 1 August 2019. The loan doesn't have any repayment instalments and the repayment of each drawing is only due and payable on 1 August 2021.

xxviii. The three month LIBOR plus 1.85% floating rate notes should be redeemed in full by Absa Group Limited by 26 March 2025. Interest is paid quarterly in arrears on 26 March, 26 June, 26 September and 26 December. Absa Group Limited may redeem a portion (being a minimum of $10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxix. The three month LIBOR plus 0.92% floating rate notes should be redeemed in full by Absa Group Limited by 30 March 2021. Interest is paid quarterly in arrears on 30 June, 30 September, 30 December and 30 March. Absa Group Limited may redeem a portion (being a minimum of $10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxx. The three month LIBOR plus 0.89% floating rate notes should be redeemed in full by Absa Group Limited by 27 January 2021. Interest is paid quarterly in arrears on 27 April, 27 July, 27 October and 27 January. Absa Group Limited may redeem a portion (being a minimum of $10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxxi. The three month LIBOR plus 1.52% floating rate notes should be redeemed in full by Absa Group Limited on 16 October 2024. Interest is quarterly in arrears on 16 January, 16 April, 16 July and 16 October. Absa Group Limited may redeem a portion (being a minimum of $10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxxii. The three month LIBOR plus 1.54% floating rate notes should be redeemed in full by Absa Group Limited by 18 March 2025. Interest is paid quarterly in arrears on 18 March, 18 June, 18 September and 18 December. Absa Group Limited may redeem a portion (being a minimum of $10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

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

Notes xxi is listed on the London Stock Exchange.

Note xxii to xxxii have been issued to Absa Bank Limited.

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

Notes to the Company financial statements

for the reporting period ended 31 December

	Company 2020 Rm	Company 2019 Rm
8. Deferred tax		
8.1 Reconciliation of net deferred tax (liability)/asset		
Balance at the beginning of the reporting period	**(59)**	47
Deferred tax on amounts charged directly to other comprehensive income	—	(1)
Charge to profit or loss (refer to note 17)	**76**	(105)
Balance at the end of the year	**17**	(59)
8.2 Deferred tax (liability)/asset		
Tax effects of temporary differences between tax and book value for:		
Other	—	(66)
Exchange differences – unrealised	**17**	7
Net deferred tax (liability)/asset	**17**	(59)
9. Share capital and premium		
Ordinary share capital		
Authorised		
891 774 054 (2019: 880 467 500) ordinary shares of R2.00 each	**1 784**	1 761
Issued		
847 750 679 (2019: 847 750 679) ordinary shares of R2.00 each	**1 696**	1 696
Total issued capital		
Share capital	**1 696**	1 696
Share premium	**23 786**	23 786
	25 482	25 482

Authorised shares

During the current reporting period, the authorised share capital was increased by **11 306 554** ordinary shares with a par value of R2 each.

Unissued shares

The unissued shares are under the control of the directors, subject to a limit of 5% of issued ordinary share capital as at the reporting date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming annual general meeting of the 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
10. Additional Tier 1 capital			
Subordinated callable notes issued by Absa Group Limited			
Interest rate	**Date of issue**		
Three month JIBAR + 5.65%	11 September 2017	**1 500**	1 500
Three month JIBAR + 4.75%	9 October 2018	**1 241**	1 241
Three month JIBAR + 4.50%	28 May 2019	**1 678**	1 678
Three month JIBAR + 4.25%	5 December 2019	**1 376**	1 376
Three month JIBAR + 4.55%	26 October 2020	**1 209**	—
		7 004	5 795

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

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

	Company 2020 Rm	Company 2019 Rm
11. Net interest income/(expense)		
Net interest and similar income/(expense)	16	(4)

	Company 2020 Rm	Company 2019 Rm
12. Gains and losses from investment activities		
Dividends received from subsidiaries	6 022	8 157

	Company 2020 Rm	Company 2019 Rm
13. Other operating income		
Foreign exchange differences	114	57
Sundry income	603	442
	717	499

	Company 2020 Rm	Company 2019 Rm
14. Operating expenses		
Administrative and other expenses	38	8

15. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity holders of the Company, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares, of which there are none.

	Company 2020 Rm	Company 2019 Rm
Basic and diluted earnings attributable to ordinary equity holders of the Company	5 855	7 951
Weighted average number of ordinary shares in issue (millions)	847.8	847.8
Issued shares at the beginning and end of the reporting period	847.8	847.8
Basic earnings per share/diluted earnings per ordinary share (cents)	690.6	937.8

	Company 2020 Rm	Company 2019 Rm
16. Other impairments		
Equity investment in subsidiaries[1]	154	—

[1] Management has impaired investments in subsidiaries totalling **R154m** (2019: Rnil) during the current reporting period.

Notes to the Company financial statements

for the reporting period ended 31 December

	Company 2020 Rm	Company 2019 Rm
17. Taxation expense		
Current		
Current tax	69	(15)
Current tax – previous reporting period	41	19
Foreign tax	85	149
	195	153
Deferred	(76)	105
Other	(67)	67
Exchange difference	(9)	38
	119	258
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	6 563	8 644
Tax calculated at a tax rate of 28%	1 838	2 420
Expenses not deductible for tax purposes	40	23
Dividend income	(1 843)	(2 390)
Other income not subject to tax	(68)	29
Items of a capital nature	26	8
South African current taxation prior year	41	19
Foreign tax	85	149
	119	258

	Company 2020 Gross Rm	Company 2020 Net Rm	Company 2019 Gross Rm	Company 2019 Net Rm
18. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Company		5 855		7 951
Total headline earnings adjustment		154		—
IAS 36 – Impairment of investment in subsidiary (refer to note 16)	154	154	—	—
Headline earnings/diluted headline earnings		6 009		7 951
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		708.8		937.8

Notes to the Company financial statements

for the reporting period ended 31 December

	Company 2020 Rm	Company 2019 Rm
19. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend[1] **(2020: 0 cents per share (cps)** (13 August 2019: 505 cps)	—	4 280
Final dividend[1] **(15 March 2021: 0 cps)** (11 March 2020: 620 cps)	—	5 256
	—	9 536
Distributions declared to additional Tier 1 capital note holders		
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; 12 September 2019: 32 031.12 rpn	29	48
14 September 2020: 24 702.68 rpn	37	—
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: 620 cps)** (15 April 2019: 620 cps)	5 256	5 256
Interim dividend[1] **(2020: 0 cps)** (16 September 2019: 505 cps)	—	4 281
	5 256	9 537
Distributions paid to additional Tier 1 capital note holders		
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

[1] In the current economic climate, capital conservation, including proactive and appropriate management thereof, is regarded paramount to the Group'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.

	Company 2020 Rm	Company 2019 Rm

20. Related parties

Refer to note 50 of the Group's financial statements for the full disclosure of related-party transactions. In addition to this disclosure the following related-party transactions and balances exist for the Company.

20.1 Balances and transactions with subsidiaries

Debit amounts are shown as positive, credit amounts are shown as negative.

	2020 Rm	2019 Rm
Balances		
Loans and advances to banks	**646**	687
Investment securities	**6 101**	5 833
Loan to subsidiaries	**14 992**	15 778
Borrowed funds	**(2 820)**	(3 262)
Transactions		
Net interest income	**(1 437)**	(1 624)
Operating income	**(589)**	(435)
Dividends received	**(6 022)**	(8 157)

21. Risk management

In order to gain an understanding of the risk management framework applied by the Company please refer to note 62 of the Group's financial statements.

Credit risk	Company 2020 Gross maximum exposure – Stage 1 Rm	Company 2019 Gross maximum exposure – Stage 1 Rm
Maximum exposure to credit risk		
Loans and advances to banks	**646**	687
Investment securities	**6 101**	5 833
Loan to group companies	**—**	4
Other assets	**26**	28
Subsidiaries	**14 992**	15 778
	21 765	22 429

21. Risk management (continued)

Treasury risk

Liquidity risk

Analysis of liquidity risk:

Company

	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						
Investment securities	203	—	—	5 898	—	6 101
Loans and advances to banks	646	—	—	—	—	646
Other financial assets	1	—	—	—	—	1
Subsidiaries	717	2 381	11 894	—	—	14 992
Financial assets	1 567	2 381	11 894	5 898	—	21 740
Non-financial assets						60 999
Total assets						82 739
Liabilities						
Other financial liabilities	242	—	—	—	—	242
Borrowed funds	199	3 125	17 252	—	—	20 576
Financial liabilities	441	3 125	17 252	—	—	20 818
Non-financial liabilities						—
Total liabilities						20 818
Equity						61 921
Total equity and liabilities						82 739
Net liquidity position of financial instruments	1 126	(744)	(5 358)	5 898	—	922

	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						
Investment securities	—	—	—	5 833	—	5 833
Loans and advances to banks	687	—	—	—	—	687
Other financial assets	5	23	—	—	—	28
Loans to group companies	4	—	—	—	—	4
Subsidiaries	3 421	1 294	11 063	—	—	15 778
Financial assets	4 117	1 317	11 063	5 833	—	22 330
Non-financial assets						60 003
Total assets						82 333
Liabilities						
Other financial liabilities	237	7	—	—	—	244
Borrowed funds	1 762	4 045	16 105	—	—	21 912
Financial liabilities	1 999	4 052	16 105	—	—	22 156
Non-financial liabilities						59
Total liabilities						22 215
Equity						60 118
Total equity and liabilities						82 333
Net liquidity position of financial instruments	2 118	(2 735)	(5 042)	5 833	—	174

21. Risk management (continued)

Treasury risk (continued)

Liquidity risk (continued)

Undiscounted maturity (statement of financial position value with impact of future interest)	Company 2020 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Other financial liabilities	242	—	—	—	—	242
Borrowed funds	199	3 184	20 120	—	(2 927)	20 576
Total liabilities	441	3 184	20 120	—	(2 927)	20 818

Undiscounted maturity (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						
Other financial liabilities	237	7	—	—	—	244
Borrowed funds	1 762	4 145	20 392	—	(4 387)	21 912
Financial liabilities	1 999	4 152	20 392	—	(4 387)	22 156
Non-financial liabilities						59
Total liabilities	1 999	4 152	20 392	—	(4 387)	22 215

Treasury risk

Interest rate risk in the banking book

Impact on earnings

	2020 Change in market risk 200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(4)	(2)	2	4
Percentage of the Company's net interest income (%)	22	11	(11)	(22)
With respect to investment securities balance	199	201	205	207

Interest rate risk in the banking book

Impact on earnings

	2019 Change in market risk 200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(3)	(1)	1	3
Percentage of the Company's net interest income (%)	(67)	(33)	33	67
With respect to investment securities balance	200	202	204	206

22. Assets and liabilities not held at fair value

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

	Company				
	2020				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Investment securities	6 101	6 101	—	6 101	—
Loans and advances to banks	646	646	—	646	—
Subsidiaries	14 992	14 992	—	14 992	—
Other assets	1	1	—	1	—
Total financial assets (not held at fair value)	**21 740**	**21 740**	—	**21 740**	—
Financial liabilities					
Other liabilities	241	241	—	241	—
Borrowed funds	20 576	20 576	—	20 576	—
Total financial liabilities (not held at fair value)	**20 817**	**20 817**	—	**20 817**	—

	2019				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Investment securities	5 833	5 833	—	5 833	—
Loans and advances to banks	687	687	—	687	—
Subsidiaries	15 778	15 778	—	15 778	—
Other assets	28	28	—	28	—
Loans to group companies	4	4	—	4	—
Total financial assets (not held at fair value)	22 330	22 330	—	22 330	—
Financial liabilities					
Other liabilities	239	239	—	239	—
Borrowed funds	21 912	21 912	—	21 912	—
Total financial liabilities (not held at fair value)	22 151	22 151	—	22 151	—

23. Derivatives

Hedges of net investments in foreign operations

Net investment hedges are used by the Company to protect against the potential risk arising from the Company's exposures to foreign currency risk in relation to its investment in foreign operations.

During the current reporting period, net loss of **R(5)m** (2019: R4m) have been recognised in other comprehensive income.

24. 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 Group's ability to continue as a going concern for at least one year from the date of approval of the consolidated financial statements. For this reason, these consolidated financial statements are prepared on a going concern basis.

25. 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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