

# **Absa Group Limited**

**Annual consolidated and separate  
financial statements for the reporting  
period ended 31 December 2022**

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**Absa Group Limited**  
**(1986/003934/06)**

Annual consolidated and separate financial statements for the  
**reporting period ended 31 December 2022**

These audited annual consolidated and separate financial statements ('financial statements') were prepared by Absa Group Financial Reporting under the direction and supervision of the Absa Group 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 auditors' responsibility statement set out on page 21, is made to distinguish, for the benefit of shareholders, the respective responsibilities of the directors and of the auditors in relation to the consolidated and separate financial statements of Absa Group Limited and its subsidiaries (the Group).

In accordance with the Companies Act 71 of 2008 (Companies Act), the directors are responsible for the preparation of the annual financial statements. These annual financial statements conform to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the South African Institute of Chartered Accountants' (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements, and fairly present the affairs of Absa Group Limited standalone company (the Company) and Absa Group Limited (the Group) as at 31 December 2022, and the net income and cash flows for the year then ended.

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

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

The directors continuously assess the Group's ability to continue as a going concern. The Group's going concern assessment outlines relevant going concern indicators based on amongst other factors the following:

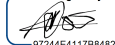
- Forecasts unpinned by the Group's strategy;
- The Group's operating environment; and
- A probability assessment based on the Group's performance, liquidity, credit ratings, market performance and governance and control.

Based on the assessment process outlined above, the directors have no reason to believe that the Group and the Company will not be going concerns in the next reporting period. These financial statements have been prepared on this basis.

It is the responsibility of the independent external auditors to report on the financial statements. Their report to the shareholders of the Group and the Company is set out on page 13 to 21 of this report.

The Directors' Report on pages 8 to 12 and the annual financial statements of the Group and the Company were approved by the Board and are signed on their behalf by:

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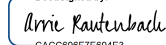


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**M S Moloko**

Group Chairman

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**A Rautenbach**

Group Chief Executive Officer


Johannesburg

12 March 2023

## Group Chief Executive Officer and Group Financial Officer Responsibility Statement for the year ended 31 December 2022

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

- a) The annual financial statements, set out on pages 22 to 273, fairly present in all material respects the consolidated and separate financial position, financial performance and cash flows of Absa Group Limited in terms of the International Financial Reporting Standards (IFRS).
- b) To the best of our knowledge and belief, 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 Absa Group Limited and its consolidated subsidiaries have been provided to effectively prepare the financial statements contained herein.
- 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 as executive directors with primary responsibility for implementation and execution of controls.
- e) Where we are not satisfied, we have disclosed to the Group Audit and Compliance Committee and the auditors any deficiencies in design and operational effectiveness of the internal financial controls, and have taken steps to remedy the deficiencies.
- f) We are not aware of any fraud involving directors.

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**A Rautenbach**

**J P Quinn**

*Group Chief Executive Officer*

*Group Financial Director*

Johannesburg

12 March 2023

## Group Audit and Compliance Committee report

### Introduction

The Group Audit and Compliance Committee (Committee) is pleased to present its report for the 2022 financial year. The report has been prepared based on the requirements of the Companies Act, No. 71 of 2008 (as amended) (the Companies Act), the Banks Act of 1990 (Banks Act), the King IV Report on Corporate Governance for South Africa 2016 (King IV), the JSE Limited (JSE) Listing Requirements and other applicable regulatory requirements.

This report sets out the Committee's roles and responsibilities and provides details on how it accomplished the various statutory obligations as well as Key Audit Matters (KAMs) considered during the reporting period.

### Objective

The Committee's main objective is to assist the Board in fulfilling its oversight responsibilities. In achieving these responsibilities, the Committee did an evaluation of the adequacy and efficiency of accounting policies, internal financial controls, regulatory compliance and financial and corporate reporting processes and governance. Further details on the functions of the Committee are outlined in its mandate, which is reviewed and updated on an annual basis.

### Composition and governance

The Committee only comprises of independent non-executive directors whose appointment is approved annually by the shareholders at the Annual General Meeting (AGM). The members have a breadth of banking, financial, risk and governance expertise as well as commercial acumen needed for the Committee to fulfil its responsibilities. The continuing independence and effectiveness of the Committee and its individual members is assessed by the Board. Further information on the membership and composition of the Committee, is set out in its mandate.

During the 2022 financial year seven formal Committee meetings were held, that coincided with key reporting and regulatory timelines to ensure the appropriate review and approval of financial results before release to the market and regulators. This includes the Committee's annual meeting with the South African Reserve Bank's Prudential Authority.

The composition of the Committee and the attendance of scheduled meetings by its members for the 2022 financial year are as follows:

<u>Member</u>	<u>Meeting attendance*</u>
Tasneem Abdool-Samad (Chairman)	7/7
Alex Darko	7/7
Daisy Naidoo	7/7
René van Wyk	7/7
Swithin Munyantwali	7/7

\*In addition to the scheduled meetings above, Committee member also attended certain ad-hoc meetings throughout the year.

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

### Key focus areas

In line with the overall objective of the Committee, the Committee considered the following matters, amongst others, during the year under review:

#### Control environment and management control approach

The Committee continued to monitor the Group's Control Environment (CE) and Management Control Approach (MCA) to ensure that it is robust, resilient and agile to respond appropriately to any challenges that may arise in the Group's operating environment. The Committee is satisfied that Group's CE and MCA supports its business and operating environment.

#### Control environment and management control approach

The Committee continued to oversee the Group's migration of its consolidation and reporting system. Management, the CIA and the external auditors will continue to keep the Committee updated on developments in this area, with particular focus on the key controls, to ensure that data are accurately managed through appropriate reconciliations and validations. Having considered all relevant information the Committee is satisfied that the financial and internal controls of the Group are adequate and that no material breakdowns occurred that resulted in material loss to the Group.

### Combined Assurance

The Committee aims to ensure that a combined assurance model is applied to provide a coordinated approach to assurance activities. In line with this objective, the Group promotes the embedment of a consistent and comprehensive Combined Assurance approach that optimises effort, reduces duplication, and drives effective assurance of high-risk areas through the aggregated efforts of assurance providers. The Committee ensures that the Group's combined assurance model adequately addresses the Group's risks and material matters.

The Committee reviewed the Combined Assurance approach adopted by the Combined Assurance Steering Committee annually, to ensure it addresses the Internal Financial Controls related attestation and assurance requirements outlined by the various regulators. The Committee also reviewed the control functions' assessment as required by the Banks Act Regulation 40(4), the Group Chief Executive Officer/Group Financial Director attestations as required by the JSE Listing requirements, Internal Audit's Statement on Internal Financial Controls over Financial Reporting, and Internal Audit's Statement on Governance Risk Management and Control.

## Group Audit and Compliance Committee report

### Combined Assurance (continued)

In addition to this the Committee also considered the coverage of the Group's critical risks per Business Unit and Function as presented in the Annual Combined Assurance plan across the three LoDs and is satisfied that the Combined Assurance Plan for 2022 adequately addressed critical risks. The Committee also monitored the remediation of overdue issues raised by Second and Third LoDs on a quarterly basis.

### Technology, Cyber and Information security

Technology, Cyber and Information Security risks have continued to increase across global industries throughout 2022 as was anticipated in last year's report. During the year the Committee continued to receive reports on the risks and related controls in respect of operational, fraud, cyber security, IT systems and controls impacting financial reporting. It has also considered, in conjunction with the Information Technology Committee (ITC) updates on key internal and external audit findings in relation to the IT control environment including the progress made in strengthening the logical access management controls.

### External auditors

In line with the Independent Regulatory Board for Auditors (IRBA) requirements on Mandatory Audit Firm Rotation (MAFR) and following a comprehensive tender process in 2021, PwC replaced EY as one of the Group's joint statutory auditors with effect from the 2022 financial year. PwC became independent on 18 October 2021 and was formally appointed as joint auditors with KPMG at the AGM on 3 June 2022. During the year, the Committee, through regular feedback and enhanced monitoring was comfortable that PwC's transition was managed effectively as the joint statutory auditor.

The Committee is responsible for assessing the effectiveness, objectivity and independence of the Group's auditors. This responsibility was discharged by the Committee during the year at both formal meetings and private meetings with both audit firms and through discussions with Group executives. The Committee also ensured that the appointment and the independence of the external auditors were in compliance with the Companies Act, JSE Listing Requirements, and all other regulatory and legal requirements. This included receiving submissions from the external auditors, as part of the suitability assessments of the firms and the designated audit partners. As part of this process, the Committee continued to assess potential regulatory and reputational matters impacting the firms. The terms of the audit engagement letter and associated fees were approved by the Committee on behalf of the Board.

With regards to the 2022 audit period, the Committee considered the external audit plan to address significant focus areas. These areas received similar focus from the Committee with particular emphasis placed on the external auditors' findings in this regard. The Committee also discussed external audit feedback on the Group's critical accounting estimates and judgements, as well as the involvement of specialists from the audit firms on more complex matters, such as expected credit loss (ECL), valuation of complex financial instruments, and the assessment of IT access controls.

The Group has an established non-audit services policy to safeguard the independence and objectivity of the Group's external auditors and to specify the approval process for the engagement of the Group's external auditors to provide non-audit services. The key principle of the policy is that the Group's external auditors may only be engaged to provide services in cases where the provision of those services does not impair auditor independence and objectivity. All non-audit services were approved by the Committee during the current financial year in accordance with the Board-approved policy on non-audit services performed by the external auditor. The Committee is satisfied that the non-audit services fees for the year ended 31 December 2022 were permissible and within the thresholds stipulated in the policy.

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

### Internal Audit

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

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

The Group's external auditors conducted an assessment of the internal audit function against International Standards on Auditing (ISA) 610 and confirmed that the work performed by internal audit was suitable for the purposes of external audit reliance. The International Standards for the Professional Practice of Internal Auditing and the Group's approved Audit Charter requires the internal audit function to be reviewed at least once every five years by a qualified, independent assessor or assessment team from outside the Group. This review was last performed in 2018 with the overall assessment concluding that the activities of the internal audit function "Generally Conforms" to the Institute of Internal Auditors' (IIA) standards. The rating of "generally conforms" is the highest attainable in terms of compliance to the IIA standards. The next independent review is scheduled for 2023 and planning for this has already commenced.

## Group Audit and Compliance Committee report

### Significant matters

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

Significant matter	How the Committee addressed the matter
Expected credit losses on loans and advances to customers	<p>The measurement of ECL involves significant judgements, particularly under current economic conditions. Despite a general recovery in economic conditions in 2022, there remains an elevated degree of uncertainty over ECL estimation under current conditions, due to macroeconomic, political, global, regional and domestic uncertainties. As part of its monitoring, the Committee considered several reports from management in respect of the various aspects of the ECL model and in particular, the key judgements and assumptions used in the calculation of ECL's.</p> <p>Having considered and scrutinised the reports, the Committee agreed with management's and other assurance providers conclusion that the impairment provision recognised at year end was appropriate. The Committee received appropriate input on the refreshed macroeconomic scenarios and the judgement exercised by management in determining post-model adjustments. The Committee is satisfied that adequate governance and controls over the ECL model are in place and effective.</p>
Valuation of complex financial instruments	<p>Due to the ongoing volatile market conditions in 2022, management continuously assessed its assumptions in valuing the Group's investment portfolio. As losses were incurred management considered whether fair value adjustments were required under the fair value framework. Management's analysis provided evidence to support the introduction of these adjustments in line with International Financial Reporting Standards (IFRSs).</p> <p>The Committee considered the key valuation metrics and judgements used in the determination of the fair value of financial instruments. The Committee considered the valuation control framework, valuation metrics, significant year-end judgements and emerging valuation matters and agrees with the judgements applied by management.</p>

### Financial, legal, compliance and regulatory reporting requirements

The Committee received regular reports from the compliance function and reviewed the adequacy of the scope and the effectiveness of the regulatory compliance processes applied. This included the evaluation of the quality of regulatory reporting, the regulatory compliance universe, the scope and the integrity of the regulatory compliance process, the adequacy of internal regulatory compliance systems and processes, and the consideration and remediation of any findings of the internal and external auditors.

The Committee received assurance that the Group will continue the protection and responsible use of its customer and employee data, including those held by suppliers and other third parties.

During the reporting period, the Committee also considered the overall status on compliance in the Group against policy, regulations or otherwise, and any significant breakdowns. This extended to financial crime and market conduct, in conjunction with the Group Social, Sustainability and Ethics Committee. The Committee also monitored the adequacy and effectiveness of the Group Compliance function, specifically focusing on further investment in compliance technology and data, the continued upskilling of the Compliance team, and the function's assuring and evidencing of the Group's regulatory compliance. Additionally, the Committee oversaw the Banks Act regulatory audit process.

### Annual financial statements and integrated reporting process

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

- Evaluated management's application of critical accounting policies and material areas in which significant accounting judgements were applied.
- Focused on compliance with disclosure requirements to ensure these were consistent, appropriate, and acceptable under the relevant financial and governance reporting requirements.
- Recommended to the Board that the financial statements should be prepared on a going concern basis and that there were no material uncertainties that would impact the going concern statement which require disclosure. The Committee notes that forecast capital ratios remained above minimum mandatory requirements and within the Board's target ranges.
- Met with senior management to gain assurance that the processes underlying the compilation of the annual financial statements were appropriate.
- Conducted a review of the annual financial statements and, where necessary, requested amendments.
- Reviewed relevant publications such as the JSE proactive monitoring papers issued and, where necessary approved the enhanced disclosures recommended.
- Confirmed that management had reported on and evidenced the basis on which representations to the external auditors were made.
- Obtained input and assurance from the external auditors and considered the level of and conclusion on the summary of audit differences.
- Reviewed and discussed the integrated report process, and governance and financial information proposed to be included in the integrated report after considering recommendations from the Social, Sustainability and Ethics Committee, the Group Remuneration Committee, the Group Risk and Capital Management Committee and the Directors' Affairs Committee.
- The Committee reviewed the IFRS Interpretation Committee's ("IFRS IC") agenda decision published on 'Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7 Statement of Cash flows) – Agenda Paper 3' in April 2022 and has communicated a change in accounting policy (refer note 1.21.1) to the JSE, which is required in accordance with paragraph 3.14 of the JSE Listing Requirements.

## Group Audit and Compliance Committee report

### Annual financial statements and integrated reporting process (continued)

The Committee concluded that the processes underlying the preparation of the annual financial statements and the financial information included in the Integrated report for the financial year ended 31 December 2022 were appropriate in ensuring that those statements were fair, balanced, and understandable, and recommended these reports to the Board for approval. The Board subsequently approved the annual financial statements.

### Internal Financial Control Attestation

Absa continues to maintain a strong control environment and has implemented adequate and effective internal financial controls to confirm the integrity and reliability of the financial statements. In terms of paragraph 3.84(k) of the JSE Listing requirements, the Group Chief Executive Officer and the Financial Director have made positive statements under their names and signatures in the annual report.

The identified deficiencies in design and operating effectiveness of internal financial controls identified via the Group's three LoDs was reported to the Committee during the year. The Committee considered the identified deficiencies as well as the appropriateness of management's response including remediation, reliance on compensating controls and additional review procedures. The Committee noted the significant assurance process to support the Group Chief Executive Officer and Group Financial Director attestations.

### Future accounting developments

The International Accounting Standards Board (IASB) issued IFRS 17: Insurance Contracts (IFRS 17) in May 2017. In March 2020, the IASB decided to defer the effective date of IFRS 17 to reporting periods beginning on or after 1 January 2023, with comparative information required. During the current reporting period the Committee reviewed and monitored the Group's IFRS 17 implementation plan and the disclosure impact relating to the adoption of IFRS 17.

### Looking ahead

The role of the Committee will focus on:

- ECL and fair value of complex financial instruments judgments and estimation due to macroeconomic, political, global, regional and domestic uncertainties
- The progress made by management on the initiatives recommended by the three LoDs and the various commitments given to regulators on issues that they have raised.
- The review of the Group's regulatory reporting processes, which remains an area of focus for the industry as a whole.
- The Group's migration of its consolidation and reporting system.
- Keep abreast of any amendments to the JSE Listing Requirements and managements response in respect of future changes to IFRS, legislation and other regulations impacting disclosure requirements with specific focus on the implementation of the IFRS 17: Insurance Contracts.
- The implications of Environmental, social and governance (ESG) risk in measuring the sustainability and societal impact of an investment in a Company or business together with ESG accounting disclosures and assurance processes and ensuring that the Group meets the minimum ESG disclosure requirements released by the International Auditing and Assurance Standards Board (IAASB) or other regulatory bodies.
- In conjunction with the Group Risk and Compliance Management Committee (GRCMC), ongoing monitoring of sovereign risk on subsidiaries in different jurisdictions and any resultant impact on financial reporting.
- In conjunction with the ITC, continued monitoring of logical access controls to combat identified and potential Technology and Cyber risks facing the Group and industry.

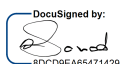
### Conclusion

The Committee is satisfied that it has complied with all statutory obligations and duties given to it by the Board under its terms of reference including executing its responsibilities in compliance with paragraph 3.84(g) of the JSE Listings Requirements.

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

The Committee reviewed the Group and separate Company financial statements for the year ended 31 December 2022 and recommended them to the Board for approval. The Board subsequently approved the annual financial statements.

On behalf of the GACC

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**Tasneem Abdool-Samad**  
 Chairman of the GACC

Johannesburg  
 12 March 2023



## 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 2022, 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.

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**N R Drutman**

Company Secretary

Johannesburg

12 March 2023

## Directors' report

### General information and nature of activities

The Group, which has a primary listing on the JSE and a secondary listing on the A2X exchange, 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, as well as the UK and USA and employs 35 451 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 12 March 2023.

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 2022.

### Group Audit and Compliance Committee (GACC) report

Refer to pages 3 to 6.

### Group results

#### Main business and operations

The Group recorded an increase of 13.7% in headline earnings to R 20 264m (2021: R 17 825m) for the reporting period. Headline earnings per share (HEPS) increased by 13.8% to 2 443.2 cents (2021: 2 147.1 cents) and diluted HEPS by 13.8% to 2 439.7 cents (2021: 2 143.5 cents). Refer to note 41 for the breakdown of headline earnings note per segment.

For certain comparative segmental information contained in this set of financial statements (which has been restated) due to business portfolio changes, refer to note 1.21 and 55 for further details.

#### Headline earnings was derived from the following activities:

	Group	
	2022	2021 <sup>1</sup>
	Rm	Rm
Product Solutions	3 531	2 793
Relationship Banking	4 024	3 719
Everyday Banking	4 108	4 126
Absa Regional Offices RBB	1 068	106
Corporate and Investment Banking	8 977	8 250
Head Office, Treasury and other operations	( 692)	( 403)
Barclays separation	( 752)	( 766)
<b>Headline earnings (refer to note 41)</b>	<b>20 264</b>	<b>17 825</b>

<sup>1</sup>Numbers have been restated, refer to note 1.21.2.

## Directors' report

### Details of the members of the Board:

Name	Position as director	Current reporting period appointments and resignations
S Moloko <sup>1</sup>	Independent non-executive director, Chairman	Appointed 01 April 2022
W E Lucas-Bull <sup>1</sup>	Independent non-executive director, Chairman	Retired 31 March 2022
T Abdool-Samad	Independent non-executive director	
N S Mjoli-Mncube	Independent non-executive director	
J J Cummins	Independent non-executive director	
F Tonelli	Non-executive director	
A B Darko (Ghanaian/British)	Independent non-executive director	
R A Keanly	Independent non-executive director	
S J Munyantwali (Ugandan/British)	Independent non-executive director	
D Naidoo	Independent non-executive director	
F Okomo-Okello (Kenyan)	Independent non-executive director	
A Rautenbach <sup>2</sup>	Group Chief Executive Officer	Appointed 29 March 2022
J P Quinn <sup>2</sup>	Group Financial director	Resumed 29 March 2022 Assumed the position as Group Chief Strategy and Sustainability Officer effective 1 July 2022
P E Modise	Interim Group Chief Financial director	
I Rensburg	Independent non-executive director	
R van Wyk	Independent non-executive director	

<sup>1</sup>Sello Moloko commenced the role as Group Chairman with effect from 1 April 2022, following the retirement of Wendy Lucas-Bull on 31 March 2022.

<sup>2</sup>Arrie Rautenbach was appointed as Chief Executive Officer of Absa Group effective 29 March 2022 whilst Jason Quinn resumed his position as Group Financial director.

## Directors' report

### Shareholder information

	2022			2021		
	Number of shareholders /note holders	Number of shares/notes	% Holding	Number of shareholders /note holders	Number of shares/notes	% Holding
<b>Public and non-public shareholders</b>						
<b>Ordinary shares</b>						
<b>Public</b>						
Public Investment Corporation (SA)	1	41 455 008	4.89	1	45 863 312	5.41
Other	52 918	785 457 981	92.66	30 196	657 710 241	77.58
<b>Non-public</b>		20 837 690	2.45		144 177 126	16.99
Barclays Bank PLC (UK)		-	-		126 145 301	14.88
Treasury shares <sup>1</sup> (Refer to note 23.2)		20 324 498	2.40		17 465 332	2.06
Directors and prescribed officers <sup>2,3</sup> (Refer to note 23.3)		513 192	0.05		566 493	0.05
<b>Total</b>		<b>847 750 679</b>	<b>100</b>		<b>847 750 679</b>	<b>100</b>

### Additional Tier 1 capital

The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Group Limited (the issuer) subject to regulatory approval. These instruments include a write-off provision which is required under Basel III. This provision is triggered by the Prudential Authority (PA) and shall be instituted at the earlier of (i) a decision that a write-off, without which the Issuer would become non-viable, is necessary; or (ii) a decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable. In addition, the Additional Tier 1 notes do not have a contractual obligation to pay interest. Accordingly, the instruments are classified as equity instruments. The total number of issued notes at the end of the reporting period was 7 503 000 000 (2021: 7 004 000 000).

<sup>1</sup> The Absa Group Limited Share Incentive Trust, Absa Life Limited and Absa Capital Securities Proprietary Limited holds treasury shares of **4 344 343** (2021: 1 485 177). In addition, Absa Empowerment Trust (which is currently consolidated into the Group) has a subsidiary which holds **15 980 155** (2021: 15 980 155) Absa Group Limited shares, earmarked to be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure.

<sup>2</sup> The disclosure in note 23.3 includes directors in the major subsidiary as well as interest held by associates of directors.

<sup>3</sup> These numbers were erroneously misstated in the prior year and have been corrected to align with other disclosures provided elsewhere.

## Directors' report

### Directors' and officers' personal financial interests in contracts

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

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

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

### Directors' and prescribed officers' emoluments

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

### Subsidiaries, associates and joint ventures

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

### Acquisitions during the current reporting period

The Group acquired an equity interest of 17.5% in Sanlam Investment Holdings when selling its investment management business within Absa Investments. The transaction was first disclosed in the prior reporting period and concluded on 01 December 2022 where the Group received consideration comprising of ordinary shares (**R679m, 12.6%**), cumulative, convertible, redeemable preference shares (**R266m, 4.9%**) and a deferred consideration (**R143m**) to be settled in cash. The interest in the ordinary shares resulted in the recognition of an investment in associate to the value of **R679m**.

### Acquisitions during the prior reporting period

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

### Disposals during the current reporting period

Disposals in the current year relate to the sold businesses within Absa Investments referred to above.

### Disposals during the prior reporting period

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

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

### Dividends

- On 15 August 2022, an interim dividend of 650 cents per ordinary share was declared. The dividend was announced on 15 August 2022 to ordinary shareholders registered on 16 September 2022. The dividend was paid on the 19 September 2022.
- On 12 March 2023, a final dividend of 650 cents per ordinary share was approved by the Board. The dividend was announced on 13 March 2023 to ordinary shareholders registered on 21 April 2023. This dividend is payable on 24 April 2023.
- Refer to Note 44 for Common Equity Tier 1 distribution.

## Directors' report

### Special resolutions

The following special resolutions were passed by the Company's ordinary shareholders at the AGM held on 03 June 2022, 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 2022 to and including the last day of the month preceding the date of the next AGM thereafter.
- **Special resolution number 2 – General authority to repurchase the company's securities**  
Resolved that the Company or any subsidiary of the Company may, subject to the Company's MOI, section 48 of the Companies Act, the JSE Listings Requirements and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase ordinary shares issued by the Company, provided that this authority shall be valid only until the date of the next AGM of the Company or for 15 months from the date of the resolution, whichever is the earlier, and may be varied by a special resolution at any general meeting of the Company at any time prior to the AGM.
- **Special resolution number 3 – Financial assistance to a related or inter-related company/corporation**  
Resolved to enable the Company, in terms of a general authority contemplated in section 45(3)(a)(ii) of the Companies Act, for a period of two years from the date of this resolution, to provide direct or indirect financial assistance as regulated by section 45 of the Companies Act to a related or inter-related company/corporation and/or to a member of a related or inter-related company/corporation.

### Company Secretary

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

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

Telephone: (+27 11) 350 5347

E-mail: groupsec@absa.africa

### Auditors

KPMG Inc. and PricewaterhouseCoopers Inc. were appointed as joint auditors of the Group for the 2022 reporting period, effective 1 January 2022. John Bennett and Heather Berrange are the designated audit partners.

### Authorised and issued share capital

#### Authorised

The authorised share capital of the Company of R1 783 548 108 consists of 891 774 054 ordinary shares of R2,00 each and has remained unchanged from the prior year.

#### Issued

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

**847 750 679** (2021: 847 750 679) ordinary shares of R2,00 each.

No preference shares are currently in issue by the Company.

# Independent auditors' report to the shareholders of Absa Group Limited

## INDEPENDENT AUDITORS' REPORT

*To the Shareholders of Absa Group Limited*

### Report on the audit of the consolidated and separate financial statements

#### Our opinion

We have audited the consolidated and separate financial statements of Absa Group Limited (the Group and Company), set out on pages 22 to 273 which comprise:

- the consolidated and company statements of financial position as at 31 December 2022;
- the consolidated and company statements of comprehensive income for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company statements of cash flows for the year then ended;
- the accounting policies, and
- the notes to the consolidated and company financial statements excluding the sections marked as "unaudited" in notes 50, 60.6.2, 60.8; and Annexure A: Embedded value report for Life Insurance entities to the consolidated financial statements.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Absa Group Limited as at 31 December 2022, 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 as issued by the International Accounting Standards Board (IFRS 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 *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report. We are independent of the Group and Company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

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

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

## Independent auditors' report to the shareholders of Absa Group Limited

Level	Key Audit Matter	How our audit addressed the key audit matter
Absa Group Limited (consolidated)	<p><b>Expected credit losses (ECL) on loans and advances to customers</b></p> <p>The disclosure associated with ECL on loans and advances to customers is set out in the consolidated financial statements in the following accounting policies and notes:</p> <ul style="list-style-type: none"> <li>• Note 1.2.1 – Approach to credit risk and impairment of loans and advances</li> <li>• Note 1.7.4 – Expected credit losses on financial assets</li> <li>• Note 7 – Loans and advances</li> <li>• Note 60.2 – Credit risk</li> <li>• Note 60.3 – Macro-overlays, payment relief and sensitivity analysis</li> </ul>	
	<p>The Group's loans and advances to customers and the related ECL is material to the consolidated financial statements.</p> <p>We identified the audit of ECL on loans and advances to customers to be a matter of most significance to the current year audit due to the following:</p> <ol style="list-style-type: none"> <li>1. There is a high degree of estimation uncertainty and significant judgements and assumptions in estimating modelled ECL on loans and advances to customers;</li> <li>2. Economic scenario forecasts incorporating Forward-Looking Information (FLI) which are used to estimate the ECL on loans and advances to customers, require estimation and incorporation of multiple forward-looking macroeconomic scenarios and weightings into the ECL calculation. Any impacts not captured by the statistical model is accounted for by further management adjustments, some of which are judgemental in nature. Such adjustments are also posted where current and forward-looking risks are not fully reflected in the historic data used to calibrate models;</li> <li>3. Stage 3 impairments of loans and advances to customers requires significant management judgement in estimating future recoveries; and</li> <li>4. The credit risk disclosures incorporate multiple data inputs and management judgement impacting the completeness and accuracy of the disclosures.</li> </ol> <p>In calculating the ECL, the key areas of significant management judgement and estimation included:</p>	<p>Making use of our internal actuarial, quantitative and economics expertise, our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on loans and advances to customers, as set out below. In addition, we tested controls and performed substantive procedures over the model data inputs.</p>



## Independent auditors' report to the shareholders of Absa Group Limited

Level	Key Audit Matter	How our audit addressed the key audit matter
	<p><b>1. Modelled ECL impairment losses</b></p> <ul style="list-style-type: none"> <li>A significant portion of ECL is calculated on a modelled basis which incorporates observable data, assumptions and estimations. The development and execution of these models requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters.</li> <li>Significant increase in credit risk (SICR) is assessed based on the current risk of default of an account relative to its risk of default at origination. This incorporates judgement and estimation by management.</li> <li>The determination of the write-off point and application of the cure rules are based on management's judgement.</li> </ul> <p>The credit impairment models are subject to formal model governance and approval.</p>	<p><b>1. Modelled ECL impairment losses</b></p> <ul style="list-style-type: none"> <li>We assessed the controls over changes and approval of ECL models.</li> <li>We reperformed and/or benchmarked the model calculations for material portfolios based on the assumptions as per the model documentation, independently reperformed the PD, EAD and LGD parameters, to test the accuracy, assumptions and appropriateness of the judgement applied in the ECL calculations.</li> <li>We assessed the appropriateness of the SICR methodologies and model calibrations and tested the resultant stage allocations and application of cure rules for a sample of portfolios and individual exposures. For retail, we also tested the performance of the SICR approach by considering historic volumes of accounts moving into arrears and the forward-looking view of default risk.</li> <li>We tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs back to information sourced by management from internal systems and external data providers.</li> <li>Through discussions with management and inspection of relevant documentation, we obtained an understanding of the methodologies and assumptions used by management in the various ECL models and how these were calibrated to use historical information to estimate future cash flows.</li> <li>For all impacted portfolios, we considered historical post write-off recoveries to evaluate the reasonableness of management's current ECL assessment and to determine whether the current write-off point is still the point at which there was no reasonable expectation of significant further recovery against the requirements of IFRS 9 <i>Financial Instruments</i> (IFRS 9).</li> <li>We further evaluated whether post write-off recoveries have been excluded from the LGD calculation and therefore do not impact on the ECL.</li> </ul>

## Independent auditors' report to the shareholders of Absa Group Limited

Level	Key Audit Matter	How our audit addressed the key audit matter
	<p><b>2. Estimation and incorporation of multiple forward-looking macroeconomic scenarios and weightings into the ECL calculation</b></p> <ul style="list-style-type: none"> <li>The macroeconomic scenario forecasts are developed internally and require management judgement. Given the uncertain macroeconomic environment, both locally and internationally, there is complexity in incorporating these scenario forecasts, FLIs and probability weightings into the estimation of ECL.</li> <li>Management adjustments to the modelled ECL output were used within the portfolios to address specific risks which were not catered for in the FLIs incorporated into the models.</li> <li>Determining the key macroeconomic drivers of credit risk including the relative importance/weighting of each identified factor incorporates judgement and estimation by management.</li> </ul>	<p><b>2. Estimation and incorporation of multiple forward-looking macroeconomic scenarios and weightings into the ECL calculation</b></p> <ul style="list-style-type: none"> <li>We tested controls over the approval of macroeconomic forecasts and variables used within the models by the appropriate governance structures. With assistance from our internal economics experts, we assessed the appropriateness of the macroeconomic scenario forecasts and probability weightings by benchmarking these against external evidence and economic data.</li> <li>We tested the performance and sensitivity of the forward-looking models in order to evaluate whether the chosen macroeconomic variables and model structure provides a reasonable representation of the impact of macroeconomic changes on the ECL, SICR and baseline information built into the forward-looking economic model.</li> <li>We assessed the reasonableness of how management considered the uncertain macroeconomic environment on the ECL model through independent ECL quantification and sensitivity analysis.</li> <li>We tested the governance process over management adjustments; assessed management's rationale for the adjustments; and the appropriateness of the assumptions and data used in the determination of the management adjustments. We further evaluated whether these were reflective of current market volatility, idiosyncratic risks or emerging trends.</li> </ul>

## Independent auditors' report to the shareholders of Absa Group Limited

Level	Key Audit Matter	How our audit addressed the key audit matter
	<p><b>3. Stage 3 ECL impairments assessed on an individual basis</b></p> <ul style="list-style-type: none"> <li>A significant portion of loans and advances to customers are assessed for recoverability on an individual basis, primarily in the Relationship Banking and Corporate and Investment Banking portfolios. Significant judgements, estimates and assumptions are applied by management to: <ul style="list-style-type: none"> <li>Determine if the loans and advances are credit impaired;</li> <li>Evaluate the valuation and recoverability of collateral;</li> <li>Determine the expected value to be realised from collateral (including the timing of such realisations) and other collection efforts; and</li> <li>Estimate the timing of the future cash flows.</li> </ul> </li> <li>Stage 3 ECL on corporate exposure is calculated on a client specific basis and occurs outside of the portfolio models referred to above.</li> </ul>	<p><b>3. Stage 3 ECL impairments assessed on an individual basis</b></p> <ul style="list-style-type: none"> <li>We tested management's processes and key controls over judgements used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments.</li> <li>Our procedures focused on assessing the reasonability of the estimate of the recoverable amount and timing of expected future cash flows used in measuring ECL. We have performed the following for a sample of stage 3 exposures: <ul style="list-style-type: none"> <li>Where collateral had a material impact on the ECL calculation, we tested the Group's legal right to the collateral by inspecting legal agreements and bond registration information, as well as assessing the reasonability of the valuation of the collateral by evaluating key assumptions against available market and internal information.</li> <li>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.</li> </ul> </li> </ul>
	<p><b>4. Disclosures related to credit risk</b></p> <p>Credit risk disclosures are significant as they rely on material data inputs and explain management judgement, estimates and assumptions used in determining the ECL.</p>	<p><b>4. Disclosures related to credit risk</b></p> <ul style="list-style-type: none"> <li>We tested the design and implementation and operating effectiveness of controls over the credit risk financial reporting process over note 60.2 presented in the consolidated financial statements.</li> <li>We evaluated whether the credit risk disclosures are consistent with the ECL information tested which included the ECL data, models, estimates and macroeconomic forecasts.</li> <li>We assessed the adequacy of the disclosures in the financial statements in accordance with the requirements of IFRS 9.</li> </ul>

## Independent auditors' report to the shareholders of Absa Group Limited

Level	Key Audit Matter	How our audit addressed the key audit matter
Absa Group Limited (consolidated)	<p><b>Valuation of complex financial instruments</b></p> <p>The disclosure associated with the valuation of complex financial instruments is set out in the consolidated financial statements in the following accounting policies and notes:</p> <ul style="list-style-type: none"> <li>• Note 1.2.3 – Fair value measurement</li> <li>• Note 58 – Fair value disclosures</li> </ul>	

## Independent auditors' report to the shareholders of Absa Group Limited

Level	Key Audit Matter	How our audit addressed the key audit matter
	<p><b>Valuation of complex financial instruments</b></p> <p>Complex financial instruments include unlisted equity investments (level 3), loans and advances at fair value (level 3) and derivative financial instruments (level 2 and 3), including relevant valuation adjustments.</p> <p>We have identified the valuation of complex financial instruments as a key audit matter which required significant audit effort and the support of our internal valuation experts as it requires significant management judgement relating to the application of sophisticated valuation methodologies and models, key assumptions and key inputs to estimate the valuation of the respective financial instruments, including the related fair value disclosures.</p> <p>Significant judgement is required concerning unobservable inputs, for which there are no quoted market prices, and inputs are also illiquid and volatile in nature. These judgements relate to the credit spreads and risk adjusted yield curves used in simulating counterparty valuation adjustments and funding spreads used to simulate funding valuation adjustments. These inputs depend on various sources of external and internal data and the use of sophisticated modelling techniques.</p> <p>As a result of the above, the disclosures relating to the valuation of these complex financial instruments are also significant.</p>	<p>Our audit procedures included, on a sample basis, the following, which were performed with the assistance of our internal valuation experts:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding, evaluated the design and implementation, and tested the operating effectiveness of key controls identified in the valuation process, such as model governance and validation, oversight of valuation inputs and assumptions applied throughout the independent price verification process and market risk monitoring.</li> <li>• We tested the IT general controls, including change management controls, and application controls relating to the IT systems that support the valuation of complex instruments.</li> <li>• We assessed the appropriateness of valuation methodologies and the reasonableness of a sample of valuation models by: <ul style="list-style-type: none"> <li>◦ Testing the consistency of the key assumptions and methodologies utilised to the prior year and assessed the reasoning for any significant changes from the prior year.</li> <li>◦ Reperforming the valuation for complex financial instruments using independent models.</li> </ul> </li> <li>• For a sample of key unobservable valuation inputs, we used our internal valuation experts to assess the reasonability of the valuation inputs to independent market data. In cases where independent market data was not available, we used data to evaluate the reasonableness of inputs and assumptions used.</li> <li>• For a sample of unlisted equity instruments, we engaged our internal valuation experts to perform independent calculations and assessed them against key management assumptions and judgements used.</li> <li>• Where management used external independent appraisers to value unobservable inputs in the unlisted equity portfolios, for a sample we evaluated their competence, independence and experience with reference to their qualifications and industry experience.</li> <li>• We independently recalculated the valuations of unlisted equities utilising the inputs and assumptions referred to above, in accordance with the valuation approach, and compared our results with that of management.</li> <li>• We assessed the appropriateness of the level 3 fair value disclosures with reference to the requirements of IFRS 13 <i>Fair Value Measurement</i> by considering the judgement in the key valuation inputs and assumptions.</li> </ul>

## Independent auditors' report to the shareholders of Absa Group Limited

### Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "*Absa Group Limited Annual consolidated and separate financial statements for the reporting period ended 31 December 2022*" which includes the Company Secretary's certificate to the shareholders of Absa Group Limited, the Group Audit and Compliance Committee report and the Directors' report as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the *Integrated Report 2022* which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and report thereon (but includes the sections marked as "unaudited" in notes 60.6.2, 60.8 and; the Annexure A: Embedded value report for Life Insurance entities to the consolidated financial statement).

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### 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 IFRS Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

## Independent auditors' report to the shareholders of Absa Group Limited

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

### Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. and KPMG Inc. have been the joint auditors of Absa Group Limited for one year.

Prior to the commencement of the joint audit relationship with PricewaterhouseCoopers Inc, KPMG Inc. was the joint auditor with Ernst & Young Inc. for the years ended 31 December 2017 and 31 December 2021.

DocuSigned by:  
**PricewaterhouseCoopers Inc.** 3/12/2023 | 20:23 SAST  
3AB09AC0D9584A9...

PricewaterhouseCoopers Inc.  
Director: John Bennett  
Registered Auditor  
4 Lisbon Lane, Waterfall City  
Jukskei View

12 March 2023

DocuSigned by:  
**KPMG Inc.** 3/12/2023 | 11:25 PDT  
0F5D83E6F37A4C0...

KPMG Inc.  
Director: Heather Berrange  
Registered Auditor  
85 Empire Road  
Parktown

12 March 2023

*Note: The examination of controls over the maintenance and integrity of the Absa Group Limited's website is beyond the scope of the audit of the consolidated and separate financial statements. Accordingly, we accept no responsibility for the process over the electronic distribution of the consolidated and separate financial statements.*

# Consolidated statement of financial position

as at 31 December

			Restated	
		December	December	1 January
	Note	2022	2021	2021
		Rm	Rm	Rm
<b>Assets</b>				
Cash, cash balances and balances with central banks	2	67 179	66 041	60 682
Investment securities	3	215 637	188 898	153 504
Trading portfolio assets <sup>1</sup>	4	206 436	203 240	215 753
Hedging portfolio assets <sup>1</sup>	4	4 973	3 697	7 475
Other assets	5	25 190	24 156	20 417
Current tax assets		657	665	865
Non-current assets held for sale	6	212	4 259	144
Loans and advances	7	1 213 399	1 092 257	1 014 507
Reinsurance assets	8	663	732	680
Investments linked to investment contracts	9	19 288	19 803	21 273
Investments in associates and joint ventures	10	2 409	1 593	1 601
Investment properties	11	397	421	496
Property and equipment	12	15 325	15 970	17 094
Goodwill and intangible assets	13	12 901	11 903	11 050
Deferred tax assets	14	8 535	5 897	4 286
<b>Total assets<sup>1</sup></b>		<b>1 793 201</b>	<b>1 639 532</b>	<b>1 529 827</b>
<b>Liabilities</b>				
Trading portfolio liabilities <sup>1</sup>	15	94 895	73 568	108 831
Hedging portfolio liabilities <sup>1</sup>	15	2 237	2 910	5 013
Other liabilities	16	36 520	48 409	33 905
Provisions	17	5 912	5 396	3 959
Current tax liabilities		971	1 091	290
Non-current liabilities held for sale	6	26	3 465	-
Deposits	18	1 241 919	1 173 766	1 048 000
Debt securities in issue <sup>1</sup>	19	205 519	129 775	144 447
Liabilities under investment contracts	20	19 999	21 126	27 533
Policyholder liabilities under insurance contracts	21	5 384	5 731	4 198
Borrowed funds	22	26 420	26 600	20 761
Deferred tax liabilities	14	351	386	587
<b>Total liabilities<sup>1</sup></b>		<b>1 640 153</b>	<b>1 492 223</b>	<b>1 397 524</b>
<b>Equity</b>				
<b>Capital and reserves</b>				
Attributable to ordinary equity holders:				
Share capital	23	1 654	1 660	1 657
Share premium	23	10 191	10 644	10 561
Retained earnings		121 764	110 859	95 345
Other reserves	24	887	6 700	8 108
		<b>134 496</b>	<b>129 863</b>	<b>115 671</b>
Non-controlling interest - ordinary shares		6 405	5 798	4 984
Non-controlling interest - preference shares	25.1	4 644	4 644	4 644
Other equity - Additional Tier 1 Capital	25.2	7 503	7 004	7 004
<b>Total equity</b>		<b>153 048</b>	<b>147 309</b>	<b>132 303</b>
<b>Total liabilities and equity<sup>1</sup></b>		<b>1 793 201</b>	<b>1 639 532</b>	<b>1 529 827</b>

<sup>1</sup>These numbers have been restated, refer to reporting changes overview note 1.21



## Consolidated statement of comprehensive income

for the reporting period ended 31 December

		Group	
	Note	2022 Rm	2021 Rm
Net interest income		60 498	53 322
Interest and similar income	26	112 232	89 495
Effective interest income		110 314	87 844
Other interest income		1 918	1 651
Interest expense and similar charges	27	(51 734)	(36 173)
Non-interest income		38 420	32 584
Net fee and commission income		23 710	22 074
Fee and commission income	28	27 595	25 549
Fee and commission expense	28	(3 885)	(3 475)
Net insurance premium income	29	9 453	8 778
Net claims and benefits incurred on insurance contracts	30	(4 854)	(5 514)
Changes in investment and insurance contract liabilities	31	1 428	(2 799)
Gains and losses from banking and trading activities	32	7 728	6 606
Gains and losses from investment activities	33	(532)	2 704
Other operating income	34	1 487	735
<b>Total income</b>		<b>98 918</b>	<b>85 906</b>
Credit impairment charges	35	(13 703)	(8 499)
<b>Operating income before operating expenditure</b>		<b>85 215</b>	<b>77 407</b>
Operating expenditure	36	(52 009)	(48 610)
Other expenses		(2 541)	(2 205)
Other impairments	37	(591)	(420)
Indirect taxation	38	(1 950)	(1 785)
Share of post-tax results of associates and joint ventures	10.1	137	132
<b>Operating profit before income tax</b>		<b>30 802</b>	<b>26 724</b>
Taxation expense	39	(8 091)	(7 299)
<b>Profit for the reporting period</b>		<b>22 711</b>	<b>19 425</b>
<b>Profit attributable to:</b>			
Ordinary equity holders		20 555	17 763
Non-controlling interest - ordinary shares		1 281	835
Non-controlling interest - preference shares		266	242
Other equity - Additional Tier 1 capital		609	585
		<b>22 711</b>	<b>19 425</b>
<b>Earnings per share:</b>			
Basic earnings per share (cents)	40.1	2 478.3	2 139.6
Diluted earnings per share (cents)	40.2	2 474.7	2 136.0

## Consolidated statement of comprehensive income

for the reporting period ended 31 December

		Group	
	Note	2022 Rm	2021 Rm
<b>Profit for the reporting period</b>		<b>22 711</b>	<b>19 425</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>		<b>(19)</b>	<b>83</b>
Movement on equity instruments designated at fair value through other comprehensive income (FVOCI)		<b>(1)</b>	<b>(133)</b>
Fair value losses		<b>(1)</b>	<b>(172)</b>
Deferred tax		<b>0</b>	<b>39</b>
Movement on liabilities designated at FVTPL due to changes in own credit risk		<b>(151)</b>	<b>(26)</b>
Fair value losses		<b>(202)</b>	<b>(36)</b>
Deferred tax		<b>51</b>	<b>10</b>
Movement in retirement benefit fund assets and liabilities		<b>133</b>	<b>242</b>
(Decrease)/increase in retirement benefit surplus	43	<b>(37)</b>	<b>108</b>
Decrease in retirement benefit deficit	43	<b>148</b>	<b>169</b>
Deferred tax	14	<b>22</b>	<b>(35)</b>
<b>Items that are or may be subsequently reclassified to profit or loss</b>		<b>(6 503)</b>	<b>(1 298)</b>
Movement in foreign currency translation reserve		<b>(1 789)</b>	<b>2 414</b>
Differences in translation of foreign operations		<b>(1 789)</b>	<b>2 510</b>
Release to profit or loss		<b>0</b>	<b>(96)</b>
Movement in cash flow hedging reserve		<b>(4 477)</b>	<b>(4 051)</b>
Fair value losses		<b>(3 460)</b>	<b>(1 469)</b>
Amounts transferred within other comprehensive income		<b>21</b>	<b>6</b>
Amount removed from other comprehensive income and recognised in profit or loss	56.7.2	<b>(2 718)</b>	<b>(4 163)</b>
Deferred tax	14	<b>1 680</b>	<b>1 575</b>
Movement in fair value of debt instruments measured at FVOCI		<b>(237)</b>	<b>339</b>
Fair value (losses)/gains		<b>(364)</b>	<b>691</b>
Release to profit or loss	32	<b>(7)</b>	<b>(120)</b>
Deferred tax	14	<b>134</b>	<b>(232)</b>
<b>Total comprehensive income for the reporting period</b>		<b>16 189</b>	<b>18 210</b>
<b>Total comprehensive income attributable to:</b>			
Ordinary equity holders		<b>14 175</b>	<b>16 376</b>
Non-controlling interest - ordinary shares		<b>1 139</b>	<b>1 007</b>
Non-controlling interest - preference shares		<b>266</b>	<b>242</b>
Other equity - Additional Tier 1 capital		<b>609</b>	<b>585</b>
		<b>16 189</b>	<b>18 210</b>

## Consolidated statement of comprehensive income

for the reporting period ended 31 December

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## 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
<b>Balance at the beginning of the reporting period</b>	<b>830 285</b>	<b>1 660</b>	<b>10 644</b>	<b>110 859</b>	<b>6 700</b>	<b>825</b>
Total comprehensive income	-	-	-	20 531	(6 356)	-
Profit for the period	-	-	-	20 555	-	-
Other comprehensive income	-	-	-	(24)	(6 356)	-
Dividends paid during the reporting period	-	-	-	(9 343)	-	-
Distributions paid during the reporting period	-	-	-	-	-	-
Movement in Additional Tier 1 Capital <sup>1</sup>	-	-	-	-	-	-
Purchase of Group shares in respect of equity-settled share-based payment arrangements	-	-	(357)	( 163)	-	-
Elimination of treasury shares held by Group entities	(2 859)	( 6)	( 453)	-	-	-
Movement in share-based payment reserve	-	-	357	-	423	-
Transfer from share-based payment reserve	-	-	357	-	(357)	-
Value of employee services	-	-	-	-	652	-
Deferred tax	-	-	-	-	128	-
Movement in general credit risk reserve	-	-	-	17	( 17)	( 17)
Share of post-tax results of associates and joint ventures	-	-	-	(137)	137	-
<b>Balance at the end of the reporting period</b>	<b>827 426</b>	<b>1 654</b>	<b>10 191</b>	<b>121 764</b>	<b>887</b>	<b>808</b>
Note	23	23	23			24

## Consolidated statement of changes in equity

for the reporting period ended 31 December

Group  
2022

Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest - ordinary shares Rm	Non-controlling interest - preference shares Rm	Other equity: Additional Tier 1 Capital Rm	Total equity Rm
(845)	1 262	3 123	57	679	1 599	129 863	5 798	4 644	7 004	147 309
(147)	(4 477)	(1 732)	-	-	-	14 175	1 139	266	609	16 189
-	-	-	-	-	-	20 555	1 281	266	609	22 711
(147)	(4 477)	(1 732)	-	-	-	(6 380)	(142)	-	-	(6 522)
-	-	-	-	-	-	(9 343)	(532)	(266)	-	(10 141)
-	-	-	-	-	-	-	-	-	(609)	(609)
-	-	-	-	-	-	-	-	-	499	499
-	-	-	-	-	-	(520)	-	-	-	(520)
-	-	-	-	-	-	(459)	-	-	-	(459)
-	-	-	-	423	-	780	-	-	-	780
-	-	-	-	(357)	-	-	-	-	-	-
-	-	-	-	652	-	652	-	-	-	652
-	-	-	-	128	-	128	-	-	-	128
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	137	-	-	-	-	-
(992)	(3 215)	1 391	57	1 102	1 736	134 496	6 405	4 644	7 503	153 048
24	24	24	24	24	24			25.1	25.2	

<sup>1</sup> Movement in Additional Tier 1 Capital includes an issuance of R1 999m and an expiry of R1 500m.

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

<sup>1</sup>On 30 September 2021, the board of directors disposed of integrated Processing Solutions, refer to note 54.

## Consolidated statement of changes in equity

for the reporting period ended 31 December

2021											
Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest - ordinary shares Rm	Non-controlling interest - preference shares Rm	Other equity: Additional Tier 1 Capital Rm	Total equity Rm	
(1 225)	5 313	934	40	383	1 482	115 671	4 984	4 644	7 004	132 303	
380	(4 051)	2 189	-	-	-	16 376	1 007	242	585	18 210	
-	-	-	-	-	-	17 763	835	242	585	19 425	
380	(4 051)	2 189	-	-	-	(1 387)	172	-	-	(1 215)	
-	-	-	-	-	-	(2 573)	(193)	(242)	-	(3 008)	
-	-	-	-	-	-	-	-	-	(585)	(585)	
-	-	-	-	-	-	( 273)	-	-	-	( 273)	
-	-	-	-	-	-	86	-	-	-	86	
-	-	-	-	296	-	576	-	-	-	576	
-	-	-	-	(280)	-	-	-	-	-	-	
-	-	-	-	506	-	506	-	-	-	506	
-	-	-	-	70	-	70	-	-	-	70	
-	-	-	-	-	-	-	-	-	-	-	
-	-	-	17	-	-	-	-	-	-	-	
-	-	-	-	-	132	-	-	-	-	-	
-	-	-	-	-	( 15)	-	-	-	-	-	
(845)	1 262	3 123	57	679	1 599	129 863	5 798	4 644	7 004	147 309	
24	24	24	24	24	24		25.1	25.2			

## Consolidated statement of cash flows

for the reporting period ended 31 December

		Group	Restated
	Note	2022 Rm	2021 Rm
<b>Cash flow from operating activities</b>			
Profit before tax		30 803	26 724
Adjustments of non-cash items			
Depreciation and amortisation	36	5 846	6 025
Other impairments	37	591	420
Share of post-tax results of associates and joint ventures		(137)	(132)
Profit on sale of the investment management business		(759)	-
Other non-cash items included in profit and before tax		(8)	(503)
Dividends received from investing activities		(449)	(352)
Cash flow from operating activities before changes in operating assets and liabilities		35 887	32 182
Net (increase)/decrease in trading and hedging portfolio assets <sup>(1)</sup>		(8 188)	12 660
Net increase in loans and advances <sup>(1)</sup>		(116 404)	(67 397)
Net decrease in other assets <sup>(1)</sup>		3 563	449
Net increase in investment securities		(26 176)	(29 209)
Net increase/(decrease) in trading and hedging portfolio liabilities		20 461	(37 494)
Net decrease in insurance and investment contracts <sup>(3)</sup>		(905)	(3 406)
Net increase in deposits		64 842	109 107
Net increase/(decrease) in other liabilities <sup>(1)(2)</sup>		61 598	(2 700)
Income taxes paid		(10 351)	(7 692)
<b>Net cash generated from operating activities</b>		<b>24 327</b>	<b>6 500</b>
<b>Cash flow from investing activities</b>			
Proceeds from disposal of non-current assets held for sale		54	113
Dividends received from investing activities		422	472
Proceeds from disposal of investment properties		1	52
Purchase of property and equipment	12	(2 214)	(1 475)
Proceeds from disposal of properties and equipment		125	243
Purchase of intangible assets	13	(3 674)	(2 975)
Proceeds from disposal of intangible assets		3	39
Disposal of non-current liabilities held for sale		-	-
Investment in associates and joint ventures	54.2	-	12
<b>Net cash utilised in investing activities</b>		<b>(5 283)</b>	<b>(3 519)</b>
<b>Cash flow from financing activities</b>			
(Purchase)/sale of own shares		(459)	86
Purchase of Group shares in respect of equity-settled share-based payment schemes		(521)	(273)
Issue of Additional Tier 1 capital		1 999	-
Expiry of Additional Tier 1 Capital		(1 499)	-
Proceeds from borrowed funds		1 916	6 866
Repayment of borrowed funds		(2 204)	(2 381)
Repayment of lease liability		(1 098)	(1 221)
Distributions paid to Additional Tier 1 capital holders		(609)	(585)
Dividends paid		(10 141)	(3 007)
<b>Net cash utilised in financing activities</b>		<b>(12 616)</b>	<b>(515)</b>
Net increase in cash and cash equivalents <sup>1</sup>		6 428	2 466
Cash and cash equivalents at the beginning of the reporting period <sup>1</sup>		62 874	59 327
Effect of foreign exchange rate movements on cash and cash equivalents		1 173	1 081
<b>Cash and cash equivalents at the end of the reporting period<sup>1</sup></b>	53	<b>70 475</b>	<b>62 874</b>

As part of operating activities, interest income amounting to **R114 446m** (2021: 88 301m); and interest expense amounting to **R51 073m** (2021: R37 474m) were in received and paid in cash respectively.

<sup>(1)</sup> These numbers have restated, refer to reporting changes over 1.21.

<sup>(2)</sup> Net increase in other liabilities includes debt securities in issue and provisions.

<sup>(3)</sup> Net decrease in insurance and investment contracts includes the following movements:

- cash decrease in liabilities under investment contracts of R1 127m; (2021: R6 409m decrease)
- cash decrease in investments linked to investment contracts of R515m; (2021: R1 470m decrease)
- cash decrease in policyholder liabilities under insurance contracts of R293m; (2021: R1 533m increase)



## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies

#### 1.1 Basis of preparation

The significant accounting policies applied in the preparation of these consolidated financial statements (authorized on xxx) 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

###### 1.1.1.1 Amendment to IAS 16 Property, Plant and Equipment for proceeds received before intended use

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant & equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It further clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

###### 1.1.1.2 Amendment to IAS 37 Onerous Contracts — Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts.

###### 1.1.1.3 Amendments to IFRS 3 Business Combinations and Amendments to IFRS 3 Reference to the Conceptual Framework

The Amendments to IFRS 3 intends to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework).

###### 1.1.1.4 Amendments resulting from annual improvements 2018–2020 Cycle for the following standard

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

The Amendments were effective in the current financial year but had no impact on the annual consolidated and separate financial statements of 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, policyholder liabilities and particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies. They are stated in Rand, which is the presentation currency of the Group and rounded to the nearest million (Rm) unless otherwise indicated.

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

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

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

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

##### 1.2.1.1 Approach to credit modelling/internal ratings

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

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies

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

##### 1.2.1.1 Approach to credit modelling/internal ratings (continued)

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

##### 1.2.1.3 Default grades

The Group uses two types of PDs, namely:

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

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

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

##### 1.2.1.4 Approach to impairment of credit exposures

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

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

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

## Accounting policies

for the reporting period ended 31 December

### 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)

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 increase 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. Refer to 1.2.1.5 for further detail on the significant increase of credit risk.

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 Effective Interest Rate (EIR) determined at initial recognition or an approximation thereof. For debt instruments, such as loans and advances, the discount rate applied is the EIR calculated on origination or acquisition date.

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

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

#### Retail portfolio

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

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

#### Wholesale portfolio

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

- PD ratings are assigned on a customer level. Information used in the calculation of customer PD ratings includes financial statements, projected cash flows, equity price information, behavioural information as well as quality assessments on strength of support. In converting Basel III compliant PDs to PDs appropriate for the purposes of IFRS 9, the main adjustments effected comprise:
  - a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven year historical average to a PD reflective of the macroeconomic environment at the reporting date; and

## Accounting policies

for the reporting period ended 31 December

### 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)

###### Wholesale portfolio (continued)

- 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.

##### 1.2.1.5 Critical areas of judgment with regards to IFRS 9

###### Definition of a significant increase in credit risk:

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

Key drivers of a significant increase in credit risk include:

- Where the weighted average probability of default (PD) for an individual exposure or group of exposures as at the reporting date evidences a material deterioration in credit quality, relative to that determined on initial recognition. The Group considers the impact of changes in the quality of credit enhancements (e.g. guarantees) it holds on the borrower's probability of default if a shareholder or parent has provided a guarantee, and has an incentive and the financial ability to prevent default by capital or cash infusion.
- Adverse changes in payment status, and where accounts are more than 30 days in arrears at reporting date. In the ARO retail portfolio, a more conservative arrears rule is applied where this is found to be indicative of increased credit risk (e.g. 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.

###### Definition of credit impaired:

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

Wholesale and Retail assets are classified as defaulted when:

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

In addition, within the Retail portfolios, the Group requires an exposure to reflect a non-credit impaired status after 12 months of being placed into credit impaired, before being considered to have cured from Stage 3. This probation period applies to all exposures, including those that have been classified as credit impaired for reasons other than forbearance with a diminished financial obligation and debt review (e.g. owing to the fact that they become more than 90 days due). For certain exposures in the business banking environment, an exposure is considered cured after a 6 month probation period.

For wholesale exposures, an exposure is considered cured from stage 3 based on the facts and circumstances of the specific exposure; but not earlier than 6 months after default.

###### Determination of the lifetime of a credit exposure:

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

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

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

## Accounting policies

for the reporting period ended 31 December

### 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)

- Revolving facilities: for Retail portfolios, asset duration is based on behavioural life. For Wholesale portfolios, a sufficiently long period to cover expected life is modelled and an attrition rate is applied to cater for early settlement.

#### Incorporation of forward-looking information into the IFRS 9 modelling:

ECL estimation must reflect an unbiased and probability-weighted estimate of future losses. This is determined by evaluating a range of possible macroeconomic outcomes.

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

Despite the current market conditions being marked by global shocks and high uncertainty, the Group has maintained its probability-weightings of 40%, 30%, and 30% for the baseline, upside, and downside scenarios respectively. However, to address the unprecedented environment, the ranges between the baseline, mild upside, and downside macroeconomic scenarios have been significantly widened compared to the figures presented at 31 December 2021.

The following table shows the key forecast assumptions used for South Africa to calculate the Group's credit impairment charge for the reporting period ended 31 December 2022:

	Baseline					Mild upside					Mild downside				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
Real GDP (%)	1.6	1.1	1.8	1.9	2.0	1.9	1.6	2.4	2.5	2.6	0.9	-1.1	0.6	0.8	0.9
CPI (%)	6.8	5.3	4.5	4.5	4.6	6.7	4.1	4.1	4.0	4.3	7.0	7.8	5.4	5.1	5.5
Average repo rate (%)	5.3	7.3	6.8	6.8	6.8	5.2	6.3	6.0	6.0	6.0	5.3	9.0	8.5	8.1	8.0

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

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

The following table shows the key forecast assumptions for the three economic scenarios for four of our largest ARO markets at 31 December 2022:

## Accounting policies

for the reporting period ended 31 December

### 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)

	Baseline					Mild upside					Mild downside				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
<b>Botswana</b>															
Real GDP (%)	5.0	4.4	4.0	3.8	3.8	6.6	5.8	5.4	5.2	5.2	4.3	3.0	3.0	2.7	2.7
CPI (%)	12.3	6.2	3.9	3.6	3.6	11.9	4.9	2.4	2.2	2.2	13.0	8.0	5.5	5.4	5.4
Average policy rate (%)	2.8	2.7	2.9	3.4	3.9	2.8	2.7	2.7	3.0	3.2	2.8	3.9	4.6	5.1	5.2
<b>Ghana</b>															
Real GDP (%)	3.4	3.0	3.6	4.4	5.0	4.5	4.8	5.3	6.0	6.6	2.1	0.4	1.6	2.4	2.8
CPI (%)	29.5	25.0	12.1	13.1	11.0	28.0	19.5	8.9	10.5	9.0	30.5	31.0	17.4	15.5	13.0
Average policy rate (%)	19.0	24.2	21.0	20.0	19.1	19.0	22.9	19.7	18.2	17.1	19.5	27.4	22.8	21.6	21.3
<b>Kenya</b>															
Real GDP (%)	5.3	5.0	5.2	5.5	5.5	6.0	6.5	6.5	7.0	7.0	4.0	3.7	4.0	4.3	4.3
CPI (%)	7.5	4.5	4.6	4.7	4.7	7.0	3.5	3.7	3.9	3.9	8.0	6.2	6.3	6.5	6.5
Average policy rate (%)	7.5	8.8	8.8	8.8	8.8	7.4	8.0	8.0	8.0	8.0	7.6	10.4	10.8	11.3	11.3
<b>Mauritius</b>															
Real GDP (%)	7.4	5.5	4.2	4.0	4.0	9.2	7.0	5.5	5.0	5.0	3.9	3.0	2.9	2.9	2.9
CPI (%)	10.5	5.5	4.0	3.8	3.7	10.1	4.0	3.2	2.6	2.5	11.0	7.4	6.3	5.3	5.0
Average policy rate (%)	2.4	4.3	4.5	4.5	4.5	2.3	3.8	4.0	3.8	3.8	2.4	5.1	6.0	6.0	6.0

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

	Baseline					Mild upside					Mild downside				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
<b>Botswana</b>															
Real GDP (%)	8.3	4.9	4.0	3.8	3.8	9.8	6.6	5.6	5.3	5.3	7.2	3.1	3.0	1.9	1.9
CPI (%)	6.5	5.0	3.7	3.8	3.4	6.2	4.0	2.4	2.4	2.0	7.0	6.5	5.2	5.4	5.2
Average policy rate (%)	3.8	4.0	4.4	4.9	5.0	3.7	3.7	3.8	4.2	4.4	3.8	4.4	5.0	5.3	6.3
<b>Ghana</b>															
Real GDP (%)	3.7	5.7	5.4	5.5	5.5	4.3	8.6	7.2	6.6	6.3	2.3	3.5	3.4	3.1	3.0
CPI (%)	9.4	9.3	9.5	10.5	10.7	9.1	8.0	7.7	8.5	8.5	9.7	11.0	11.4	12.8	13.0
Average policy rate (%)	13.8	14.1	15.4	16.1	16.5	13.8	13.6	14.1	14.6	15.5	14.0	15.1	16.4	17.8	18.9
<b>Kenya</b>															
Real GDP (%)	4.4	5.5	5.3	5.1	5.0	5.5	6.5	6.5	6.8	6.7	2.6	3.1	3.7	4.1	4.4
CPI (%)	6.0	5.4	5.1	4.8	4.4	5.7	4.0	3.5	3.2	3.0	6.3	6.2	6.0	5.9	5.5
Average policy rate (%)	7.0	7.2	8.0	8.3	8.3	6.9	6.9	7.3	7.6	7.8	7.1	7.7	8.5	9.0	9.3
<b>Mauritius</b>															
Real GDP (%)	4.0	9.2	5.8	5.0	4.0	5.5	11.2	7.0	5.6	5.4	2.0	8.0	4.0	3.0	2.5
CPI (%)	3.9	4.0	3.2	3.0	3.0	3.9	3.2	2.2	2.0	2.0	3.9	5.0	4.8	4.5	4.5
Average policy rate (%)	1.9	2.2	2.7	3.4	3.9	1.9	1.9	2.3	3.0	3.2	1.9	2.5	3.2	4.1	4.8

#### Baseline scenarios as at 31 December 2022

##### South Africa

The global, regional, and domestic economic outlook remains unusually uncertain. Although COVID-19 is no longer an immediate threat to the economy, risks from geopolitical uncertainty, particularly those surrounding the Russia/Ukraine conflict, and those arising from heightened tension between some Western countries and China, have risen. Both the duration and intensity of these risks are currently difficult to predict.

These risks have already had an impact on oil, food, and other supply chains, and their ongoing impact is difficult to predict. Global financial conditions have tightened and are expected to tighten further in early 2023. The tightening delivered so far has placed pressure on many emerging assets, and uncertainty over the path of global policy in 2023 is continuing to cause fluctuations in global asset markets more broadly.

In addition to these global shocks, the South African economy faces several uncertainties specific to the country. The most significant of these is electricity load shedding as Eskom's operational difficulties deepened significantly into late 2022.

At the time of the forecast, Absa's expectation was for the South African economy to have expanded by 1.6% in 2022, which is slightly weaker than the previous forecast. Absa expects economic growth to slip to 1.1% in 2023 due to severe short-term electricity constraints. There is a slow improvement toward GDP growth of 2.0% by 2026, with an expectation that load shedding will gradually dissipate.



## Accounting policies

for the reporting period ended 31 December

### 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)

For the household sector, employment recovered more quickly in 2022 than previously feared, resulting in a similar outperformance in household incomes. Absa expects employment and household income growth to moderate significantly in 2023 and beyond, in line with the very subdued GDP outlook.

Consumer price inflation rose more quickly than expected during 2022, largely due to sharply higher food and fuel prices. Inflation breached the 6% upper-target of the central bank early in 2022, and at the time of the forecast, Absa projected inflation to average 6.8% year-on-year in 2022 and to average 5.3% in 2023 before returning to the middle of the 3-6% target from 2025.

The South African Reserve Bank responded to higher South African inflation and to tighter global financial conditions with 350bps in interest rate increases from November 2021 through November 2022, which is a significantly faster pace of increase than previously expected. At the time of the forecast, Absa expects the repo rate to peak at 7.5% in early 2023 before declining marginally into late 2023.

House price growth is expected to remain positive in nominal price terms but negative in CPI-adjusted terms throughout the forecast horizon.

South Africa's public finances have been on an improving path, following the immediate COVID-19-related shock, with the fiscal deficit shrinking as a proportion of GDP due to better-than-expected revenue collection and restrained expenditure growth. The Group believes that South Africa's sovereign credit rating has stabilised, but notes the downside risks to this view emanating from the electricity crisis and the poor financial performance of several large state-owned enterprises.

In February 2023, the Financial Action Task Force (FATF) announced that it had added South Africa, along with several other countries, to its 'grey list'. This development was taken into account in our baseline scenario, and Absa's view is that the grey listing is unlikely to have any significant immediate impact on the Group.

#### ARO

The economic landscape of our presence countries in ARO displays significant diversity in both geographic and economic terms. Based on a GDP-weighted analysis, Absa's projections for economic growth in the ARO region for 2022 have decreased to 4.4%, due in part to the region's stronger than anticipated performance in 2021. However, Absa's projections for economic growth in our presence countries have also been revised downwards for 2023 and the outer years of the forecast due to a number of factors, including tighter global financing conditions, geopolitical uncertainty, and country-specific challenges in Ghana and Zambia.

The persistence of global inflationary pressures in fuel and food prices has led to higher inflation in most ARO markets in 2022. This, along with tighter global financing conditions and heightened country risk premia, has resulted in policy rate increases in most of our presence countries. These challenges have made it more difficult for authorities to address fiscal deficits and improve debt sustainability, prompting some ARO countries to seek financial support from the International Monetary Fund (IMF). For example, Zambia is still dealing with its sovereign debt default, while Ghana has announced plans to restructure much of its domestic public debt in the second half of 2022.

##### 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. Judgement is applied to the point at which amortisation commences and may require a group of intangible assets to be ready as whole before amortisation can begin.

###### 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 long-term growth rate assumptions used in the impairment calculations are based on our estimates of long-term GDP, taking into account inflation, and were revised.

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

###### Impairment

The Group uses approved projected cash flow forecasts for a period of three to five years, with a terminal value thereafter. The long-term growth rate assumptions used in the impairment calculations were revised from 5% to 8% as at 31 December 2021 to **5% to 6%** at 31 December 2022. The discount rates used have been adjusted from 12.5% to 22% as at 31 December 2021 to **11% to 25%** at 31 December 2022. 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.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

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

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

##### 1.2.3 Fair value measurements

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values should be first calculated with reference to observable inputs where these are available in the market. Only where these are unavailable should fair value techniques be applied which employ less observable inputs. Unobservable inputs may only be used where observable inputs or less observable inputs are unavailable. IFRS 13 Fair Value Measurement (IFRS 13) does not mandate the use of a particular valuation technique but rather sets out a principle requiring an entity to determine a valuation technique that is appropriate in the circumstances for which sufficient data is available and for which the use of relevant observable inputs can be maximized. 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). Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations as well through employing other analytical techniques.

##### Financial assets and financial liabilities

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

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

##### Investment properties

The fair value of investment properties is determined based on the most appropriate methodology applicable to the specific property. Methodologies include the market comparable approach that reflects recent transaction prices for similar properties, discounted cash flows and income capitalisation methodologies. In estimating the fair value of the properties, the highest and best use of the properties is taken into account. Where possible, the fair value of the Group's investment properties is determined through valuations performed by qualified independent external valuers.

When the Group's internal valuations are different to that of the independent external valuers, 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.

##### Commodities

The determination of the fair value of commodities uses external data, which includes quoted prices on an active market.



## Accounting policies

for the reporting period ended 31 December

### 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 via reference to quoted market prices for similar instruments or by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs. Also included in equity instruments are non-public investments, which include investments in venture capital organisations. The fair value of these investments is determined using appropriate valuation methodologies which, depending on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price to earnings comparisons. The relevant methodology for each investment is applied consistently over time.
- **Derivatives**  
Derivative contracts can be exchange-traded or traded Over The Counter (OTC). OTC derivative contracts include forward, swap and option contracts related to interest rates, bonds, foreign currencies, credit spreads, equity prices and commodity prices or indices on these instruments. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and pricing models.
- **Loans and advances**  
The fair value of loans and advances is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.
- **Deposits, debt securities in issue and borrowed funds**  
Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives.

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

#### Fair value adjustments

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

- **Bid-offer valuation adjustments**  
For assets and liabilities where the Group is not a market maker, mid prices are adjusted to bid and offer prices respectively unless the relevant mid prices are reflective of the appropriate exit price as a practical expedient given the nature of the underlying instruments. Bid-offer adjustments reflect expected close out strategy and, for derivatives, the fact that they are managed on a portfolio basis. The methodology for determining the bid-offer adjustment for a derivative portfolio will generally involve netting between long and short positions and the bucketing of risk by strike and term in accordance with the hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the Group is a market maker and has the ability to transact at, or better than, mid-price (which is the case for certain equity, bond and vanilla derivative markets), the mid-price is used.
- **Uncollateralised derivative adjustments**  
A fair value adjustment is incorporated into uncollateralised derivative valuations to reflect the impact on fair value of counterparty credit risk, as well as the cost of funding across all asset classes.
- **Model valuation adjustments**  
Valuation models are reviewed under the Group's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependent on the size of 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.

## Accounting policies

for the reporting period ended 31 December

### 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 assets/liabilities	Valuation techniques applied	Significant observable inputs
<b>Cash, cash balances and balances with central banks</b>	Discounted cash flow models	Underlying price of market traded instruments and/or interest rates
<b>Trading and hedging portfolio assets and liabilities</b>		
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	Spot price, interest rate curves, repurchase agreements, money market curves and/or volatilities.
Interest rate derivatives	Discounted cash flow and/or option pricing models	Interest rate curves, repurchase agreement curves, money market curves and/or volatility
Money market assets	Discounted cash flow models	Money market curves and/or interest rates
Loans and advances	Discounted cash flow models	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	Discounted cash flow models	Interest rates and/or money market curves
Debt securities in issue and other liabilities	Discounted cash flow models	Underlying price of market traded instruments and/or interest rate curves

## Accounting policies

for the reporting period ended 31 December

### 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

##### 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 assets/liabilities	Valuation techniques applied	Significant unobservable inputs	2022 Range of unobservable inputs applied	2021 unobservable inputs applied
Loans and advances	Discounted cash flow models and/or yield for debt instruments	Credit spreads	0.035% to 3.21%	0.4% to 3.7%
Investment securities	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Risk adjusted yield curves, future earnings, marketability discounts and/or competitor multiples	Discount rate of 8.5%	8.5%
<b>Trading and hedging portfolio assets and liabilities</b>				
Debt instruments	Discounted cash flow models	Credit spreads	0.305% to 4.020%	0.04% to 4.55%
Derivative assets				
Credit derivatives	Discounted cash flow and/or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or, quanto ratio	0.1% to 24.22% 15% to 82.3% 49% to 100%	0.035% to 4.502% 15% to 93.2% 54% to 100%
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Volatility and/or dividend streams (greater than 3 years)	16.4% to 38.9%	17.77% to 68.49%
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	African basis curves (greater than 1 year)	5.03% to 40%	0.88% to 20%
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	0.05% to 9.395%	0.052% to 7.3%
Deposits	Discounted cash flow models	Absa Group Limited's funding spreads (greater than 5 years)	1.150% to 1.575%	1.15% to 1.6%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	1.150% to 1.575%	1.13% to 1.7%
Investment Properties	Discounted cash flow models	Estimates of the periods in which rental units will be disposed	1 to 6 years	1 to 6 years
		Annual selling price	6% to 8%	6% to 8%
		Income capitalisation rates	8% to 8.5%	8.5%
		Risk adjusted discount rates	10% to 15%	10% to 15%

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

For debt securities in issue held at amortised cost, a further significant input would be the underlying price of the market traded instrument, refer to note 60.8.

The sensitivity of a fair value measurement is correlated with the extent of reliance which is required to be placed on unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on fair values.

A majority of the items included in the non-current assets held for sale balance consists of financial instruments which are measured in terms of their respective standards (IFRS 9).

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

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

##### 1.2.4 Consolidation of structured or sponsored entities

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

##### Definition of a structured entity (SE)

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

##### Assessment of agent versus principal

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

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

##### Assessment of sponsored entities

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

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

Refer to notes 48 and 49.

## Accounting policies

for the reporting period ended 31 December

### 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

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 being 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.

##### Measurement risk

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

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

##### Regulatory risk

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

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

##### 1.2.6 Provisions

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

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

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

##### 1.2.10 Liabilities arising from claims made under life insurance contracts

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

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

The Group provides short-term and long-term insurance in South Africa and in Absa Regional Operations. The Group has assessed the carrying

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

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

##### 1.2.10 Liabilities arising from claims made under life insurance contracts (continued)

value of these insurance liabilities as at 31 December 2022 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 2022 when compared to 31 December 2021.

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 2022 when compared to 31 December 2021.

##### 1.2.11 Offsetting financial assets and financial liabilities

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

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

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

##### 1.2.12 Translation of foreign currencies

In instances where the Group would be unable to repatriate funds from foreign subsidiaries at official published rates, it translates balances based on the spot rate at year end that the Group is able to access, should it wish to repatriate the funds at that date. For more detail, refer to Note 62.6.

### 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.

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

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

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

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

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

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

Investments in subsidiaries are accounted for at cost less impairment in the separate financial statements of the investor. The cost of these investments are assessed for impairment when there are indicators that an impairment may have occurred. Where an indicator of impairment exists, the recoverable amount of the investment is calculated and an impairment loss is recognised to the extent that the recoverable amount of the investment is less than its cost.



## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.3.2 Investments in associates and joint ventures

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

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

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

#### 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 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 previously included in the financial statements 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. The Group announced a refinement to its operating model, which is effective from 01 July 2022. This change is part of the Group's journey to enhance market competitiveness with due consideration to its transformation imperative. In essence, the Group will move from two commercial businesses, Corporate and Investment Bank (CIB) Pan-Africa and Retail and Business Banking (RBB) Pan-Africa, to five business units (Everyday Banking, Relationship Banking, Product Solutions, CIB Pan-Africa and RBB Absa Regional Operations).

### 1.5 Foreign currencies

#### 1.5.1 Foreign currency translations

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

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

#### 1.5.2 Foreign currency transactions

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

At each subsequent reporting date:

- foreign currency monetary amounts 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; and
- 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.



## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 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, for regular way transactions, on trade 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 Financial instruments (continued)

##### 1.7.2 Day one profits or losses

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

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

##### 1.7.3 Classification and measurement of financial instruments

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

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

The classification and subsequent measurement of financial assets depends on:

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

##### Business model assessment

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

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

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

##### 1.7.3.1 Debt Instruments

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

**Amortised cost** – Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows, where the contractual cash flows on the instrument are SPPI, and that are not designated at fair value through profit or loss. These financial assets are subsequently measured at amortised cost where interest is recognised as "Effective interest" within "Interest and similar income" using the EIR method. The carrying amount is adjusted by the cumulative ECL recognised.

**Fair value through other comprehensive income** – This classification applies to financial assets which meet the SPPI test, and are held within a portfolio whose objectives include both the collection of contractual cash flows and the selling of financial assets. These financial assets are subsequently measured at fair value with movements in the fair value recognised in other comprehensive income, with the exception of interest income, ECL and foreign exchange gains and losses which are recognised within profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to "Gains and losses from banking and trading activities" in profit or loss. Interest income from these financial assets is included as "Effective interest" within "Interest and similar income" using the EIR method.

**Fair value through profit or loss** – Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value through profit or loss. Gains and losses on these instruments are recognised in "Gains and losses from banking and trading activities" in profit or loss. The Group may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, as at fair value through profit or loss, if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise. These will be subsequently measured at fair value through profit or loss with gains and losses recognised as "Gains and losses from banking and trading activities" or "Gains and losses from investment activities" in profit or loss.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.7 Financial instruments (continued)

##### 1.7.3 Classification and measurement of financial instruments (continued)

###### 1.7.3.2 Equity instruments

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

###### 1.7.3.3 Financial liabilities

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

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

###### 1.7.3.4 Derivatives

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

##### 1.7.4 Expected credit losses on financial assets

The Group recognises ECL based on unbiased forward-looking information. ECL is recognised on all financial assets measured at amortised cost, lease receivables, debt instruments at fair value through other comprehensive income, loan commitments 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. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Interest is calculated on stage 1 and stage 2 assets based on the gross carrying amount of the asset, whilst interest income on stage 3 assets is calculated based on the net carrying value (that is, net of the impairment losses) remaining contractual interest on stage 3 assets is recognised as part of the impairment allowance raised against these assets.

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.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.7 Financial instruments (continued)

##### 1.7.4 Expected credit losses on financial assets (continued)

##### Three-stage approach to ECL (continued)

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 guided by the Bank's regulatory definition of default. An instrument is credit impaired when there is objective evidence of impairment at the reporting date. Purchased or originated credit impaired lending facilities are classified on origination within stage 3. Defaulted assets are considered to be cured once the original event triggering default no longer applies, and the defined probation period (that is, the required consecutive months of performance) have been met. In the Retail portfolio, the cure definition applied is quite stringent, and assets will typically only cure from stage 3 to stage 2, but won't move directly from stage 3 to stage 1. In the Wholesale portfolio assets can move from stage 3 directly to stage 1.

##### Expected credit loss calculation

The measurement of ECL reflects:

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

As noted ECL comprises the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. ECL is calculated (for both 12 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. 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 macro-economic scenarios that are either reflected in estimates of PD and LGD for material portfolios; or adjusted through expert credit judgement where the effects cannot be statistically modelled.

##### Write-off

The gross carrying amount of a financial asset is directly reduced (that is, written off) when the entity has no reasonable expectations of recovering it in its entirety, or a portion thereof. The corresponding impairment allowance is also reduced. This reduction occurs when the asset is a stage 3 financial asset. 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.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.7 Financial instruments (continued)

##### 1.7.4 Expected credit losses on financial assets (continued)

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

- The exposure is unsecured i.e. there is no tangible security the Group can claim against (excluding suretyships);
- The debt has prescribed; and
- 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 within credit impairment charges in the statement of comprehensive income as and when the cash is received.

##### 1.7.5 Derecognition of financial assets and financial liabilities

###### 1.7.5.1 Derecognition of financial assets

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

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

###### 1.7.5.2 Derecognition of financial liabilities

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

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

##### 1.7.6 Modification of financial assets and financial liabilities

###### 1.7.6.1 Modification of financial assets

Modifications to financial assets are assessed as follows:

- A loan modification is a permanent change to one or more of the terms of the loan. Enforcing or adopting terms that were present in the original terms of the facility is not a modification. The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depend on whether the modification is done for commercial reasons or because of financial difficulty of the borrower.
- Contractual modifications on commercial terms are treated as a new transaction and result in derecognition of the original financial asset, only to the extent that the modification is substantial, 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 the resulting modification gain/loss is recognised in profit or loss as part of the total impairment loss. Modification gain or losses typically occur on stage 2 and 3 assets.

###### 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 IAS 39 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.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.7 Financial instruments (continued)

##### 1.7.8 Hedge accounting (continued)

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

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

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

##### Fair value hedge accounting

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

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

##### Cash flow hedge accounting

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

##### Hedges of a net investment in a foreign operation

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

#### 1.7.9 Equity Instruments

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

##### 1.7.10 Compound financial instruments

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

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

##### 1.7.11 Subordinated debt

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

##### 1.7.12 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.



## Accounting policies

for the reporting period ended 31 December

### 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 authorized and are no longer at the discretion of the entity.

##### 1.8.2 Preference share capital

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

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

#### 1.9 Revenue recognition

##### 1.9.1 Net interest income

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

Commitment fees are typically received by the Group in return for loan commitments issued. For loan commitments where drawdown is probable, the fee will be recognised as deferred income on balance sheet and subsequently recognised as an adjustment to EIR on the loan upon drawdown. The remaining portion will continue to be deferred until further loan drawdown takes place or else be recognised as fee income when the loan commitment expires without being drawn. To the extent that the drawdown of the loan commitment is not probable, the commitment fee is regarded as compensation for the provision of a service and is amortised to profit or loss as fee income over the loan commitment period. Commitment fees charged based on unutilised or undrawn amounts is accrued as fee income based on the actual undrawn amount.

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.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

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

#### 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.

In assessing whether the Group is acting as a principal or agent to the transaction, consideration is given to the rights held by other parties against the Group and the Group's exposure to risks and rewards. Evidence that suggests that the Group is acting as an agent include:

- Minimal legal obligations owing to the buyer and seller;
- No liability for the non-performance of obligations by its clients and/or the market counterparties under the transactions executed.
- The immediate and entire transfer of any risks and rewards to the other party with no residual exposure retained;
- No exposure to client or market counterparty credit risk arising from amounts receivable;
- The nature and amount of remuneration received.

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

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

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

#### 1.10 Classification of insurance and investment contracts

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

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

##### 1.10.1 Insurance contracts

###### 1.10.1.1 Short-term insurance contracts

###### Revenue recognition and measurement

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

###### Claims and loss adjustment

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

###### Liability adequacy test

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

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

###### Deferred policy acquisition costs

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

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

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

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

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

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.10.1 Insurance contracts (continued)

##### 1.10.1.1 Short-term insurance contracts (continued)

##### Deferred reinsurance acquisition revenue

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

#### 1.10.1.3 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. Liabilities are revalued assuming that no reinsurance is ceded.



## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 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 contracts are capitalised to a deferred acquisition cost asset and amortised to profit or loss over the term of the contract.

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

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

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

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

#### 1.11 Commodities

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

#### 1.12 Intangible assets

##### 1.12.1 Goodwill

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

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

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

In accordance with the requirements of IAS 36, goodwill is tested for impairment on an annual basis, or more frequently when there are indications that an impairment may have occurred. Impairment is tested by comparing the carrying amount of the cash-generating unit (CGU), including the goodwill, with the recoverable amount of the CGU. If the recoverable amount of the CGU exceeds its carrying amount, the CGU and the goodwill

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

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 Intangible assets (continued)

##### 1.12.1 Goodwill (continued)

##### 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 based on value in use. Any impairment loss identified is recognised immediately in profit or loss.

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

#### 1.13 Property and equipment

##### 1.13.1 Property and equipment not subject to lease agreements

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

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

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

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

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

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.13 Property and equipment (continued)

##### 1.13.1 Property and equipment not subject to lease agreements (continued)

##### 1.13.2.1 Property and equipment subject to lease agreements (continued)

##### *As lessor*

##### **Finance leases**

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

##### **Operating leases**

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

##### 1.13.3 Investment properties

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

#### 1.14 Repossessed properties

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

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

#### 1.15 Non-current assets held for sale

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

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

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

#### 1.16 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises coins and notes, call advances, mandatory reserve balances held with the SARB and other central banks as well as nostro balances. 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

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.17 Provisions, contingent liabilities and commitments (continued)

single exposure. The EAD on the entire facility is therefore used to calculate the cumulative ECL. As a result, the total ECL is recognised in the ECL allowance in respect of the financial asset unless the total allowance exceeds the gross carrying amount of the financial asset. If this is the case, the excess ECL is recognised as a provision on the face of the statement of financial position.

#### 1.18 Employee benefits

##### 1.18.1 Post-retirement benefits

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

##### Defined contribution schemes

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

##### Defined benefit schemes

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

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

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

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

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

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

##### Post-employment medical aid plans

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

##### 1.18.2 Staff costs

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

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

##### 1.18.3 Share-based payments

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

##### Employee services settled in equity instruments

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

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

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the value 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.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.19 Tax

##### 1.19.1 Current tax

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

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

##### 1.19.2 Deferred tax

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

##### 1.19.3 Dividends withholding tax

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

##### 1.19.4 Value added tax (VAT)

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

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

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

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

#### 1.20 Treasury shares

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

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.21 Reporting changes overview

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

##### 1.21.1 Change in accounting policy for Cash and cash equivalents

The IFRS Interpretation Committee published an agenda decision on 'Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7 Statement of cash flows) – Agenda Paper 3' in April 2022. Based on the afore-mentioned agenda decision, the Statement of cash flows of the Group has been reviewed and it was concluded that the mandatory reserves with the SARB and other central banks should be included as 'Cash and cash equivalents' in the Statement of cash flows. The portion which is included in cash and cash equivalents is that which can be utilised by the Group. This is calculated by applying the percentage that is accessible to the Group in accordance with the regulatory terms.

As required by IAS 8, the afore-mentioned changes have been applied retrospectively to all prior periods affected. These changes in accounting policy do not have an impact on the Statement of comprehensive income, Statement of financial position, Statement of changes in equity, or earnings per share of the Group.

The impact of the afore-mentioned restatements is as follows:

31 December 2021					
Statement of cash flows	As previously reported	Accounting policy change Mandatory reserve balances with the SARB and other central banks	Correction of prior period errors (refer to note 1.21.2 below)		
	Rm	Rm	Nostros	Short-dated money market instruments	Restated
	Rm	Rm	Rm	Rm	Rm
Cash and cash equivalents	20 318	27 009	13 852	1 695	62 874
Net increase/(decrease) in other assets	(2 694)	3 655	-	(512)	449
Net increase in loans and advances	(64 279)	-	(3 118)	-	(67 397)
Net cash generated from operating activities	6 475	3 655	(3 118)	(512)	6 500

1 January 2021					
Statement of cash flows	As previously reported	Accounting policy change Mandatory reserve balances with the SARB and other central banks	Correction of prior period errors (refer to note 1.21.2 below)		
	Rm	Rm	Nostros )	Short-dated money market instruments	Restated
	Rm	Rm	Rm	Rm	Rm
Cash and cash equivalents	16 796	25 049	15 275	2 207	59 327

##### 1.21.2. Correction of prior period errors

###### Nostros and short-dated money market instruments in the Statement of cash flows

As part of the review of what constitutes Cash and cash equivalents, it was identified that nostro balances with foreign banks and short-dated money market instruments were incorrectly excluded from Cash and cash equivalents and the Statement of cash flows has subsequently been corrected. Refer to note 1.21.1 above for the impact of the afore-mentioned restatement. As required by IAS 8, the afore-mentioned changes have been applied retrospectively to all prior periods affected. These errors have no impact on the Statement of comprehensive income, Statement of financial position, or earnings per share of the Group.

###### Trading and Hedging portfolio assets and liabilities and debt securities in the Statement of financial position

In terms of the Group's accounting policy, movements in the fair value of collateral held on certain over the counter (OTC) derivative contracts are, in terms of the requirements of IAS 32, required to be offset against the related derivative market-to-market movement and presented on a net basis on the Statement of financial position. Certain movements in the fair value of the collateral linked to the Group's hedging strategy were historically reported as part of Trading portfolio assets and Trading portfolio liabilities, as opposed to Hedging portfolio assets and Hedging portfolio liabilities, respectively. These items have been adjusted to correctly set off derivative movements from movements in collateral in terms of the requirements of IAS 32.

Furthermore, as part of the Group's ongoing process to improve financial controls and processes, it was identified that the fair value of certain credit linked note (CLN) instruments had been incorrectly recognised as part of Trading portfolio assets, as opposed to Debt securities in issue.

As required by IAS 8, the afore-mentioned changes have been applied retrospectively to all prior periods affected. These errors have no impact on the Statement of comprehensive income, Statement of changes in equity, or earnings per share of the Group.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### Trading and Hedging portfolio assets and liabilities and debt securities in the Statement of financial position (continued)

The impact of the afore-mentioned restatements on the Statement of financial position and Statement of cash flows are as follows:

Statement of financial position	31 December 2021			Restated Rm
	As previously reported Rm	OTC derivatives Rm	Fair value on CLNs Rm	
<b>Assets</b>				
Trading portfolio assets	203 079	1 462	(1 301)	203 240
Hedging portfolio assets	5 159	(1 462)	-	3 697
<b>Liabilities</b>				
Trading portfolio liabilities	(72 819)	( 749)	-	(73 568)
Hedging portfolio liabilities	(3 659)	749	-	(2 910)
Debt securities in issue	( 131 076)	-	1 301	( 129 775)

Statement of financial position	1 January 2021			Restated Rm
	As previously reported Rm	OTC derivatives Rm	Fair value on CLNs Rm	
<b>Assets</b>				
Trading portfolio assets	213 521	3 525	(1 293)	215 753
Hedging portfolio assets	11 000	(3 525)	-	7 475
<b>Liabilities</b>				
Trading portfolio liabilities	(108 976)	145	-	( 108 831)
Hedging portfolio liabilities	( 4 868)	( 145)	-	( 5 013)
Debt securities in issue	( 145 740)	-	1 293	( 144 447)

Statement of cash flows	31 December 2021		Restated Rm
	As previously reported Rm	Correction of prior period error Rm	
Net increase in trading and hedging portfolio assets	12 653	7	12 660
Net decrease in other liabilities	( 2 693)	( 7)	( 2 700)



## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.21.3 Changes to reportable segments and business portfolios

##### Reportable segment changes

The Group has changed its operating model, effective 1 July 2022. This change is part of the Group's journey to enhance market competitiveness, while also improving its transformation position. In essence, the Group has moved from two commercial businesses, Corporate and Investment Banking (CIB) Pan-Africa and Retail and Business Banking (RBB) Pan-Africa, to five business units (Everyday Banking, Relationship Banking, Product Solutions, CIB Pan-Africa and Absa Regional Operations RBB).

##### Business portfolio changes

Business portfolio changes below resulted in the restatement of the business units' and geographical financial results for comparative periods but have had no impact on the overall financial position or net earnings of the Group.

- a. Costs related to business units have been reallocated between the relevant segments, resulting in an adjustment to operating expenses and other expenses between segments.

	As previously reported	Business portfolio changes	2021 Reportable segment changes	Restated
Statement of comprehensive income	Rm	Rm	Rm	Rm
<b>Operating expenses</b>				
RBB	(35 110)	-	35 110	-
Product Solutions Cluster	n/a	(560)	(5 340)	(5 900)
Everyday Banking	n/a	603	(13 916)	(13 313)
Relationship Banking	n/a	111	(7 568)	(7 457)
ARO RBB	n/a	(213)	(8 286)	(8 499)
CIB	(11 138)	(79)	-	(11 217)
Head Office, Treasury and other operations	(1 164)	138	-	(1 026)
<b>Other expenses</b>				
RBB	(1 199)	-	1 199	-
Product Solutions Cluster	n/a	-	(272)	(272)
Everyday Banking	n/a	-	(439)	(439)
Relationship Banking	n/a	-	(52)	(52)
ARO RBB	n/a	(27)	(436)	(463)
CIB	(325)	(2)	-	(327)
Head Office, Treasury and other operations	(723)	29	-	(694)

- b. The following re-allocations occurred within total income:
- Revenue received from Islamic Banking in Everyday Banking was aligned to Group's accounting policy and therefore eliminated the adjustment required in Head Office.
  - Group Treasury refined its allocation methodology to better reflect the underlying performance of the relevant business units which resulted in the reallocation of net interest income.

	As previously reported	Business portfolio changes	2021 Reportable segment changes	Restated
Statement of comprehensive income	Rm	Rm	Rm	Rm
<b>Total income</b>				
RBB	60 095	-	(60 095)	-
Product Solutions Cluster	n/a	197	11 299	11 496
Everyday Banking	n/a	437	23 638	24 075
Relationship Banking	n/a	448	13 265	13 713
ARO RBB	n/a	(253)	11 893	11 640
CIB	23 105	761	-	23 866
Head Office, Treasury and other operations	(2 673)	(1 590)	-	1 083

- c. Portions of the Commercial Property Finance portfolio were moved between Relationship Banking and CIB to align with client portfolio segmentation.



## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### Business portfolio changes (continued)

2021

	As previously reported Rm	Business portfolio changes Rm	Reportable segment changes Rm	Restated Rm
<b>Statement of financial position</b>				
<b>Loans and advances to customers</b>				
RBB	618 194	(109)	(618 085)	-
Product Solutions Cluster	-	-	368 351	368 351
Everyday Banking	-	-	60 405	60 405
Relationship Banking	-	-	125 603	125 603
ARO RBB	-	-	63 726	63 726
CIB	398 418	109	-	398 527

- d. The reallocations as described in (a) to (b) above, resulted in the following adjustments to the related intercompany balances, which are reported in Other assets and Other liabilities:

2021

	As previously reported Rm	Business portfolio changes Rm	Reportable segment changes Rm	Fair value correction of CLNs (refer to note 1.12.2)	Restated Rm
<b>Statement of financial position</b>					
<b>Other assets</b>					
RBB	519 465	-	(519 465)	-	-
Product Solutions Cluster	n/a	1	58 631	-	58 632
Everyday Banking	n/a	972	291 786	-	292 758
Relationship Banking	n/a	946	115 942	-	116 888
ARO RBB	n/a	143	53 106	-	53 249
CIB	495 574	(558)	-	(1 301)	493 715
Head Office, Treasury and other operations	(658 900)	(1 503)	-	-	(660 403)
<b>Debt securities in issue</b>					
RBB	(84)	-	84	-	-
ARO RBB	n/a	-	(84)	-	(84)
CIB	(19 289)	-	-	1 301	17 989
<b>Other liabilities</b>					
RBB	602 526	-	(602 526)	-	-
Product Solutions Cluster	n/a	494	441 638	-	442 132
Everyday Banking	n/a	(410)	85 385	-	84 975
Relationship Banking	n/a	144	56 493	-	56 637
ARO RBB	n/a	574	19 010	-	19 584
CIB	482 617	(1 333)	-	-	481 284
Head Office, Treasury and other operations	(896 197)	531	-	-	(895 665)
<b>Other liabilities</b>					

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.22 New standards and interpretations not yet adopted

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

##### 1.22.1 IFRS 17 – Insurance Contracts

IFRS 17 – Insurance contracts (IFRS 17 or the Standard), which replaces IFRS 4 – Insurance contracts (IFRS 4) requires retrospective application and is effective for annual reporting periods starting on or after 1 January 2023. The Group has opted not to early adopt the Standard and the transition period therefore commenced from 1 January 2022.

##### *Estimated impact of the adoption of the Standard*

Comparatives will be restated on adoption of the Standard and the Group has therefore assessed the estimated impact that the initial application of IFRS 17 will have on its financial results. Based on preliminary assessments, initial application of the Standard will result in an increase of the Group's total equity as at 1 January 2022. The final impact will however only be certain on finalisation of the following transition work:

- Continued refinement of the new accounting processes and internal controls in applying the new Standard;
- Embedment of new systems and associated controls, which has been running in parallel from the second half of 2022;
- Finalisation of testing and assessment of controls over new IT systems and changes to its governance framework, which have been implemented as a result of the new Standard;
- New accounting policies, assumptions, judgements and estimation techniques are subject to change until finalisation of the Group's financial statements which will include initial application of the Standard; and
- Assessment of tax due to amended tax laws.

##### *Identifying contracts in the scope of the Standard*

The Standard 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 (DPF). The Standard aims to bring a greater degree of comparability and transparency about an insurer's financial health and the profitability of new and in-force insurance business. The Group's contracts recognised as insurance contracts under IFRS 4, remain largely the same under the new Standard.

##### *Level of aggregation:*

Under the Standard, insurance contracts are aggregated into different groups for measurement purposes. Groups of contracts are determined by first identifying portfolios of contracts, each comprising contracts subject to similar risks and managed together. Contracts in different product lines or issued by different Group entities are expected to be in different portfolios. Each portfolio is then divided into annual cohorts (i.e., by year of issue), whereafter each annual cohort are classified into one of the following three groups:

- Contracts that are onerous on initial recognition;
- Contracts that have no significant possibility of becoming onerous after initial recognition; or
- Remaining contracts in the annual cohort.

When a contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts may be added. Groups of reinsurance contracts are established such that a group may comprise a legal contract(s) with a single reinsurer.

The level of aggregation requirements of the Standard limits the offsetting of gains on groups of profitable contracts, which are generally deferred, against losses on groups of onerous contracts, which are recognised immediately.

The Standard results in a more granular level of aggregation at which the liability adequacy test is performed compared to IFRS 4, which refers to portfolios of contracts level, and it is expected to result in more contracts being identified as onerous and losses on onerous contracts being recognised earlier.

##### *Contract boundaries*

The Standard requires that the measurement of a group of contracts includes all the future cash flows within the boundary of each contract within the group. It further defines the 'coverage period' as the period during which the entity provides coverage and which is covered by the premiums within the contract boundary. The Group expects that for certain contracts this requirement will change the scope of cash flows to be included in the measurement of existing recognised contracts, as opposed to future unrecognised contracts. The period during which the entity provides coverage, and which is covered by the premiums within the contract boundary is the "coverage period", which is relevant when applying a number of requirements in IFRS 17.

##### Insurance contracts:

Cash flows for insurance contracts are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay premiums or has a substantive obligation to provide insurance contract services. A substantive obligation to provide services ends when the Group has the practical ability to reassess the following risks:

- the risk of the policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio. The pricing of the premiums up to the assessment date should not consider risks that relate to periods after the reassessment date.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.22.1 IFRS 17 – Insurance Contracts (continued)

*Reinsurance contracts:*

Cash flows for re-insurance contracts are within the boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

#### **Measurement overview**

The Standard introduces the general measurement model (GMM) that measures groups of insurance contracts based on fulfilment cash flows (see section on measurement of insurance contracts using GMM). The use of this measurement model involves a significant degree of estimates and judgements in measuring a group of insurance contracts, such as methods used to determine the risk adjustment and discount rate and has specific modifications applicable to accounting for reinsurance- and direct participating contracts. The GMM will largely be applied to the Group's life insurance contracts.

The premium allocation approach (PAA) is a simplified measurement model that may be applied when the following conditions are fulfilled:

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

The PAA allows for the amount relating to the remaining service to be measured by allocating the premium over the coverage period. This measurement model is more simplified and also provides for a more cost-effective option as opposed to the GMM and will mainly be applied to the Group's non-life insurance contracts and group life policies.

#### Contracts measured using GMM:

On initial recognition, the Group will measure a group of contracts based on fulfilment cash flows comprising of:

- (a) Probability-weighted estimates of expected cash flows from premiums, claims and benefits within the contract boundary, including directly attributable expenses to determine the expected value of a range of scenarios that reflects the full range of possible outcomes. The cash flows from each scenario will be discounted and weighted by the estimated probability of that outcome to derive an expected present value.
- (b) An explicit entity specific adjustment for non-financial risk (risk adjustment).
- (c) An adjustment for the time value of money using a discount rate appropriate to that group of contracts and the contractual service margin (CSM), which represents the unearned profit for the group of contracts. A group of insurance contracts is not onerous when on initial recognition the fulfilment and any cash flows arising at that date result in a net inflow, in which case the CSM is measured as the equal and opposite of the net inflow. The group is seen as onerous when the output of the aforementioned calculation results in a net outflow. A loss component will be created and recognised in profit or loss immediately to depict the amount of the net cash outflow.

Subsequently, the carrying amount of a group of contracts at each reporting date is the sum of the liability for remaining coverage (LRC) and the liability for incurred claims (LIC).

The LRC comprises the fulfilment cash flows that relate to services that will be provided under contracts in future periods and any remaining CSM at the reporting date. The CSM at the reporting date is the carrying amount at the beginning of the year adjusted for any new contracts added to the group in the current year, accretion of interest, changes in fulfilment cash flows that relate to future services, changes specific to foreign exchange differences and the amount of CSM released as revenue.

The LIC represents the Group's obligation to investigate and pay valid claims for insured events that have occurred, including events that have occurred but for which claims have not been reported, as well as other incurred insurance expenses. Additionally, it also relates to the Group's obligation to pay amounts for insurance services already provided, investment components and other amounts that are not related to the provision of insurance contract services. The LIC thus represents the expired risk of the Group and is calculated as:

- the probability weighted estimate of expected cash flows; and
- an explicit entity specific adjustment for non-financial risk (risk adjustment).

The Group will only discount its liabilities for unpaid claims where the claims balance includes long-dated claims that extend over twelve months. The Group estimates the LIC estimated using the input of assessments for individual cases reported and statistical analyses.

#### **Impact assessment**

IFRS 4, provided limited guidance on the profit recognition profile of insurance contracts and the Group followed a conservative approach, resulting in more profits being recognised later during the contract duration. Adoption of the Standard will result in different timing or profit recognition, as profits will be realised as and when services are provided. This will result in a decrease of insurance contract liabilities on adoption and profits emerging faster going forward.

#### Measurement of insurance contracts using PAA

The Group will only apply the PAA for insurance contracts with a contract boundary of one year or less. Under the PAA, the LRC is determined as the premiums received less acquisition cost cash flows, where applicable. Insurance acquisition cash flows for life contracts recognised using PAA will be expensed immediately in profit or loss when incurred, whilst such cash flows will be deferred for the short-term business. Subsequently, the LRC is increased for any premiums received and reduced by the amount of insurance revenue recognised in profit or loss.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.22.1 IFRS 17 – Insurance Contracts (continued)

##### Measurement of insurance contracts using PAA (continued)

The Group expects that the time between providing each part of the services and the related premium due date will be no more than a year. Accordingly, as permitted under IFRS 17, the Group will not adjust the LRC to reflect the time value of money and the effect of financial risk for these contracts.

The LIC for contracts measured using the PAA will be determined in the same manner as that for contracts measured using the GMM with the impact of discounting taken into account.

##### **Impact assessment:**

The Group estimates that, on adoption of IFRS 17, the impact of these changes (before tax) is an immaterial increase in the Group's total equity at 1 January 2022 owing to change in the deferred acquisition cost treatment.

##### Measurement of reinsurance contracts

The carrying amount of a group of reinsurance contracts is the sum of the assets for remaining coverage and the asset for incurred claims. The Group applies the GMM except when reinsurance contracts is eligible for measurement under the PAA (i.e., when the contract boundary is one year or less).

In applying the GMM to the Group's reinsurance contracts, the Group measures the estimate of the present value of future cash flows using cash flows that would only relate to the reinsurance contract and includes the directly attributable expenses with an adjustment for any risk of non-performance by the reinsurer. The risk adjustment for non-financial risk is the amount of risk being transferred by the Group to the reinsurer. The way it is calculated for reinsurance is aligned to the respective methodologies applied to the insurance contracts measured under the GMM and PAA models.

A negative CSM on initial recognition of reinsurance contracts is allowed, as a margin is payable to the reinsurer. The CSM is further adjusted for a portion of the income that will be recognised to offset the loss on the underlying onerous contracts. The adjustment is calculated by multiplying the loss recognised on the underlying contract by the percentage of claims relating to the underlying contracts that the entity expects to recover from the group of reinsurance contracts held. This adjustment is only allowed if the reinsurance contract existed at the same time as the underlying contract.

The discount rate used for reinsurance contracts held is determined in the same manner as that applied to a group of insurance contract liabilities.

##### Measurement of insurance acquisition cash flows

Insurance acquisition costs comprise of commissions and other variable costs arising from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Insurance acquisition cash flows that are directly attributable to a group of contracts are allocated only to that group and to the groups that will include renewals of those contracts.

When the Group defers insurance acquisition cash flows for insurance contracts measured using the GMM or PAA these acquisition costs are amortised to profit or loss in a systematic way, on the passage of time basis as part of insurance service expenses.

Deferred insurance acquisition costs are reviewed by category of business at the end of each reporting period or more frequently, when an indication of impairment arises. If facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired, the Group:

- (a) recognises an impairment loss in profit or loss so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group; and
- (b) if the asset relates to future renewals, recognises an impairment in profit or loss to the extent that it expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals and the excess has not already been recognised as an impairment loss under (a).

Impairment losses are reversed through profit or loss, and the carrying amount of the asset increased to the extent that the impairment conditions have improved.

##### Significant judgements and estimates applied during the measurement process

#### Estimates of future cash flows

When estimating future cash flows, the Group will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience updated to reflect current expectations of future events.

The estimates of future cash flows will reflect the Group's view of current conditions at the reporting date, if the estimates of any relevant market variables are consistent with observable market prices. Cash flows within the boundary of a contract are those that relate directly to the fulfilment of the contract, including those for which the Group has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows as well as other direct costs and/or an allocation of fixed and variable overheads that are incurred in fulfilling contracts.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.22.1 IFRS 17 – Insurance Contracts (continued)

##### Discount rates

The Group adjusts the estimates of future cash flows to reflect the time value of money and the financial risks related to those cash flows, to the extent that the financial risks are not included in the estimates of cash flows. The discount rates applied to the estimates of the future cash flows:

- reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;
- are consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity; and
- exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

The Group applies the bottom-up approach in determining the discount rate for both life and non-life insurance contracts, by determining the discount rates by adjusting a liquid risk-free yield curve to reflect the differences between the liquidity characteristics of the financial instruments that underpin the rates observed in the market and the liquidity characteristics of the insurance contracts.

The Group's South African entities apply a discount rate that is derived from internally calculated swap curves while the ARO entities apply a yield curve in line with the current valuation methodology.

The discount rate is applied throughout the measurement of a group of insurance contracts as follows:

Measurement	Discount rate applied
Fulfilment cash flows	Current discount rates
CSM interest accretion for contracts without direct participation features	Discount rate determined on initial recognition for a group of insurance contracts (locked in rate)
Adjustments to the CSM for changes in fulfilment cash flows for contracts without direct participation features	Locked in rate
PAA discounting for LIC	Current discount rates

##### Risk adjustment

The estimate of the present value of the future cash flows should be adjusted to reflect the compensation for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk. Financial risk is included in the estimates of the future cash flows, or the discount rate used to adjust the cash flows.

The RA for non-financial risk of the Group's reinsurance contracts is the amount of risk being transferred by the Group to the reinsurer and is aligned to the methodologies applied to the insurance contracts measured under the GMM and PAA models.

##### CSM

The number of coverage units refers to the quantity of services provided by the contracts in a group, determined by considering for each contract the quantity of the benefits provided and its expected coverage period. The coverage units will be reviewed and updated at each reporting date. The CSM of a group of contracts is recognised in profit or loss to reflect services provided in each year and which is calculated based on the CSM that has been allocated to coverage units that have been provided in the year. The coverage units used to release the CSM for the Group are discounted and based off the total contractual sum assured for the risks insured with the entity at each valuation/reporting date, factoring in the expected duration of the contract.

##### Presentation and disclosure

The disclosure and presentation of insurance contracts, reinsurance contracts and investment contracts with DPF in the Group's statement of financial position will change as follows:

- assets and liabilities of portfolios of insurance contracts and investment contracts with DPF, as well as portfolios of reinsurance contracts will be presented separately in the statement of financial position;
- all rights and obligations arising from a portfolio of contracts will be presented on a net basis resulting in balances such as insurance receivables and payables and policyholder liabilities under insurance contracts not being presented separately
- any assets or liabilities recognised for cash flows arising before the recognition of the related group of contracts (including any assets for insurance acquisition cash flows) will also be presented in the same line item as the related portfolios of contracts.

Amounts recognised in profit or loss will be disaggregated as follows:

- insurance service result, comprising insurance revenue and insurance service expenses;
- amounts from reinsurance contracts will be presented as a single amount; and
- insurance finance income or expenses.

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

#### 1.22.1 IFRS 17 – Insurance Contracts (continued)

##### *Insurance service result*

For contracts not measured under the PAA, insurance revenue represents the total of the changes in the LRC that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows, that comprise of:

- A release of CSM, measured based on coverage units provided.
- Changes in the risk adjustment for non-financial risk relating to current services.
- Claims and other insurance service expenses expected in the year.
- Other amounts, including experience adjustments for premium receipts for current or past services for the life risk segment and amounts related to incurred policyholder tax expenses for the participating segment; and allocation of a portion of premiums that relate to recovering insurance acquisition cash flows to each period in a systematic way based on the passage of time.

For contracts measured under the PAA, majority of the premiums are recognised as revenue (earned premiums) using the passage of time, proportionally over the risk period. For warranties, premiums are recognised using the earning pattern that reflects how the risk is released over time. The portion of premiums received on in-force contracts that relate to unexpired risks is reported as the LRC. The LRC is calculated based on the passage of time as the risk is spread evenly over the period of insurance. Under this method, the LRC is determined based on the expected premium receipts for each period of insurance contract services on the basis of passage of time. The change in the liability for remaining coverage is recognised in profit or loss to ensure revenue is recognised over the period of the risk.

Expenses that relate directly to the fulfilment of contracts will be recognised in profit or loss as insurance service expenses, generally when they are incurred. Expenses that do not relate directly to the fulfilment of contracts will be presented outside the insurance service result.

Investment components will not be included in insurance revenue and insurance service expenses under the Standard. The Group will identify the investment component of a contract by determining the amount it would be required to repay to the policyholder in all scenarios with commercial substance. These include circumstances in which an insured event occurs, or the contract matures or is terminated without an insured event occurring.

Amounts recovered from reinsurers and reinsurance expenses will no longer be presented separately in profit or loss, as the Group will present them on a net basis as “net expenses from reinsurance contracts” in the insurance service result in the notes to the financial statements.

It is the Group’s policy not to disaggregate the changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment will be included in the insurance service result.

##### *Insurance finance income and expenses*

As per the Standard, changes in the carrying amounts of groups of contracts arising from the effects of the time value of money, financial risk and changes therein are generally presented as insurance finance income or expenses. They include changes in the measurement of groups of contracts caused by changes in the value of underlying items (excluding additions and withdrawals).

##### *Disclosure:*

Disclosures as per the new Standard are more granular and requires extensive disclosures on amounts recognised in the financial statements, including detailed reconciliations of contracts, effects of newly recognised contracts, information on the expected CSM emergence pattern, as well as disclosures about significant judgement. The nature and extent of risks from insurance contracts, reinsurance contracts and investment contracts with DPF also need to be included.

##### **Transition**

Changes in accounting policies resulting from the adoption of the Standard will be applied from 1 January 2022, using a full retrospective approach to the extent practicable. As per this approach the Group will:

- identify, recognise and measure each group of insurance contracts, reinsurance contracts and investment contracts with DPF as if the Standard had always been applied;
- derecognise previously reported balances that would not have existed if the Standard had always been applied (including some deferred acquisition costs); and
- recognise any resulting net difference in equity without adjusting the carrying amount of goodwill from previous business combinations.

If it is impracticable to apply the full retrospective approach to a group of life contracts or to an asset for insurance acquisition cash flows, the Group will apply the fair value approach. The full retrospective approach will be applied for non-life contracts.

The Group considers the full retrospective approach impracticable under any of the following circumstances:

- the effects of retrospective application are not determinable because the information required has not been collected or is unavailable because of system migrations, data retention requirements or other reasons; or
- the full retrospective approach requires assumptions on what management’s intentions or significant accounting estimates would have been in previous periods and which cannot be made without the use of hindsight.

Under the fair value approach, the CSM (or loss component) at 1 January 2022 was determined as the difference between the fair value of a group of contracts and the fulfilment cash flows at the date. The Group measured the fair value of the contracts as the sum of the

## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

present value of the net cash flows expected to be generated by the contracts by using a discounted cash flow technique, and an additional margin by referring to a confidence level technique.

#### 1.22.1 IFRS 17 – Insurance Contracts (continued)

The cash flows considered in the fair value measurement will be consistent with those that are within the contract boundary. The present value of the future cash flows considered in measuring fair value will be broadly consistent with that determined in measuring the fulfilment cash flows. Although the Group's own non-performance risk will be considered when measuring the fair value of liabilities but not when measuring fulfilment cash flows, the effect is expected to be insignificant.

When measuring fair value, the Group includes a margin comprising a risk premium to reflect what market participants would demand as compensation for the uncertainty inherent in the cash flows, and a profit margin to reflect what market participants would require to assume the obligations to service insurance contracts. In determining this margin, the Group will consider certain risks that are not reflected in fulfilment cash flows as required by the Standard (e.g., general operational risk) that a market participant would consider, and which will give rise to a CSM as at 1 January 2022. For all contracts measured under the fair value approach, the Group will use reasonable and supportable information available as at 1 January 2022 to determine:

- how to identify groups of contracts;
- whether a contract meets the definition of a direct participating contract;
- how to identify discretionary cash flows for contracts without direct participation features; and
- whether an investment component meets the definition of an investment contract with DPF.

Some groups of contracts measured under the fair value approach will contain contracts issued more than one year apart. For these groups, the discount rates on initial recognition will be determined at 1 January 2022 instead of at the date of initial recognition. For groups of reinsurance contracts covering onerous underlying contracts, the Group will establish a loss-recovery component at 1 January 2022, with reference to the amount of the loss component that relates to the underlying contracts.

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

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

#### 1.22.3 Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

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

#### 1.22.4 Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies

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

#### 1.22.5 Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

#### 1.22.6 Amendments to IFRS 16 sale and leaseback with variable payments that do not depend on an index or rate

The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it doesn't recognise any amount of the gain or loss that related to the right of use it retains. The new requirements do not prevent a seller-lessee from recognising in profit or loss, any gain or loss relating to the partial or full termination of a lease. The amendments are effective for reporting periods beginning on or after 1 January 2024.



## Accounting policies

for the reporting period ended 31 December

### 1. Summary of significant accounting policies (continued)

	Group 2022 Rm	2021 Rm
<b>2. Cash, cash balances and balances with central banks</b>		
Balances with other central banks	15 590	17 543
Balances with the SARB	31 103	27 684
Coins and bank notes	14 302	14 577
Money market assets	6 210	6 259
Gross cash, cash balances and balances with central banks	67 205	66 063
Impairment losses	(26)	(22)
	67 179	66 041

Included above are money market assets of **R 770m** (2021: R1 077m) which are linked to investment contracts (refer to note 20.1).

The minimum reserve balance held in cash with the SARB and other central banks across the different jurisdictions is determined in accordance with the regulatory terms applicable to the respective countries. The portion of the balance that can be utilised by the Group is included in cash and cash equivalents (note 53) and is calculated by applying the percentage that is accessible to the bank in accordance with the respective regulatory terms for each jurisdiction.

Money market balances of **R4 199m** (2021: R4 564m) are excluded from note 53 as these do not meet the definition of Cash and cash equivalents as set out in the Accounting policies.

	Group 2022 Rm	2021 Rm
<b>3. Investment securities</b>		
Government bonds	150 306	121 653
Listed equity instruments	4 529	3 315
Other debt securities	13 289	13 487
Treasury bills	44 647	47 255
Unlisted equity and hybrid instruments	3 068	3 202
Gross investment securities	215 839	188 912
Impairment losses	(202)	(14)
	215 637	188 898

Government bonds of **R0** (2021: R8 281m) which relate to repurchase agreements have been pledged with the SARB and other central banks. The terms of the pledges are usual and customary to such agreements.

Impairment losses relate to expected credit losses raised on investment securities held at amortised cost. Expected credit losses of **R2 455m** (2021: R399m) has been recognised on investment securities at FVOCI.



## Notes to the consolidated financial statements

for the reporting period ended 31 December

		Group
		2022
		Rm
		2021
		Rm
<b>4. Trading and hedging portfolio assets</b>		
Commodities	614	642
Debt instruments <sup>1</sup>	91 717	78 095
Derivative assets (refer to note 56.3 and 56.4)	58 588	57 189
Commodity derivatives	188	920
Credit derivatives	224	142
Equity derivatives	8 761	8 581
Foreign exchange derivatives	17 924	11 579
Interest rate derivatives <sup>1</sup>	31 491	35 967
Equity instruments	39 676	47 283
Money market assets	15 841	20 031
Total trading portfolio assets	206 436	203 240
Hedging portfolio assets (refer to note 56.3) <sup>1</sup>	4 973	3 697
	211 409	206 937

Trading portfolio assets with carrying values of **R42 945m** (2021: R37 907m) and **R 1 800m** (2021: R2 810m) were pledged as security for repurchase and scrip lending agreements respectively. These assets are pledged for the duration of the respective agreements. The terms of the pledges are usual and customary to such 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.

<sup>1</sup> These amounts have been restated, refer to reporting changes overview note 1.19

## Notes to the consolidated financial statements

for the reporting period ended 31 December

		Group	
		2022	2021
		Rm	Rm
<b>5.</b>	<b>Other assets</b>		
	Accounts receivable <sup>1</sup>	14 632	12 326
	Prepayments <sup>1</sup>	2 474	2 184
	Deferred costs	258	238
	Deferred acquisition costs (refer to note 5.1)	66	57
	Other deferred costs	192	181
	Inventories	258	250
	Cost	405	392
	Write-down	(147)	(142)
	Retirement benefit fund surplus (refer to note 43)	475	475
	Settlement accounts	7 106	8 782
	Gross other assets	25 203	24 255
	Impairment losses	(13)	(99)
		25 190	24 156
<b>5.1</b>	<b>Deferred acquisition costs</b>		
	Balance at the beginning of the reporting period	57	50
	Additions	245	272
	Disposals/releases/amortisation charge	(235)	(266)
	Foreign exchange movement	(1)	1
	Balance at the end of the reporting period	66	57

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

For accounts receivable and settlement accounts, the ECL impact is immaterial due to the short term nature of these items.

<sup>1</sup>Accounts receivable and prepayments, which were previously disclosed as a single line item, have been disclosed separately due to their distinct nature.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2022 Rm	2021 Rm
<b>6. Non-current assets and non-current liabilities held for sale</b>		
<b>Non-current assets held for sale</b>		
Balance at the beginning of the reporting period	4 259	144
Disposals	(4 106)	(93)
Impairment of an NCAHFS (refer to note 37)	-	(1)
Transfer from cash, cash balances and balances with central banks	-	454
Transfer from property and equipment (refer to note 12)	67	15
Transfer from loans and advances	-	114
Transfer from investments linked to investment contracts	-	3 176
Transfer from goodwill and intangibles assets (refer to note 13)	1	55
Transfer from other assets	(3)	99
Transfer from investment securities	-	274
Transfer from deferred tax assets	(6)	24
Movement in foreign exchange rates	-	(2)
<b>Balance at the end of the reporting period</b>	<b>212</b>	<b>4 259</b>
<b>Non-current liabilities held for sale</b>		
<b>Balance at the beginning of the reporting period</b>	<b>3 465</b>	-
Disposals	(3 433)	-
Transfer from deferred tax liabilities	(1)	1
Transfer from other liabilities	(5)	250
Transfer from provisions	-	38
Transfer from liabilities linked to investment contracts (refer to note 20)	-	3 176
<b>Balance at the end of the reporting period</b>	<b>26</b>	<b>3 465</b>

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

- > Head Office, Treasury and other operations have disposed of the Absa Investment Cluster (comprising Absa Asset Management (Pty)Limited, Absa Alternative Asset Management (Pty) Limited, Absa Fund Managers (Pty) Limited and the multi-manager business, a division of Absa Investment Management Services (Pty) Limited. The total carrying amount for the assets disposed is R4.07bn and the total carrying amount for the liabilities disposed is R3.4bn. The disposed funds have resulted in a de-consolidation from the investment funds. The disposal resulted in a gross profit of R759m. The remaining investment funds will be disposed of in the 2023 financial year. Please refer to acquisitions and disposals of business note for further details.
- > Head Office, Treasury and other operations disposed of property and equipment with a carrying amount of R35m. The disposal resulted in a gross profit of R19m.
- > Head Office, Treasury and other operations transferred property and equipment with a carrying amount of R67m to non-current assets held for sale.

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

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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>7. Loans and advances</b>		
Corporate overdrafts and specialised finance loans	23 428	20 479
Credit cards	52 539	46 223
Foreign currency loans	55 852	39 260
Instalment credit agreements	123 865	113 312
Finance lease receivables (refer to note 7.1)	3 311	3 529
Loans to associates and joint ventures	25 163	25 909
Micro loans	4 897	3 448
Mortgages	399 583	377 777
Other advances	21 730	17 989
Overdrafts	65 655	56 431
Overnight finance	25 227	26 702
Personal and term loans	167 953	144 416
Preference shares	30 190	27 439
Reverse repurchase agreements (Carries)	44 490	60 208
Wholesale overdrafts	110 756	95 622
Gross loans and advances to customers <sup>1</sup>	1 154 639	1 058 744
Gross loans and advances to banks <sup>1</sup>	103 649	74 953
<b>Gross loans and advances</b>	<b>1 258 288</b>	<b>1 133 697</b>
Impairment losses	(44 889)	(41 440)
Impairment losses for loans and advances to customers	(44 810)	(41 358)
Impairment losses for loans and advances to banks	(79)	(82)
<b>Net loans and advances</b>	<b>1 213 399</b>	<b>1 092 257</b>

The Group has securitised certain loans and advances to customers, the total value of these securitised assets is **R8 466m** (2021: R 6 933m). Included in the above are collateralised loans of **R 3 418m** (2021: R 1 673m) 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. These financial assets are pledged under terms that are usual and customary to such arrangements.

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

Included in both gross loans and advances to customers, and in the total allowance for impairment losses, is accrued interest in suspense of **R 5 562m** (2021: R 5 362m).

Included above in Gross loans and advances to banks are reverse repurchase agreements of **R 41 553m** (2021: R 25,784m) and other collateralised loans of **R 4,180m** (2021: R 24m) relating to securities borrowed.

<sup>1</sup> Included in this amount are credit linked notes, R2 351m of which relates to loans and advances to customers and R1 097m to loans and advances to banks.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group			2021		
	2022					
	Gross advances Rm	Unearned finance charges Rm	Net advances Rm	Gross advances Rm	Unearned finance charges Rm	Net advances Rm
<b>7.1. Finance lease receivables</b>						
<i>Maturity analysis</i>						
Less than one year	340	(25)	315	169	(15)	154
Between one and five years	3 116	(231)	2 885	2 876	(176)	2 700
More than five years	120	(9)	111	817	(142)	675
Gross carrying amount	3 576	(265)	3 311	3 862	(333)	3 529

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

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

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

Unguaranteed residual values of finance leases are **R1 872m** (2021: R1 781m).

	Group	
	2022 Rm	2021 Rm
<b>8. Reinsurance assets</b>		
Insurance contracts (refer to note 21)		
Life insurance contracts	126	175
Short-term insurance contracts	537	557
	<b>663</b>	<b>732</b>

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 **R 51m** (2021: R7m) is included as part of the 'Accounts receivables and prepayments line' in 'Other assets' (refer to note 5) which relates to the amount receivable from reinsurers for claims made against them.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>9. Investments linked to investment contracts</b>		
Debt instruments	1 767	1 978
Listed equity instruments	17 510	17 765
Money market instruments	11	60
	<b>19 288</b>	<b>19 803</b>

	Group	
	2022	2021
	Rm	Rm
<b>10. Investments in associates and joint ventures</b>		
Unlisted investments	2 409	1 593
<b>10.1 Movement in carrying value of associates and joint ventures accounted for under the equity method</b>		
<b>Balance at the beginning of the reporting period</b>	<b>1 593</b>	<b>1 601</b>
Share of current reporting period post-tax results	137	132
Share of current reporting period results before taxation	186	183
Taxation on reporting period results	(49)	(51)
Addition/(Disposal) of investment	679	(11)
Dividends received	-	(140)
Reversal of impairments (refer to note 37)	-	11
<b>Balance at the end of the reporting period</b>	<b>2 409</b>	<b>1 593</b>

### 10.2 Associates and joint ventures

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

	Associates		Joint ventures	
	2022	2021	2022	2021
	Rm	Rm	Rm	Rm
<b>Group share</b>				
Post-tax profit from continuing operations	38	21	99	111
Total comprehensive income	38	21	99	111

## Notes to the consolidated financial statements

for the reporting period ended 31 December

		Group	
		2022	2021
		Rm	Rm
<b>10</b>	<b>Investments in associates and joint ventures (continued)</b>		
10.3	Analysis of carrying value of associates and joint ventures accounted for under the equity method		
	<b>Unlisted investments</b>		
	Shares at cost less impairments	768	89
	Share of post-acquisition reserves	1 524	1 387
	Additional capital contribution	117	117
		<b>2 409</b>	<b>1 593</b>

		Group			2021		
		Associates	Joint ventures	Total	Associates	Joint ventures	Total
		Rm	Rm	Rm	Rm	Rm	Rm
10.4	Carrying value of associates and joint ventures						
	Equity accounted	1 140	1 269	2 409	422	1 171	1 593
	Designated at fair value through profit or loss	-	209	209	-	209	209
		<b>1 140</b>	<b>1 478</b>	<b>2 618</b>	<b>422</b>	<b>1 380</b>	<b>1 802</b>

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

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

		Group	
		2022	2021
		Rm	Rm
<b>11.</b>	<b>Investment properties</b>		
	<b>Balance at the beginning of the reporting period</b>	<b>421</b>	<b>496</b>
	Change in fair value (refer to note 34)	( 21)	( 31)
	Transfers (refer to note 12) <sup>1</sup>		( 11)
	Disposals <sup>1</sup>	( 1)	( 52)
	Foreign exchange movements	( 2)	19
	<b>Balance at the end of the reporting period</b>	<b>397</b>	<b>421</b>

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.

<sup>1</sup>The presentation has been amended to disclose disposals and transfers as separate lines.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group					
	Cost Rm	2022 Accumulated depreciation and/or impairments Rm	Carrying amount Rm	Cost Rm	2021 Accumulated depreciation and/or impairments Rm	Carrying amount Rm
<b>12. Property and equipment</b>						
Computer equipment	7 999	(6 064)	1 935	8 270	(6 292)	1 978
Freehold property	7 226	(1 088)	6 138	6 944	(1 032)	5 912
Furniture and other equipment	12 419	(8 161)	4 258	12 108	(7 284)	4 824
Leasehold property	5	-	5	5	-	5
Motor vehicles	112	( 68)	44	110	(67)	43
Right-of-use assets (refer to note 42)	7 464	(4 519)	2 945	6 568	(3 360)	3 208
	<b>35 225</b>	<b>(19 900)</b>	<b>15 325</b>	<b>34 005</b>	<b>(18 035)</b>	<b>15 970</b>



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 12 Property and equipment (continued)

Reconciliation of property and equipment	Group 2022										
	Opening balance Rm	Additions Rm	Disposals Rm	Transfer (to)/from investment properties Rm	Transfers <sup>1</sup> Rm	Transfer (to)/from intangible assets Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	1 978	902	(36)	-	24	(11)	-	(13)	(860)	(49)	1 935
Freehold property <sup>2</sup>	5 912	625	(41)	-	(164)	(13)	(65)	(7)	(82)	(27)	6 138
Furniture and other equipment	4 824	671	(14)	-	136	18	(2)	(10)	(1 205)	(160)	4 258
Leasehold property	5	-	-	-	-	-	-	-	-	-	5
Motor vehicles	43	16	-	-	3	-	-	(5)	(13)	-	44
Right-of-use assets	3 208	1 017	(24)	-	1	-	-	(31)	(1 108)	(118)	2 945
	15 970	3 231	(115)	-	-	(6)	(67)	(66)	(3 268)	(354)	15 325
Note		42		11			6		36	37	

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

Included in the above additions is **R604m** (2021: R554m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction.

Assets under construction was brought in to use during the reporting period **R164m** (2021: R433m).

Certain property and equipment was transferred to non-current assets held for sale due to a change in the use of the assets **R67m** (2021: R15m)

<sup>1</sup>An amount of **R164m** (2021: R 433m) of assets under construction, previously classified as 'Freehold property' has been reclassified to 'Computer equipment' **R24m** (2021: R70m), and 'Furniture and other equipment' **R136m** (2021: R 494m).

<sup>2</sup> Assets under construction of projects are mapped to freehold which is then moved to different assets classes.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group					
	2022	2021		2022	2021	
	Cost	Accumulated amortisation and/or impairments	Carrying amount	Cost	Accumulated amortisation and/or impairments	Carrying amount
	Rm	Rm	Rm	Rm	Rm	Rm
<b>13. Goodwill and intangible assets</b>						
Computer software development costs	19 658	(7 582)	12 076	17 259	(6 195)	11 064
Customer lists and relationships	255	(235)	20	255	(231)	24
Goodwill	1 049	(292)	757	1 049	(295)	754
Other	155	(107)	48	155	(94)	61
	<b>21 117</b>	<b>(8 216)</b>	<b>12 901</b>	<b>18 718</b>	<b>(6 815)</b>	<b>11 903</b>

Reconciliation of goodwill and intangible assets	Group								
	2022								
	Opening balance	Additions	Disposals	Foreign exchange movements	Amor-tisation	Impairment charge	Transfer to non-current assets held for sale	Transfers	Closing balance
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Computer software development costs	11 064	3 779	(4)	(3)	(2 561)	(237)	(1)	39	12 076
Customer lists and relationships	24	-	-	-	(4)	-	-	-	20
Goodwill	754	-	-	3	-	-	-	-	757
Other	61	-	-	-	(13)	-	-	-	48
	<b>11 903</b>	<b>3 779</b>	<b>(4)</b>	<b>-</b>	<b>(2 578)</b>	<b>(237)</b>	<b>(1)</b>	<b>39</b>	<b>12 901</b>
Note					36	37	6	12	

2021

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

The majority of computer software development costs were internally generated. Included in computer software development costs is **R4 157** (2021: R4 135m) relating to assets under construction which is not yet amortised, this includes opening balance and any movements to date.

**R2 629m** (2021: R1 531m) 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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>13. Goodwill and intangible assets (continued)</b>		
<b>Composition of goodwill</b>		
Absa Bank Ghana Limited	63	63
Absa Bank Mauritius Limited	50	47
Absa Bank Uganda Limited	120	118
Absa Instant Life Proprietary Limited	20	20
Absa Vehicle and Management Solutions Proprietary Limited	112	112
First Assurance Company Limited	69	71
Global Alliance Seguros S.A.	24	24
Woolworths Financial Services Proprietary Limited	299	299
	<b>757</b>	<b>754</b>

	Group	
	2022	2021
	Rm	Rm
<b>14. Deferred tax</b>		
<b>14.1 Reconciliation of net deferred tax (asset)/liability</b>		
<b>Balance at the beginning of the reporting period</b>	<b>(5 511)</b>	<b>(3 699)</b>
Deferred tax on amounts charged directly to other comprehensive income and equity	<b>(2 015)</b>	<b>(1 427)</b>
Credit to profit or loss (refer to note 39)	<b>(760)</b>	<b>(226)</b>
Tax effect of translation and other differences	<b>102</b>	<b>(159)</b>
<b>Balance at the end of the reporting period</b>	<b>(8 184)</b>	<b>(5 511)</b>

### 14.2 Deferred tax (asset)/liability

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

#### Deferred tax liability

	<b>351</b>	<b>386</b>
Prepayments, accruals and other provisions	<b>384</b>	<b>413</b>
Capital allowances	<b>(7)</b>	<b>-</b>
Cash flow hedge and financial assets at fair value through other comprehensive income	<b>(27)</b>	<b>(27)</b>
Fair value adjustments on financial instruments	<b>(1)</b>	<b>-</b>
Impairment of loans and advances	<b>2</b>	<b>-</b>

#### Deferred tax asset

	<b>(8 535)</b>	<b>(5 897)</b>
Assessed losses	<b>(216)</b>	<b>(193)</b>
Fair value adjustments on financial instruments	<b>528</b>	<b>(64)</b>
Cash flow hedge and financial assets at fair value through other comprehensive income	<b>(1 587)</b>	<b>199</b>
Impairment of loans and advances	<b>(5 910)</b>	<b>(4 666)</b>
Lease and rental debtor allowances	<b>(209)</b>	<b>(151)</b>
Prepayments, accruals and other provisions	<b>(1 751)</b>	<b>(1 803)</b>
Own credit risk	<b>(174)</b>	<b>(122)</b>
Capital allowances	<b>1 193</b>	<b>1 042</b>
Property allowances	<b>257</b>	<b>257</b>
Retirement benefit assets	<b>(136)</b>	<b>(45)</b>
Share-based payments	<b>(530)</b>	<b>(351)</b>

<b>Net deferred tax (asset)/liability</b>	<b>(8 184)</b>	<b>(5 511)</b>
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### 14.3 Future tax relief

The Group has estimated tax losses of **R1 383m** (2021: R1 395m) which are available for set-off against future taxable income. Deferred tax assets of **R79m** (2021: R193m) relating to tax losses carried forward were recognised. The assessed losses in Absa Bank Mozambique expire after five years of origination. The Group has actual losses that have not been recognised of **R425m** (2021: R789m).

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>15. Trading and hedging portfolio liabilities</b>		
Derivative liabilities (refer to notes 56.3 and 56.4)	56 591	48 918
Commodity derivatives	117	824
Credit derivatives	938	842
Equity derivatives	4 679	2 682
Foreign exchange derivatives	18 310	12 687
Interest rate derivatives <sup>1</sup>	32 547	31 883
Short positions	38 304	24 650
Total trading portfolio liabilities	94 895	73 568
Hedging portfolio liabilities (refer to note 56.3) <sup>1</sup>	2 237	2 910
	97 132	76 478

<sup>1</sup>These amounts have been restated, refer to reporting changes overview note 1.19

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2022 Rm	2021 Rm
<b>16. Other liabilities</b>		
Accruals	3 306	3 307
Audit fee accrual	229	197
Cash-settled share-based payment liability (refer to note 52)	138	133
Creditors	16 795	15 793
Deferred Income	342	222
Lease liabilities	3 577	3 755
Retirement benefit funds and post-retirement medical plan obligations (refer to note 43)	497	715
Settlement balances	11 636	24 287
	<b>36 520</b>	<b>48 409</b>

	Group 2022			
	Staff bonus and incentive provisions Rm	Sundry provisions Rm	Undrawn contractually committed and guarantees provision Rm	Total Rm
<b>17. Provisions</b>				
<b>Balance at the beginning of the reporting period</b>	<b>2 760</b>	<b>1 556</b>	<b>1 080</b>	<b>5 396</b>
Additions	2 925	740	-	3 665
Amounts used	(2 268)	(806)	-	(3 074)
Reversals	(188)	(125)	-	(313)
Movement in provisions for financial guarantees, undrawn committed facilities and letters of credit (refer to note 60.2)	-	-	238	238
<b>Balance at the end of the reporting period</b>	<b>3 229</b>	<b>1 365</b>	<b>1 318</b>	<b>5 912</b>

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

Provisions expected to be recovered or settled within 12 months after the reporting date amount to **R3 888m** (2021: R3 188m). Sundry provisions include amounts with respect to fraud, litigation and claims.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2022 Rm	2021 Rm
<b>18. Deposits</b>		
<b>Customers</b>		
Call deposits	121 433	136 443
Cheque account deposits	313 984	301 371
Credit card deposits	2 142	2 137
Fixed deposits	262 844	238 730
Foreign currency deposits	64 408	54 075
Notice deposits	67 562	70 148
Other deposits	1 752	1 901
Repurchase agreements	19 071	21 863
Savings and transmission deposits	260 086	249 068
<b>Total deposits due to customers</b>	<b>1 113 282</b>	<b>1 075 736</b>
<b>Banks</b>		
Call deposits	2 662	9 488
Fixed deposits	28 914	12 667
Foreign currency deposits	18 770	12 441
Other deposits	8 634	10 393
Repurchase agreements	69 154	52 541
Savings and transmission deposits	503	500
<b>Total deposits due to banks</b>	<b>128 637</b>	<b>98 030</b>
<b>Total deposits</b>	<b>1 241 919</b>	<b>1 173 766</b>

'Other deposits' due to customers include deposits on structured deals and unclaimed deposits. 'Other deposits' from banks consist mainly of 'Vostro' balances.

	Group 2022 Rm	2021 Rm
<b>19. Debt securities in issue</b>		
Commercial paper	4 802	1 913
Credit linked notes <sup>1</sup>	19 734	13 864
Floating rate notes	51 722	34 693
Negotiable certificates of deposit	88 429	38 978
Other	2 121	2 124
Promissory notes	2	2
Senior notes	38 608	38 100
Structured notes and bonds	101	101
	<b>205 519</b>	<b>129 775</b>

<sup>1</sup>These numbers have been restated, please refer to 1.21.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>20. Liabilities under investment contracts</b>		
Net balance at the beginning of the reporting period	21 126	27 533
Change in investment contracts (refer to note 31)	(1 186)	2 011
Cash inflows on investment contracts	2 205	4 308
Policyholder benefits paid on investment contracts	(2 204)	(9 666)
Other	58	116
Transfer to non-current liabilities held for sale (refer to note 6)	-	(3 176)
Net balance at the end of the reporting period	19 999	21 126
Intercompany eliminations <sup>1</sup>	50	57
<b>Gross balance at the end of the reporting period</b>	<b>20 049</b>	<b>21 183</b>

<sup>1</sup>Intercompany eliminations relate to investments held in products of the Group.

	Group		
	2022		
	Total assets/(liabilities) backing the investment contracts	Intercompany eliminations <sup>1</sup>	Net assets/(liabilities) attributable to external policyholders
	Rm	Rm	Rm
<b>20. Liabilities under investment contracts (continued)</b>			
<b>20.1 Assets and liabilities backing the investment contracts</b>			
Deferred taxation (refer to note 14.2) <sup>2</sup>	(11)	-	(11)
Money market assets (refer to note 2)	856	(86)	770
Investments linked to investment contracts (refer to note 9)	19 283	5	19 288
Other assets	33	(31)	2
Other liabilities	(120)	99	(21)
Reinsurance asset (refer to note 8)	8	(8)	-
	<b>20 049</b>	<b>(21)</b>	<b>20 028</b>

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

<sup>1</sup>Intercompany eliminations relate to investments held in products of the Group.

<sup>2</sup>This amount relates to the deferred tax asset recognised on investment contracts. This amount of **R 11m** (2021: R 14m) is included as part of the overall deferred tax asset balance per note 14.2.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group		
	Gross Rm	Reinsurance Rm	Net Rm
<b>21. Policyholder liabilities under insurance contracts</b>			
Short-term insurance contracts:			
Claims outstanding (refer to note 21.1)	1 056	(329)	727
Claims reported and loss adjustment expense	789	(257)	532
Claims incurred but not reported	267	(72)	195
Unearned premiums at the end of the reporting period	1 205	(208)	997
Balance at the beginning of the reporting period	1 090	(194)	896
Foreign exchange movement	15	-	15
Increase during the reporting period	958	-	958
Release during the reporting period	(858)	(14)	(872)
	2 261	(537)	1 724
Long-term insurance contracts (refer to note 21.2)	3 123	(126)	2 997
	5 384	(663)	4 721

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

	Group	
	2022 Rm	2021 Rm
<b>Comprising:</b>		
Unit-linked insurance contracts	2 479	2 541
Gross	2 732	2 796
Reinsurance (refer to note 8)	(253)	(255)
Non-unit-linked insurance contracts	2 242	2 458
Gross	2 652	2 935
Reinsurance (refer to note 8)	(410)	(477)
	4 721	4 999



## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group		
	Gross Rm	Reinsurance Rm	Net Rm
<b>21. Policyholder liabilities under insurance contracts (continued)</b>			
21.1 Reconciliation of claims outstanding, including claims incurred but not reported			
Balance at the beginning of the reporting period	1 004	(363)	641
Foreign exchange movements	29	(20)	9
Cash paid for claims settled during the reporting period	(2 023)	292	(1 731)
Increase in claims arising from the current reporting period's claims outstanding	2 133	(229)	1 904
Decrease in claims arising from the previous reporting period's claims outstanding	(87)	(9)	(96)
<b>Balance at the end of the reporting period (refer to note 21)</b>	<b>1 056</b>	<b>(329)</b>	<b>727</b>

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

	Group	
	2022 Rm	2021 Rm
21.2 Reconciliation of gross long-term insurance contracts		
Balance at the beginning of the reporting period	3 637	2 334
Change in insurance contract liabilities (refer to note 31)	(242)	788
Insurance premium income (refer to note 29)	6 282	5 854
Claims and benefits incurred (refer to note 30)	(2 555)	(3 777)
Experience variances and change in assumptions	(3 969)	(1 289)
Foreign exchange movements	(272)	73
Other	-	442
<b>Balance at the end of the reporting period (refer to note 21)</b>	<b>3 123</b>	<b>3 637</b>
Recoverable from reinsurers (refer to note 8)	126	175
Net liabilities	2 997	3 462
Unit-linked liabilities	1 136	1 275
Non-linked liabilities	1 861	2 187
	<b>3 123</b>	<b>3 637</b>

## Notes to the consolidated financial statements

for the reporting period ended 31 December

			Group	
			2022	2021
			Rm	Rm
<b>22. Borrowed funds</b>				
<b>Subordinated callable notes issued by Absa Bank Limited</b>				
<b>Interest rate</b>	<b>Final maturity date</b>	<b>Note</b>		
Consumer Price Index linked notes fixed at 5.50%	7 December 2028	i	1 500	1 500
<b>Subordinated callable notes issued by Absa Group Limited</b>				
11.81%	3 September 2027	ii	-	737
Three-month JIBAR + 2.13%	17 May 2030	iii	2 676	2 676
Three-month JIBAR + 2.40%	11 April 2029	iv	1 580	1 580
Three-month JIBAR + 2.45%	29 November 2028	v	1 500	1 500
Three-month JIBAR + 3.60%	3 September 2027	vi	-	30
Three-month JIBAR + 3.78%	17 March 2027	vii	-	642
Three-month JIBAR + 3.85%	25 May 2027	viii	-	500
Three-month JIBAR + 3.85%	14 August 2029	ix	390	390
Three-month JIBAR + 3.15%	30 September 2027	x	-	295
Three-month JIBAR + 3.45%	29 September 2029	xi	1 014	1 014
Three-month JIBAR + 2.10%	16 September 2032	xii	1 916	-
<b>Foreign currency denominated notes</b>				
USD 6.25%	25 April 2028	xiii	4 952	4 952
USD 6.375%	n/a	xiv	6 866	6 866
<b>Subordinated callable notes issued by other subsidiaries</b>				
Bank of Botswana limit rate + 2.25%	14 November 2028	xv	136	136
<b>Other</b>				
Accrued interest			1 401	1 196
Fair value adjustments			(940)	60
Foreign exchange movement			3 429	2 526
			<b>26 420</b>	<b>26 600</b>

			Group	
			2022	2021
			Rm	Rm
<b>22.1 Reconciliation of borrowed funds</b>				
Opening Balance			26 600	20 761
<b>Changes arising from cash movements:</b>			(2 706)	2 409
Borrowed fund issuances			1 916	6 866
Borrowed fund redemptions			(2 204)	(2 381)
Interest paid			(2 418)	(2 076)
<b>Changes arising from non-cash movements:</b>			2 526	3 430
Interest accrued but not paid			2 623	2 164
Fair value adjustments			(1 000)	(358)
Foreign exchange movements			903	1 624
Closing Balance			<b>26 420</b>	<b>26 600</b>

- i. The 5.50% CPI linked notes may be redeemed in full at the option of Absa Group 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 Group Limited does not exercise the redemption option, a coupon step up of 150 basis points (bps) shall apply.
- ii. The 11.81% fixed rate notes were redeemed in full on 3 September 2022.
- iii. The three-month JIBAR plus 2.13% floating rate notes may be redeemed in full at the option of Absa Group Limited on 17 May 2025. Interest is paid quarterly in arrears on 17 February, 17 May, 17 August and 17 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 17 May 2025. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 22. Borrowed funds (continued)

- iv. 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.
- v. 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.
- vi. The three-month JIBAR plus 3.60% floating rate notes were redeemed in full on 3 September 2022.
- vii. The three-month JIBAR plus 3.78% floating rate notes were redeemed in full on 17 March 2022.
- viii. The three-month JIBAR plus 3.85% floating rate notes were redeemed in full on 25 May 2022.
- ix. 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.
- x. The three-month JIBAR plus 3.15% floating rate notes were redeemed in full on 30 September 2022.
- xi. 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.
- xii. The three-month JIBAR plus 2.10% floating rate with a nominal amount of ZAR 1.9bn may be redeemed in full at the option of Absa Group Limited on 16 September 2027. The interest is paid quarterly on 16 March, 16 June, 16 September and 16 December each year until the maturity date, with the first interest determination date being 12 September 2022. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.
- xiii. 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.
- xiv. The 6.375% fixed rate reset unsecured and perpetual notes with a nominal amount of USD 500m have no fixed redemption date. The notes qualify as additional Tier 1 capital for the Group. The Group is obliged to pay interest on each Interest Payment Date unless: (a) it elects not to pay the relevant interest amount on such Interest Payment Date in whole or in part and for any reason; (b) it is in breach of either (i) the Capital Regulations or (ii) the Solvency Condition on the business day prior to such Interest Payment Date or would be in breach of the Capital Regulations or the Solvency Condition if the relevant interest amount were paid on such Interest Payment Date; or (c) at any time the Prudential Authority imposes a mandatory prohibition on the payment by the Issuer of such interest amount. The interest is payable semi-annually in arrears on 27 May and 27 November each year, commencing on 27 November 2021. The reset dates are every 5 years. The interest rate is 6.375% from the issue date to (but excluding) the first reset date, 27 November 2026. Thereafter, the interest rate will be reset to an interest applicable to the relevant reset period. The terms of the Additional Tier 1 capital notes include a regulatory requirement which provides for the write off, in whole or in part, in the case of a disqualifying event. In addition, interest payments are mandatorily payable if, for any reason, the instrument no longer meets the criteria of AT1 Capital in terms of Regulation 38(11).
- xv. The Botswana Bank repo rate plus 2.25% floating rate notes issued by Absa Bank of Botswana Limited, with a nominal amount of BWP 103m, 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 xii are listed on the Johannesburg Stock Exchange Debt Market.

Note xiii to xiv are listed on the London Stock Exchange.

Note xv 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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2022 Rm	2021 Rm
<b>23. Share capital, premium and other equity</b>		
<b>23.1 Ordinary share capital</b>		
Authorised		
<b>891 774 054</b> (2021: 891 774 054) ordinary shares of R2.00 each	<b>1 784</b>	1 784
Issued		
<b>847 750 679</b> (2021: 847 750 679) ordinary shares of R2.00 each	<b>1 696</b>	1 696
<b>20 324 498</b> (2021: 17 465 332) treasury shares held by Group entities	<b>(42)</b>	(36)
	<b>1 654</b>	1 660
Total issued capital		
Share capital	<b>1 654</b>	1 660
Share premium	<b>10 191</b>	10 644
	<b>11 845</b>	12 304

### Authorised shares

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

### Unissued shares

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

## 23. Share capital, premium and other equity

### 23.1 Ordinary share capital

Ordinary shares when issued entitles the holders to distribution of profit and the right to vote on any matter to be decided by a vote of holders of the ordinary shares of the Group.

### Shares issued

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

### 23.2 Treasury Shares

The Absa Group Limited Share Incentive Trust holds treasury shares which is utilised by the Group as a vehicle from which share incentive awards are granted. Absa Life Limited and Absa Capital Securities Proprietary Limited holds treasury shares which is utilised by the Group in normal course of business and held in the entities share portfolios 4 344 343 (2021: 1 485 177).

Absa Empowerment Trust (which is currently consolidated into the Group) has a subsidiary which holds 15 980 155 (2021: 15 980 155) Absa Group Limited shares, earmarked to be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure.

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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 23.3 Directors' interests in the Group's ordinary shares.

	Total direct and indirect					
	Direct number of shares		Indirect number of shares		number of shares	
	Beneficial		Beneficial		Beneficial	
	2022	2021	2022	2021	2022	2021
<b>Present directors</b>						
C Beggs	-	2 000	-	-	-	2 000
W E Lucas-Bull <sup>1</sup>	-	1 000	-	4 625	-	5 625
PB Matlare	-	92 709	-	-	-	92 709
J P Quinn	99 814	122 662	-	-	99 814	122 662
P E Modise <sup>2</sup>	-	24 786	-	-	-	24 786
<b>Prescribed officers</b>						
A Rautenbach	218 412	188 347	-	-	218 412	188 347
C Russon	150 669	130 364	-	-	150 669	130 364
C Fox <sup>3</sup>	27 205	-	-	-	27 205	-
GS Lee <sup>3</sup>	3 434	-	-	-	3 434	-
FS Mkhize <sup>3</sup>	13 658	-	-	-	13 658	-
	513 192	561 868	-	4 625	513 192	566 493

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.

<sup>1</sup> Retired 31 March 2022.

<sup>2</sup> Assumed the position as Group Chief Strategy and Sustainability Officer effective 1 July 2022

<sup>3</sup> Appointed 1 July 2022

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 24. Other reserves

#### 24.1 General credit risk reserve

The general credit risk reserve consists of the following:

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

#### 24.2 Fair value through other comprehensive income reserve

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

#### 24.3 Cash flow hedging reserve

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

#### 24.4 Foreign currency translation reserve

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

#### 24.5 Foreign insurance subsidiary regulatory reserve

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

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

#### 24.6 Share-based payment reserve

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

#### 24.7 Associates' and joint ventures' reserve

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

#### 24.8 Retained earnings

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

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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2022 Rm	2021 Rm
<b>25. Non-controlling interest and other equity</b>		
<b>25.1 Preference shares</b>		
<b>Authorised</b>		
<b>30 000 000</b> (2021: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each	<b>1</b>	<b>1</b>
<b>Issued</b>		
<b>4 944 839</b> (2021: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0.01 each	<b>1</b>	<b>1</b>
<b>Total issued capital</b>		
Share capital	<b>1</b>	<b>1</b>
Share premium	<b>4 643</b>	<b>4 643</b>
	<b>4 644</b>	<b>4 644</b>

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 2022 Rm	2021 Rm
<b>25.2 Other equity: Additional Tier 1 capital</b>		
<b>Subordinated callable notes issued by Absa Group Limited</b>		
<b>Interest rate</b>	<b>Date of issue</b>	
Three month JIBAR + 5.65%	11 September 2017	-
Three month JIBAR + 4.75%	9 October 2018	<b>1 241</b>
Three month JIBAR + 4.50%	28 May 2019	<b>1 678</b>
Three month JIBAR + 4.25%	5 December 2019	<b>1 376</b>
Three month JIBAR + 4.55%	26 October 2020	<b>1 209</b>
Three month JIBAR + 3.58%	15 November 2022	<b>1 999</b>
		<b>7 503</b>
		<b>7 004</b>

The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Group Limited (the issuer) on 10 October 2023, 28 November 2024, 5 June 2025, 27 October 2025 and 16 November 2027 subject to regulatory approval. AT1's that were issued on 11 September 2017 were redeemed on 12 September 2022. 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 consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022 Rm	2021 Rm
<b>26. Interest and similar income</b>		
<b>Interest and similar income is earned from:</b>		
Cash, cash balances and balances with central banks	22	24
Interest on hedging instruments	1 297	2 270
Investment securities	15 561	12 710
Loans and advances	95 352	74 491
Loans and advances to customers	91 598	71 968
Corporate overdrafts and specialised finance loans	1 542	961
Credit cards	7 254	5 927
Foreign currency loans	1 766	1 096
Instalment credit agreements and finance lease receivables	11 313	9 092
Loans to associates and joint ventures	1 720	1 376
Microloans	668	432
Mortgages	27 838	22 010
Other advances	1 186	925
Overdrafts	5 175	4 298
Overnight finance	1 372	964
Personal and term loans	21 030	17 102
Preference shares	2 073	1 608
Reverse repurchase agreements	13	8
Wholesale overdrafts	8 648	6 169
Loans and advances to banks	3 754	2 523
	<b>112 232</b>	<b>89 495</b>
<b>Classification of interest and similar income</b>		
Interest on hedging instruments	1 297	2 270
Cash flow hedges (refer to note 56.7)	2 486	3 985
Fair value hedging instruments	(1 189)	(1 715)
Interest on financial assets held at amortised cost	100 588	79 807
Interest on financial assets measured at FVOCI	8 431	5 766
Interest on financial assets measured at fair value through profit or loss	1 916	1 652
Cash, cash balances and balances with central banks	1	1
Investment securities	116	153
Loans and advances	1 799	1 498
	<b>112 232</b>	<b>89 495</b>

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



## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>27. Interest expense and similar charges</b>		
<b>Interest expense and similar charges are paid on:</b>		
Borrowed funds	2 623	2 164
Debt securities in issue	8 582	8 128
Deposits	40 677	27 190
Deposits due to customers	38 897	26 298
Call deposits	8 566	5 262
Cheque account deposits	5 404	3 692
Credit card deposits	4	4
Fixed deposits	8 097	6 839
Foreign currency deposits	136	182
Notice deposits	4 870	3 118
Other deposits due to customers	1 194	757
Savings and transmission deposits	10 626	6 444
Deposits from banks	1 780	892
Call deposits	419	350
Fixed deposits	1 034	333
Foreign currency deposits	168	110
Other	159	99
Interest on hedging instruments	( 615)	(1 739)
Interest incurred on lease liabilities (refer to note 42)	394	361
Other	73	69
	<b>51 734</b>	<b>36 173</b>
<b>Classification of interest expense and similar charges</b>		
Interest on hedging instruments	( 615)	(1 739)
Cash flow hedges (refer to note 56.7)	( 150)	(321)
Fair value hedges	( 465)	(1 418)
Interest on financial liabilities measured at amortised cost	52 349	37 912
	<b>51 734</b>	<b>36 173</b>

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>28. Net fee and commission income</b>		
Consulting and administration fees	479	483
Insurance commission received	1 000	973
Investment, markets execution and investment banking fees	412	394
Merchant income	2 671	2 439
Other fee and commission income	699	556
Transactional fees and commissions	21 121	19 447
Cheque accounts	4 834	4 715
Credit cards	2 896	2 518
Electronic banking	6 595	5 808
Other	5 400	4 884
Savings accounts	1 396	1 522
Trust and other fiduciary services	1 213	1 257
Portfolio and other management fees	875	952
Trust and estate income	338	305
<b>Fee and commission income</b>	<b>27 595</b>	<b>25 549</b>
<b>Fee and commission expense</b>	<b>(3 885)</b>	<b>(3 475)</b>
Brokerage fees	(103)	(95)
Cheque processing fees	(6)	(16)
Clearing and settlement charges	(1 252)	(1 000)
Insurance commission paid	(1 176)	(1 128)
Notification fees	(251)	(235)
Other	(992)	(881)
Valuation fees	(105)	(120)
	<b>23 710</b>	<b>22 074</b>

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	
	2022	2021
	Rm	Rm
<b>28.1 Included above are net fees and commissions linked to financial instruments not at fair value</b>		
Cheque accounts	4 834	4 715
Credit cards	2 896	2 518
Electronic banking	6 595	5 808
Other	5 400	4 884
Savings accounts	1 396	1 522
<b>Fee and commission income</b>	<b>21 121</b>	<b>19 447</b>
<b>Fee and commission expense</b>	<b>(2 438)</b>	<b>(2 047)</b>
	<b>18 683</b>	<b>17 400</b>

Credit cards include acquiring and fee and commission income on issuing fees.

Other transactional fees and commissions income include service and credit-related fees of **R2 079m** (2021: R1 766m), exchange commission **R795m** (2021: R680m) and guarantees **R222m** (2021: R325m).

The majority of these items are accounted for as revenue recognised at a point in time in accordance with the requirements of IFRS 15.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>29. Net insurance premium income</b>		
Gross insurance premiums	10 933	9 932
Life insurance contracts	6 282	5 854
Short-term insurance contracts	4 651	4 078
Premiums ceded to reinsurers	(1 480)	(1 154)
Reinsurance on life insurance contracts	(735)	(642)
Reinsurance on short-term insurance contracts	(745)	(512)
	9 453	8 778
<b>Comprising (net of reinsurance)</b>		
Life	5 547	5 212
Bank embedded cover	6	5
Credit life	2 050	2 039
Funeral business	1 352	1 220
Group life	303	263
Home mortgage protection	641	614
Other	1 195	1 071
Short-term	3 906	3 566
Commercial business	53	54
Personal business	3 853	3 512
	9 453	8 778

	Group	
	2022	2021
	Rm	Rm
<b>30. Net claims and benefits incurred on insurance contracts</b>		
Gross claims and benefits incurred on insurance contracts	5 778	6 539
Life insurance claims and benefits	2 555	3 777
Short-term insurance claims and benefits	3 223	2 762
Reinsurance recoveries	(924)	(1 025)
Reinsurance recoveries on life insurance contracts	(433)	(697)
Reinsurance recoveries on short-term insurance contracts	(491)	(328)
	4 854	5 514
<b>Comprising (net of reinsurance)</b>		
Life	2 122	3 080
Bank embedded cover	1	3
Credit life	583	1 037
Funeral business	507	601
Group life	121	248
Home mortgage protection	484	679
Other	426	512
Short-term	2 732	2 434
Commercial business	103	60
Personal business	2 629	2 374
	4 854	5 514

	Group	
	2022	2021
	Rm	Rm
<b>31. Changes in investment and insurance contract liabilities</b>		
Change in insurance contract liabilities (refer to note 21.2)	(242)	788
Change in investment contract liabilities (refer to note 20) <sup>1</sup>	(1 186)	2 011
	(1 428)	2 799

<sup>1</sup>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'.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022 Rm	2021 Rm
<b>32. Gains and losses from banking and trading activities</b>		
Net gains on investments	272	55
Debt instruments designated at FVTPL	185	(2)
Equity instruments mandatorily measured at FVTPL	80	(63)
Unwind from reserves for debt instruments measured at FVOCI	7	120
Net trading result	7 481	6 561
Net trading income excluding the impact of hedge accounting	7 674	7 066
Ineffective portion of hedges	(193)	(505)
Cash flow hedges	(208)	(539)
Fair value hedges	15	34
Other losses	(25)	(10)
	7 728	6 606
<b>Net trading result and other gains on financial instruments</b>		
Net trading income excluding the impact of hedge accounting	7 674	7 066
Gains/(Losses) on financial instruments designated at FVTPL	357	(2 451)
Net gains/(losses) on financial assets designated at FVTPL	1 441	( 835)
Net losses on financial liabilities designated at FVTPL	(1 084)	(1 616)
Gains on financial instruments mandatorily measured at FVTPL	7 317	9 517
Other losses	(25)	(10)
Losses on financial instruments designated at FVTPL	(563)	(769)
Gains on financial instruments mandatorily measured at FVTPL	538	759

	Group	
	2022 Rm	2021 Rm
<b>33. Gains and losses from investment activities</b>		
Net (losses)/gains on investment activities	(574)	2 681
Policyholder insurance contracts	276	472
Policyholder investment contracts <sup>1</sup>	(1 159)	1 997
Shareholder funds	309	212
Other gains	42	23
	(532)	2 704
Classification of gains/(losses) from investment activities		
(Losses)/gains on financial instruments designated at fair value through profit and loss	(574)	2 684
Other	-	(3)
	(574)	2 681

<sup>1</sup>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'.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2022 Rm	2021 Rm
<b>34. Other operating income</b>		
Foreign exchange differences, including amounts recycled from other comprehensive income	( 136)	169
Income from investment properties	( 19)	( 28)
Change in fair value (refer to note 11)	( 21)	( 31)
Rentals	2	3
Revenue arising from contracts with customers <sup>1</sup>	38	48
Income from maintenance contracts	27	37
Profit on disposal of developed properties	11	7
Gross sales	34	17
Cost of sales	( 23)	(10)
Profit on sale of repossessed properties	0	4
Gross sales	8	18
Cost of sales	( 8)	(14)
Insurance proceeds received related to property and equipment <sup>2</sup>	126	96
Loss on disposal of intangible assets <sup>1</sup>	( 1)	( 1)
Profit on sale of property and equipment <sup>1</sup>	10	90
Rental income	27	21
Sundry income <sup>3</sup>	1 442	340
	<b>1 487</b>	<b>735</b>

<sup>1</sup>Line items not included within the scope of IFRS 15 have been removed from "Revenue arising from contracts with customers" and have been separately disclosed within this note. Revenue arising from contracts with customers was previously reported with the value of R137m and this has now been amended to R48m as result of the above.

<sup>2</sup>Insurance proceeds of R126m was received during the current financial year for damaged sustained to property and equipment due to the KZN riots that took place.

<sup>3</sup>Sundry income includes the profit on disposal of non-core assets and non-interest income. Included in this amount for the current year is the profit on sale of R759m from the disposal of the Group's investment management business which was in Product Solutions. Further details on this transaction has been disclosed per the acquisitions and disposals note.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>35. Credit impairment charges</b>		
Impairment losses raised during the reporting period	14 173	8 883
Stage 1 expected losses	(1 194)	(2 044)
Stage 2 expected losses	2 589	( 400)
Stage 3 expected losses	12 778	11 327
Losses on modifications	540	391
Recoveries of loans and advances previously written off	(1 010)	(775)
	13 703	8 499

### Charge to the statement of comprehensive income by market segment

#### Comprising:

	2022	2021
	Rm	Rm
Credit impairment charges raised	14 173	8 883
Loans and advances to customers and undrawn facilities	11 778	8 376
Loans and advances to banks	( 7)	13
Other financial instruments subject to credit impairment	2 190	238
Guarantees and letters of credit	212	256
Recoveries of financial instruments subject to credit impairment previously written off	(1 010)	( 775)
Modifications	540	391
<b>Total charge to the statement of comprehensive income</b>	<b>13 703</b>	<b>8 499</b>

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>36. Operating expenses</b>		
Administration fees	27	79
Amortisation of intangible assets (refer to note 13)	2 578	2 417
Auditors' remuneration	493	450
Audit fees – current reporting period	433	384
Audit fees – under provision	6	4
Audit-related fees	44	28
Other services	10	34
Cash transportation	1 123	1 135
Depreciation (refer to note 12)	3 268	3 608
Equipment costs	441	333
Maintenance	299	207
Rentals	142	126
Information technology	5 543	4 980
Marketing costs	1 720	1 287
Other	2 460	2 299
Printing and stationery	319	288
Professional fees	2 914	2 362
Property costs	1 862	1 882
Staff costs	27 873	26 133
Bonuses	3 256	2 695
Deferred cash and share-based payments (refer to note 52)	773	616
Other	895	878
Salaries and current service costs on post-retirement benefit funds	22 359	21 564
Training costs	590	380
Straight line lease expenses on short term leases and low value assets	221	204
Telephone and postage	1 167	1 153
	<b>52 009</b>	<b>48 610</b>

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies. Professional fees include research and development costs totalling **R167m** (2021: R193m). Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, restructuring costs, study assistance, staff relocation and refreshment costs.

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

	Group	
	2022	2021
	Rm	Rm
<b>37. Other impairments</b>		
Goodwill (refer to note 13)	-	94
Intangible assets (refer to note 13) <sup>1</sup>	237	144
Investments in associates and joint ventures (refer to note 10)	-	( 11)
Non-current assets held for sale (refer to note 6)	-	1
Property and equipment (refer to note 12) <sup>2</sup>	354	192
	<b>591</b>	<b>420</b>

<sup>1</sup> The Group has impaired certain software assets totaling **R237m** (2021: R: R144m) for which the value in use is determined to be zero.

<sup>2</sup> Property and equipment amounting to **R354m** (2021: R192m) was impaired without a related transfer to non-current assets held for sale. Included in the **R354m** recognised during 2022, is the impairment of a right of use asset of **R117m**, impairment on furniture and other equipment of **R84m** and an impairment of buildings of **R27m** due to the underutilisation of the properties.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>38. Indirect taxation</b>		
Training levy	232	209
VAT net of input credits	1 718	1 576
	<b>1 950</b>	<b>1 785</b>
	Group	
	2022	2021
	Rm	Rm
<b>39. Taxation expense</b>		
<b>Current</b>		
Foreign and other taxation	452	349
Current tax	8 667	7 327
Current tax - previous reporting period	(268)	(151)
	<b>8 851</b>	<b>7 525</b>
<b>Deferred</b>		
Deferred tax (refer to note 14)	(760)	(226)
Capital allowances	69	130
Impairment losses	(1 312)	(457)
Provisions	(21)	(123)
Movements in prepayments, accruals and other provisions	21	(180)
Fair value and similar adjustments through profit and loss	269	491
Fair value and similar adjustments in relation to prior year	191	(30)
Share-based payments	(64)	(57)
Retirement benefit liability	87	
	<b>8 091</b>	<b>7 299</b>
<b>Reconciliation between operating profit before income tax and the taxation expense</b>		
Operating profit before income tax	30 802	26 724
Share of post-tax results of associates and joint ventures (refer to note 10)	(137)	(132)
	<b>30 665</b>	<b>26 592</b>
Tax calculated at a tax rate of 28%	8 586	7 446
Effect of different tax rates in other countries	392	291
Expenses not deductible for tax purposes <sup>1</sup>	374	735
Assessed losses <sup>2</sup>	126	124
Dividend Income	(952)	(856)
Non-taxable interest <sup>3</sup>	(672)	(526)
Other income not subject to tax	(35)	(15)
Other	220	48
Effect of tax rate changes <sup>4</sup>	129	33
Items of capital in nature	(77)	19
	<b>8 091</b>	<b>7 299</b>

<sup>1</sup>This includes additional tax levies and general non-deductible expenses due to the application of in country tax legislation.

<sup>2</sup>Assessed losses include reversals of previously recognised tax assets, utilization of previously unrecognised losses and additional losses incurred where no deferred tax assets were recognised.

<sup>3</sup>This relates to interest earned from certain governments as well as interest earned on certain capital instruments, which is exempt from tax.

<sup>4</sup>During the budget speech presented on 23 February 2022, the Finance Minister announced that the South African corporate tax rate will be reduced from 28% to 27%, effective for tax assessment years ending on or after 31 March 2023. This change was substantively enacted at the balance sheet date and has therefore been reflected in the measurement of the Group's deferred tax balances at 31 December 2022.



## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022 Rm	2021 Rm
<b>40. Earnings per share</b>		
<b>40.1 Basic earnings per share</b>		
Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity holders, by the weighted average number of ordinary shares in issue during the reporting period.		
<b>Basic earnings attributable to ordinary equity holders</b>	<b>20 555</b>	17 763
Weighted average number of ordinary shares in issue (million)	<b>829.4</b>	830.2
Issued shares at the beginning and end of the reporting period (million)	<b>847.8</b>	847.8
Treasury shares held by Group entities (million)	<b>(18.4)</b>	(17.6)
<b>Basic earnings per share (cents)</b>	<b>2 478.3</b>	2 139.6

<b>40.2 Diluted earnings per share</b>		
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.		
<b>Diluted earnings attributable to ordinary equity holders</b>	<b>20 555</b>	17 763
Diluted weighted average number of ordinary shares in issue (million)	<b>830.6</b>	831.6
Weighted average number of ordinary shares in issue (million)	<b>829.4</b>	830.2
Adjustments for share options issued at no value (million)	<b>1.2</b>	1.4
<b>Diluted earnings per share (cents)</b>	<b>2 474.7</b>	2 136.0

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

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

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

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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group		2021	
	2022 Gross Rm	Net Rm	Gross Rm	Net Rm
<b>41. Headline earnings</b>				
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders of the Group		20 555		17 763
Total headline earnings adjustment:		(291)		62
IFRS 3 – Goodwill impairment (refer to note 37)	-	-	29	29
IFRS 5 – Profit on disposal of non-current assets held for sale (refer to note 6)	(778)	(652)	(20)	(16)
IFRS 5 – Re-measurement of non-current assets held for sale	-	-	1	1
IAS 16 – Profit on disposal of property and equipment (refer to note 34)	(10)	(6)	(90)	(71)
IAS 16 & 36 - Insurance recovery of property and equipment damaged during riots (refer to note 34 and 37)	(126)	(92)	(121)	(87)
IAS 21 – Recycled foreign currency translation reserve	-	-	(96)	(74)
IAS 28 – Reversal of investments in associates and joint ventures (refer to note 37)	-	-	(11)	(11)
IAS 28 – Profit on disposal of associates and joint ventures	-	-	(1)	(1)
IAS 36 – Impairment of property and equipment (refer to note 37)	354	254	217	157
IAS 36 – Impairment of intangible assets (refer to note 37)	237	185	144	110
IAS 38 – Loss on disposal of intangible assets (refer to note 34)	1	1	1	1
IAS 40 – Change in fair value of investment properties (refer to note 34)	21	15	31	24
IAS 40 – Profit on sale of investment property (refer to note 34)	(0)	(0)	-	-
Change in tax rate	-	4	-	-
<b>Headline earnings/diluted headline earnings</b>		<b>20 264</b>		<b>17 825</b>
<b>Headline earnings per ordinary share (cents)</b>		<b>2 443.2</b>		<b>2 147.1</b>
<b>Diluted headline earnings per ordinary share (cents)</b>		<b>2 439.7</b>		<b>2 143.5</b>

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

Other non-core assets include assets such as property and equipment and intangible assets that are not core to operations of the Group.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2022 Rm	2021 Rm
<b>42. Leases</b>		
<b>The following amounts have been recognised in the statement of comprehensive income in respect of leases for which the Group is the lessee:</b>		
Depreciation charge for right-of-use assets (refer to notes 12)	1 108	1 121
Property	1 094	1 101
Computer equipment	1	6
Motor vehicles	13	14
Interest expense on lease liabilities (refer to note 27)	394	361
Expense related to short-term leases	286	258
Expense related to low-value assets	27	30
Variable lease payments	44	36
<b>Right-of-use assets recognised in the statement of financial position relate to the following classes of assets:</b>		
Right-of-use assets (refer to note 12)	2 945	3 208
Property	2 930	3 181
Computer equipment	1	3
Motor vehicles	14	24
<b>Total additions to right-of-use assets recognised during the year (refer to note 12)</b>	<b>1 017</b>	<b>1 048</b>
<b>Total cash outflow included in the statement of cash flows related to leases</b>	<b>1 492</b>	<b>1 582</b>
<b>Maturity analysis of lease liabilities – contractual undiscounted cash flows:</b>		
Less than one year	1 121	1 153
Between one and five years	2 653	2 652
More than five years	375	616
<b>Total undiscounted lease liabilities</b>	<b>4 149</b>	<b>4 421</b>
<b>Lease liabilities included in the statement of financial position (refer to note 16)</b>	<b>3 577</b>	<b>3 755</b>

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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>43. Retirement benefit obligations</b>		
<b>Surplus disclosed in 'Other assets'</b>		
Absa Pension Fund defined benefit plan (refer to notes 5 and 43.1.1)	466	465
Other defined benefit plans of subsidiaries (refer to notes 5 and 43.2.1)	9	10
	475	475
<b>Obligations disclosed in 'Other liabilities'</b>		
Subsidiaries' post-retirement medical aid plans (refer to notes 16 and 43.3)	302	303
Other defined benefit plans of subsidiaries (refer to notes 16 and 43.2.1)	195	412
	497	715
<b>Statement of comprehensive income charge included in staff costs</b>		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 43.1.6)	(35)	25
Other defined benefit plans of subsidiaries in a deficit position (refer to note 43.2.6)	29	50
Other defined benefit plans of subsidiaries in a surplus position (refer to note 43.2.6)	8	10
Subsidiaries' post-retirement medical aid plans	60	61
	62	146
<b>Recognised in other comprehensive income</b>		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 43.1.6)	36	(98)
Other defined benefit plans of subsidiaries in a deficit position (refer to note 43.2.6)	(200)	(151)
Other defined benefit plans of subsidiaries in a surplus position (refer to note 43.2.6)	1	(10)
Subsidiaries' post-retirement medical aid plans	59	(18)
	(104)	(277)

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 43. Retirement benefit fund obligations (continued)

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

#### 43.1 The Absa Pension Fund

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

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

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

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

Should a retiree elect a conventional annuity, the Bank is thereafter exposed to longevity and other actuarial risk. The conventional annuity is calculated based on the defined contribution plan assets at the retirement date. The Bank is therefore not exposed to any asset return risk prior to the election of this option i.e. the retirement date. The classification rules within IAS 19 require that, where the employer is exposed to any actuarial risk, the entire fund be classified as a defined benefit plan. The valuation of the option is included in the defined benefit obligation. The assets and liabilities of the defined contribution active members are separately presented. Pensioners who have elected to receive a living annuity as well as members who joined the fund on/after 1 July 2015 have been excluded from the IAS 19 disclosures as at 31 December 2022 the employer is not exposed to any longevity or other actuarial risk in respect of these members at this date.

The change in investment strategy implemented in the prior year (refer below) results in the assets of the Fund fully matching the nature, term and cashflows of the pensions in payment. As a result, the Trustees approved a change to the rules of the Fund in September 2022 to again allow all members an option, effective 1 January 2023, to purchase a living annuity from the Fund, regardless of their date of employment. This change to the rules does not have an impact on the net defined benefit recognised at 31 December 2022, but will increase the values disclosed for the defined contribution portion, from 1 January 2023.

Net defined benefit plans assets relating to these pensioners that have elected to receive a living annuity, amount to **R4 459.6m** (2021: R4 180m).

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group Absa Pension Fund	
	2022	2021
<b>43. Retirement benefit fund obligations (continued)</b>		
<b>43.1 The Absa Pension Fund</b>		
<b>Categories of the Fund</b>		
Defined benefit active members	11	13
Defined benefit deferred pensioners	1	1
Defined benefit pensioners	7 131	8 084
Defined contribution active members	16 969	18 405
Defined contribution pensioners	2 973	2 963
Duration of the scheme – defined benefit (years)	7.7	8.3
Duration of the scheme – defined contribution (years)	18.3	18.9
Duration of the scheme – defined contribution option (years)	-	-
Expected contributions to the Fund for the next 12 months (Rm)	1814.54	1121.57

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

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

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

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

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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>43. Retirement benefit fund obligations (continued)</b>		
43.1 Absa Pension Fund (continued)		
43.1.1 Reconciliation of the net defined benefit plan surplus		
<b>Reconciliation of the net surplus</b>		
Present value of funded obligations	(30 341)	(30 870)
Defined benefit portion	(7 582)	(7 648)
Defined contribution portion	(22 759)	(23 222)
Fair value of the plan assets	32 790	33 155
Defined benefit portion	10 031	9 933
Defined contribution portion	22 759	23 222
<b>Funded status</b>	<b>2 449</b>	<b>2 285</b>
Irrecoverable surplus (effect of asset ceiling)	(1 983)	(1 820)
<b>Net surplus arising from the defined benefit obligation</b>	<b>466</b>	<b>465</b>
43.1.2 Reconciliation of movement in the funded obligation		
<b>Balance at the beginning of the reporting period</b>	<b>(30 870)</b>	<b>(26 100)</b>
Defined benefit portion	(7 648)	(7 319)
Defined contribution portion	(23 222)	(18 781)
<b>Reconciling items – defined benefit portion</b>	<b>66</b>	<b>(329)</b>
Actuarial (losses)/gains – financial	516	(11)
Actuarial gains – experience adjustments	74	233
Benefits paid	794	748
Current service costs	(13)	(13)
Past service costs	-	(54)
Interest expense	(805)	(755)
Defined contribution member transfers	(500)	(477)
<b>Reconciling items – defined contribution portion</b>	<b>463</b>	<b>(4 441)</b>
(Increase)/decrease in obligation linked to plan assets return	(2 086)	(6 562)
Employer contributions	(636)	(657)
Employee contributions	(506)	(524)
Disbursements and member transfers	3 691	3 302
<b>Balance at the end of the reporting period</b>	<b>(30 341)</b>	<b>(30 870)</b>

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2022 Rm	2021 Rm
<b>43. Retirement benefit fund obligations (continued)</b>		
43.1 Absa Pension Fund (continued)		
43.1.3 Reconciliation of movement in the plan assets		
<b>Balance at the beginning of the reporting period</b>	<b>33 155</b>	<b>27 124</b>
Defined benefit portion	<b>9 933</b>	<b>8 343</b>
Defined contribution portion	<b>23 222</b>	<b>18 781</b>
<b>Reconciling items – defined benefit portion</b>	<b>98</b>	<b>1 590</b>
Benefits paid	<b>(794)</b>	<b>(748)</b>
Employer contributions	<b>2</b>	<b>1</b>
Interest income	<b>1 048</b>	<b>862</b>
Return on plan assets in excess of interest	<b>(658)</b>	<b>998</b>
Defined contribution member transfers	<b>500</b>	<b>477</b>
<b>Reconciling items – defined contribution portion</b>	<b>(463)</b>	<b>4 441</b>
Return on plan assets	<b>2 085</b>	<b>6 562</b>
Employer contributions	<b>637</b>	<b>657</b>
Employee contributions	<b>506</b>	<b>524</b>
Disbursements and member transfers	<b>(3 691)</b>	<b>(3 302)</b>
<b>Balance at the end of the reporting period</b>	<b>32 790</b>	<b>33 155</b>
43.1.4 Reconciliation of movement in the irrecoverable surplus		
<b>Balance at the beginning of the reporting period</b>	<b>(1820)</b>	<b>(631)</b>
Interest on irrecoverable surplus	<b>(195)</b>	<b>(67)</b>
Changes in the irrecoverable surplus in excess of interest	<b>32</b>	<b>(1 122)</b>
<b>Balance at the end of the reporting period</b>	<b>(1 983)</b>	<b>(1 820)</b>

	Group 2022 Fair value of plan assets			
	Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
43.1.5 Nature of the pension fund assets				
<b>Plan assets relating to the defined benefit plan</b>				
<b>Defined Benefit Portion</b>	<b>8 396</b>	<b>1 227</b>	<b>408</b>	<b>10 031</b>
Quoted fair value	<b>8 055</b>	<b>1 202</b>	<b>103</b>	<b>9 360</b>
Unquoted fair value	<b>233</b>	<b>5</b>	<b>272</b>	<b>510</b>
Own transferable financial instruments	<b>108</b>	<b>20</b>	<b>1</b>	<b>129</b>
Investments in listed property entities/ funds	<b>-</b>	<b>-</b>	<b>32</b>	<b>32</b>
<b>Defined Contribution Portion</b>	<b>7 890</b>	<b>14 132</b>	<b>737</b>	<b>22 759</b>
Quoted fair value	<b>5 497</b>	<b>13 863</b>	<b>352</b>	<b>19 712</b>
Unquoted fair value	<b>2 221</b>	<b>5</b>	<b>(18)</b>	<b>2 208</b>
Own transferable financial instruments	<b>172</b>	<b>264</b>	<b>2</b>	<b>438</b>
Investments in listed property entities/ funds	<b>-</b>	<b>-</b>	<b>401</b>	<b>401</b>
	<b>16 286</b>	<b>15 359</b>	<b>1 145</b>	<b>32 790</b>



## Notes to the consolidated financial statements

for the reporting period ended 31 December

		Group 2021			
		Fair value of plan assets			
	Debt instruments Rm	Equity instruments Rm	Other instruments Rm		Total Rm
<hr/>					
<b>43. Retirement benefit fund obligations (continued)</b>					
43.1 Absa Pension Fund (continued)					
43.1.5 Plan assets relating to the defined benefit plan					
<b>Defined Benefit Portion</b>	8 230	1 293	410		9 933
Quoted fair value	7 762	1 272	89		9 123
Unquoted fair value	367	5	272		644
Own transferable financial instruments	101	16	2		119
Investments in listed property entities/ funds	-	-	47		47
<b>Defined Contribution Portion</b>	6 807	15 277	1 138		23 222
Quoted fair value	6 091	15 099	401		21 591
Unquoted fair value	577	4	300		881
Own transferable financial instruments	139	174	-		313
Investments in listed property entities/ funds	-	-	437		437
	15 037	16 570	1 548		33 155

		Group	
		2022 Rm	2021 Rm
43.1.6	Movements in the defined benefit plan presented in the statement of comprehensive income		
	<b>Recognised in profit or loss:</b>		
	Net interest income	(48)	(42)
	Current service cost	13	13
	Past service cost	-	54
		(35)	25
	<b>Recognised in other comprehensive income:</b>		
	Actuarial losses/(gains) – financial	(516)	11
	Actuarial adjustments gains - experience	(74)	(233)
	Return on plan assets in excess of interest	658	( 998)
	Changes in the irrecoverable surplus in excess of interest	( 32)	1 122
		36	(98)
43.1.7	Actuarial assumptions used:		
	Discount rate (%) p.a.	11.9	10.7
	Inflation rate (%) p.a.	6.4	6.0
	Expected rate on the plan assets (%) p.a.	10.4	10.0
	Future salary increases (%) p.a.	7.4	7.0
	Average life expectancy in years of pensioner retiring at 60 – Male	22.0	21.9
	Average life expectancy in years of pensioner retiring at 60 – Female	26.9	26.8

## Notes to the consolidated financial statements

for the reporting period ended 31 December

		Group 2022	
		Reasonable possible change Rm	Increase/ (decrease) on defined benefit obligation Rm
<b>43. Retirement benefit fund obligations (continued)</b>			
43.1 Absa Pension Fund (continued)			
43.1.8 Sensitivity analysis of the significant actuarial assumptions			
Increase in discount rate (%)		0.5	246
Increase in inflation (%)		0.5	279
Increase in life expectancy (years)		1	203
		2021	
		Reasonable possible change Rm	Increase/ (decrease) on defined benefit obligation Rm
Increase in discount rate (%)		0.5	(296)
Increase in inflation (%)		0.5	276
Increase in life expectancy (years)		1	219

### 43.1.9 Sensitivity analysis of the significant assumptions

#### Sensitivity analysis

The aforementioned sensitivity analysis indicates how changes in significant actuarial assumptions would affect the defined benefit portion of **R 7 582m** (2021: R 7 648m).

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 **R 22 759m** (2021: R 23 222m) does not give rise to any actuarial risks as the measurement is derived from the defined contribution plan assets. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

### 43.2 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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 43. Retirement benefit fund obligations (continued)

#### 43.2 Other subsidiaries plans (continued)

##### **Defined contribution structure**

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

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

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

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

Contributions are generally determined by the Employer in consultation with the Actuary following the funding valuation to ensure the sustainability and financial soundness of the funds. The staff costs expense for the defined contribution plans is **R206m** (2021: R182m). Surpluses and deficits are dealt with in a manner which is consistent with the funds' rules and applicable legislation. Minimum funding requirements are limited to the deficits of the funds.

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

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

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

With effect from 1 January 2022, the Absa Bank Mauritius pension fund trustees decided to affect a shift with regard to the pension fund plans available to current employees, from a Defined Benefit Plan to a Defined Contribution plan. This shift is a prospective change in that employees' pension for service from 1 January 2022 accrues in terms of the Defined Contribution plan. The shift does not alter benefits that had accrued to employees in prior years in terms of the Defined Benefit Plan – however, future service no longer accrues under this plan.

An objective of the shift is to ensure that the employees remain in the same economic position that they would have been at retirement date, if the Defined Benefit plan remained in place. Absa Bank Mauritius will therefore make a capital injection each year, spread over a maximum of five years, into the personal member's account (PMA). The capital injections made to the PMA's for the year ended 31 December 2022 amounted to R26m. The employees' pension at retirement date will comprise of benefits accrued in terms of the Defined Benefit Plan as well as benefits accrued in terms of the Defined Contribution plan.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

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 2022						
	Absa Bank of Botswana	Absa Bank of Kenya	Kenya First Assurance	Absa Bank of Zambia	Absa Bank of Seychelles	Absa Bank of Mauritius	Absa Bank of Mozambique
<b>Membership</b>							
Defined benefit active members	-	2	54	-	7	170	668
Defined benefit deferred pensioners	-	784	46	14	8	79	-
Defined benefit pensioners	178	1 407	17	373	2	302	1 074
Defined contribution active members	1 032	1 937	-	675	266	565	1 143
Duration of the scheme (years)	8	6	9	3	14	15	8
Expected contribution to the plan for the next 12 months (Rm)	4.0	19.7	-	6.2	3.4	30.6	-
2021							
	Absa Bank of Botswana	Absa Bank of Kenya	Kenya First Assurance	Absa Bank of Zambia	Absa Bank of Seychelles	Absa Bank of Mauritius	Absa Bank of Mozambique
<b>Membership</b>							
Defined benefit active members	-	2	56	-	7	174	847
Defined benefit deferred pensioners	-	797	48	14	8	84	-
Defined benefit pensioners	178	1 436	16	395	2	299	1 063
Defined contribution active members	1 063	1 949	1 949	721	250	560	1 267
Duration of the scheme (years)	8	6	10	3	14	17	8
Expected contribution to the plan for the next 12 months (Rm)	2.7	40.3	-	4.7	2.9	25.5	-

## Notes to the consolidated financial statements

for the reporting period ended 31 December

		Group	
		2022	2021
		Rm	Rm
<b>43. Retirement benefit fund obligations (continued)</b>			
43.2 Other defined benefit plans of subsidiaries			
43.2.1 Defined benefit plan reconciliations			
Present value of funded defined benefit obligations	(2 495)	(2 640)	
Fair value of the defined benefit plan assets	2 463	2 485	
<b>Funded defined benefit plan status</b>	<b>(32)</b>	<b>(155)</b>	
<b>Irrecoverable Surplus (effect of asset ceiling)</b>	<b>(154)</b>	<b>(247)</b>	
<b>Net deficit arising from defined benefit obligation</b>	<b>(186)</b>	<b>(402)</b>	
43.2.2 Reconciliation of movement in the defined benefit obligation			
<b>Balance at the beginning of the reporting period</b>	<b>(2 640)</b>	<b>(2 643)</b>	
Actuarial losses	238	266	
Actuarial (losses)/gains - changes in financial assumptions	252	214	
Actuarial gains/(losses) - experience adjustments	4	52	
Actuarial gains/(losses) - demographic	(18)	-	
Benefits paid	274	201	
Current service costs	(19)	(48)	
Interest expense	(260)	(240)	
Foreign exchange differences	(88)	(176)	
<b>Balance at the end of the reporting period</b>	<b>(2 495)</b>	<b>(2 640)</b>	
43.2.3 Reconciliation of movement in the plan assets			
<b>Balance at the beginning of the reporting period</b>	<b>2 485</b>	<b>2 271</b>	
Benefits paid	(274)	(201)	
Employer contributions	73	32	
Interest income on the plan assets	281	266	
Remeasurement - return on plan assets in excess of interest	(172)	(125)	
Settlement gains/(losses) <sup>1</sup>	-	-	
Foreign exchange differences	70	242	
<b>Balance at the end of the reporting period</b>	<b>2 463</b>	<b>2 485</b>	
43.2.4 Reconciliation of movement in the irrecoverable surplus			
<b>Balance at the beginning of the reporting period</b>	<b>(247)</b>	<b>(204)</b>	
Interest on irrecoverable surplus	(36)	(39)	
Changes in the irrecoverable surplus in excess of interest	(133)	(20)	
Foreign exchange differences	262	16	
<b>Balance at the end of the reporting period</b>	<b>(154)</b>	<b>(247)</b>	

<sup>1</sup> This relates to the settlement of voluntary retirement obligation in Mauritius.

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for the reporting period ended 31 December

		Group			
		2022			
		Fair value of plan assets			
		Debt	Equity	Other	Total
		instruments	instruments	instruments	
		Rm	Rm	Rm	Rm
<b>43.</b>	<b>Retirement benefit fund obligations (continued)</b>				
43.2	Other defined benefit plans of subsidiaries				
43.2.5	Nature of the defined benefit plan assets				
	Quoted fair value	248	600	338	1 186
	Unquoted fair value	937	38	180	1 155
	Own transferable financial instruments	-	2	45	47
	Own occupied or used property	-	-	75	75
		1 185	640	638	2 463
		2021			
		Fair value of plan assets			
		Debt	Equity	Other	Total
		instruments	instruments	instruments	
		Rm	Rm	Rm	Rm
	Quoted fair value	239	628	491	1 358
	Unquoted fair value	935	49	35	1 019
	Own transferable financial instruments	-	3	29	32
	Own occupied or used property	-	-	76	76
		1 174	680	631	2 485

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

		Group	
		2022	2021
		Rm	Rm
43.2.6	Movements in the defined benefit plan presented in the statement of comprehensive income		
	<b>Recognised in profit or loss:</b>		
	Net interest expense	18	12
	Current service cost	19	48
	Past service cost including curtailments	-	-
	Settlements (gains)/losses	-	-
		37	60
	<b>Recognised in other comprehensive income:</b>		
	Actuarial gains - changes in financial assumptions	(252)	(214)
	Actuarial (gains)/losses - experience adjustments	(4)	(52)
	Actuarial gains/(losses) - demographic assumptions	18	-
	Remeasurement - return on the plan assets in excess of interest	172	125
	Changes in the irrecoverable surplus in excess of interest	(133)	(20)
		(199)	(161)
43.2.7	The actuarial assumptions (weighted averages) include:		
	Discount rate (%)	11.9	10.5
	Inflation (%)	6.2	6.6
	Future pension increases (%)	5.5	5.1
	Future salary increases(%)	3.8	3.7
	Average life expectancy in years of pensioner retiring at 60 – Male	18.1	18.0
	Average life expectancy in years of pensioner retiring at 60 – Female	21.9	21.7

## Notes to the consolidated financial statements

for the reporting period ended 31 December

		Group	
		2022	
		Reasonable possible change	Increase/ (decrease) on defined benefit obligation Rm
<b>43. Retirement benefit fund obligations (continued)</b>			
43. Other defined benefit plans of subsidiaries			
43.2.8 Sensitivity analysis of significant assumptions (weighted averages)			
<b>Significant actuarial assumption</b>			
Increase in discount rate (%)		0.5	(103)
Increase in inflation (%)		0.5	55
Increase in life expectancy (years)		1	65
		2021	
		Reasonable possible change	Increase/ (decrease) on defined benefit obligation Rm
<b>Significant actuarial assumption</b>			
Increase in discount rate (%)		0.5	(124)
Increase in inflation (%)		0.5	60
Increase in life expectancy (years)		1	80

### 43.2.9 Sensitivity analysis

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

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

### 43.3 Post-retirement medical aid plans

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

The present value of the post-retirement medical aid plan liabilities is **R302m** (2021: R303m) and the fair value of related plan assets is **R0m** they are in a deficit (2021: R0m).

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 44. Dividends per share

	Group	
	2022 Rm	2021 Rm
Dividends declared to ordinary equity holders		
Interim dividend <b>(15 August 2022: 650 cps)</b> (16 August 2021: 310 cps)	5 510	2 628
Final dividend <b>(13 March 2023: 650 cps)</b> (14 March 2022: 475 cps)	5 510	4 027
	11 020	6 655
Dividends declared to ordinary equity holders (net of treasury shares)		
Interim dividend <b>(15 August 2022: 650 cps)</b> (16 August 2021: 310 cps)	5 399	2 573
Final dividend <b>(13 March 2023: 650 cps)</b> (14 March 2022 : 475 cps)	5 378	3 944
	10 777	6 517
Dividends declared to non-controlling preference equity holders		
Interim dividend <b>(15 August 2022: 2 883.42500 cps)</b> (16 August 2021: 2 470.13699 cps)	143	122
Final dividend <b>(13 March 2023: 3 509.58904)</b> (14 March 2022: 2 494.10959 cps)	174	123
	317	245
Distributions declared and paid to Additional Tier 1 capital note holder		
Distribution		
<b>10 January 2022: 21 024.73 Rands per note (rpn);</b> 11 January 2021: 20 214.47 Rands per note (rpn)	26	25
<b>27 January 2022: 20 751.67 rpn;</b> 27 January 2021: 20 085.45 rpn	26	24
<b>28 February 2022: 20 860.19 rpn;</b> 26 February 2021: 19 268.38 rpn	35	32
<b>07 March 2022: 20 236.90 rpn;</b> 05 March 2021: 18 786.19 rpn	28	26
<b>14 March 2022: 23 747.26 rpn;</b> 12 March 2021: 22 301.37 rpn	36	33
<b>11 April 2022: 21 525.81 rpn;</b> 12 April 2021: 20 922.52 rpn	27	26
<b>28 April 2022: 21 087.07 rpn;</b> 28 April 2021: 20 423.89 rpn	26	25
<b>30 May 2022: 21 732.79 rpn;</b> 28 May 2021: 20 299.23 rpn	36	34
<b>06 June 2022: 21 109.51 rpn;</b> 07 June 2021: 20 326.60 rpn	29	28
<b>13 June 2022: 24 744 rpn;</b> 14 June 2021: 23 971.29 rpn	37	36
<b>11 July 2022: 22 769.95 rpn;</b> 12 July 2021: 20 984.85 rpn	28	26
<b>27 July 2022: 22 068.49 rpn;</b> 27 July 2021: 20 280.82 rpn <sup>1</sup>	27	25
<b>29 August 2022: 23 415.67 rpn;</b> 30 August 2021: 21 074.03 rpn	39	36
<b>05 September 2022: 22 792.38 rpn;</b> 06 September 2021: 19 778.16 rpn	31	27
<b>12 September 2022: 26 345.12 rpn;</b> 13 September 2021: 23 268.58 rpn	40	35
<b>10 October 2022: 24 515.15 rpn;</b> 11 October 2021: 21 047.18 rpn	30	26
<b>27 October 2022: 25 878.67 rpn;</b> 27 October 2021: 20 751.67 rpn	31	25
<b>28 November 2022: 25 574.74;</b> 29 November 2021: 20 361.56 rpn	43	34
<b>05 December 2022: 24 993.84 rpn;</b> 06 December 2021: 19 738.27 rpn	34	27
13 December 2021: 23 248.63 rpn	-	35
	609	585
Dividends paid to ordinary equity holders (net of treasury shares)		
Final dividend <b>(22 April 2022: 475 cps)</b> (2021: 0 cps)	3 944	-
Interim dividend <b>(19 September 2022: 650 cps)</b> (20 September 2021: 310 cps)	5 399	2 573
	9 343	2 573
Dividends paid to non-controlling preference equity holders		
Final dividend <b>(22 April 2022: 2 494.10959 cps)</b> (19 April 2021: 2 429.86301 cps)	123	120
Interim dividend <b>(19 September 2022: 2 883.42500 cps)</b> (20 September 2021: 2 470.13699 cps)	143	122
	266	242

<sup>1</sup> In December 2021, the Bank inadvertently disclosed an incorrect 'distributions declared' date. This has been corrected to 27 July 2021.



## Notes to the consolidated financial statements

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### 45. Securities borrowed/lent and repurchase/ reverse repurchase agreements

#### 45.1 Reverse repurchase agreements and securities borrowed

As part of the reverse repurchase agreements and securities borrowing agreements, the Group has received securities as collateral that are allowed to be sold or repledged. These securities are pledged for the duration of the respective agreements. The terms of the pledges are usual and customary to such agreements. The fair value of these securities at the reporting date amounts to **R92 620m** (2021: R125 113m) of which **R62 994m** (2021: R47 016m) have been sold or repledged. The Group has an obligation to return the collateral held except in the event of default.

#### 45.2 Repurchase agreements and securities lent

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

	Group 2022				
	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	65 026	(63 448)	65 026	(63 448)	1 578
Equity instruments	1 800	( 788)	1 800	( 788)	1 012

	2021				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Debt instruments	47 106	(46 510)	47 106	(46 510)	596
Equity instruments	2 810	(1 553)	2 810	(1 553)	1 257

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

### 46. Transfer of financial assets

#### 46.1 Transfer of financial assets involving structured entities

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

#### 46.2 Transfer of financial assets that does not result in derecognition

	Group 2022				
	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	3 083	(2 315)	3 083	(2 315)	768
Loans and advances to customers	5 693	(1 929)	5 693	(1 929)	3 764

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	2021				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Investment securities	1 716	(1 195)	1 716	(1 195)	521
Loans and advances to customers	7 924	(4 514)	7 924	(4 514)	3 410

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

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

### 46.3 Transfer of financial assets that results in partial derecognition

The Group invests in notes of certain SEs. The interest on these notes represents a continuing exposure to the prepayment risk and credit risk of the underlying assets (the transferred assets) which comprise of 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 (2021: None).

### 46.4 Continuing involvement in financial assets that have been derecognised in their entirety

The instance may arise where the Group transfers a financial asset to an SE in its entirety but may have continuing involvement in it. Continuing involvement largely arises from providing financing to the SE in the form of retained notes, which do not bear first losses as they are not considered equity instruments of the SE. As at 31 December 2022, the Group had no continuing involvement where financial assets have been derecognised in their entirety (2021: None).

## Notes to the consolidated financial statements

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### 47. Offsetting financial assets and financial liabilities

Where relevant, the Group reports derivative financial instruments, 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 2022							
	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 <sup>1</sup> Rm	Offsetting financial instruments Rm	Financial collateral <sup>2</sup> Rm	Net amount Rm	Amounts not subject to legally enforceable netting arrangements <sup>3</sup> Rm	Total per statement of financial position <sup>4</sup> Rm
Derivative financial assets	97 878	(35 499)	62 379	(48 390)	(1 730)	12 259	1 182	63 561
Reverse repurchase agreements and other similar secured lending	93 641	-	93 641	-	(93 641)	-	-	93 641
<b>Total assets</b>	<b>191 519</b>	<b>(35 499)</b>	<b>156 020</b>	<b>(48 390)</b>	<b>(95 371)</b>	<b>12 259</b>	<b>1 182</b>	<b>157 202</b>
Derivative financial liabilities	(96 615)	40 768	(55 847)	48 390	-	(7 457)	(2 981)	(58 828)
Repurchase agreements and other similar secured borrowing	(88 291)	-	(88 291)	-	88 291	-	-	(88 291)
<b>Total liabilities</b>	<b>(184 906)</b>	<b>40 768</b>	<b>(144 138)</b>	<b>48 390</b>	<b>88 291</b>	<b>(7 457)</b>	<b>(2 981)</b>	<b>(147 119)</b>

<sup>1</sup>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.

<sup>2</sup>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. The financial collateral is pledged under terms that are usual and customary to such arrangements.

<sup>3</sup>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.

<sup>4</sup>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'.

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### 47. Offsetting financial assets and financial liabilities (continued)

2021								
Amounts subject to enforceable netting arrangements								
	Effects of netting on statement of financial position			Related amounts not set off				
	Gross amounts Rm	Amounts set off Rm	Net amounts reported on the statement of financial position <sup>1</sup> Rm	Offsetting financial instruments Rm	Financial collateral <sup>2</sup> Rm	Net amount Rm	Amounts not subject to enforceable netting arrangements <sup>3</sup> Rm	Total per statement of financial position <sup>4</sup> Rm
Derivative financial assets	66 908	(8 285)	58 623	(37 139)	(2 504)	18 980	2 263	60 886
Reverse repurchase agreements and other similar secured lending	87 689	-	87 689	-	(87 689)	-	-	87 689
<b>Total assets</b>	<b>154 597</b>	<b>(8 285)</b>	<b>146 312</b>	<b>(37 139)</b>	<b>(90 193)</b>	<b>18 980</b>	<b>2 263</b>	<b>148 575</b>
Derivative financial liabilities	(54 043)	7 924	(46 119)	37 139	-	(8 980)	(5 709)	(51 828)
Repurchase agreements and other similar secured borrowing	(76 428)	-	(76 428)	-	76 428	-	-	(76 428)
<b>Total liabilities</b>	<b>(130 471)</b>	<b>7 924</b>	<b>(122 547)</b>	<b>37 139</b>	<b>76 428</b>	<b>(8 980)</b>	<b>(5 709)</b>	<b>(128 256)</b>

### Offsetting and collateral arrangements

#### Derivative assets and liabilities

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

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

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

These offsetting and collateral arrangements and the credit risk mitigation strategies used by the Group are further explained in the Credit risk mitigation, collateral and other credit enhancements section of note 60.

<sup>1</sup>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.

<sup>2</sup>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.

<sup>3</sup>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.

<sup>4</sup>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'.

## Notes to the consolidated financial statements

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### 48. Related parties

#### 48.1 Prior Period related party events and transactions

Daniel Mminele announced his resignation as the Group Chief Executive Officer of Absa Group Limited from 30 April 2021. The Board appointed Jason Quinn as the Interim Group Chief Executive Officer and Punki Modise as the Interim Group Financial Director with effect from 20 April 2021 and 23 April 2021, respectively. She held the position of Interim Chief Executive of Retail Business Banking till 30 June 2022 after which she was appointed as Group Chief Strategy and Sustainability Officer effective 1 July 2022.

The Board appointed Sello Moloko as an independent non-executive director and Chairman designate with effect from 1 December 2021. He commenced his role as Chairman of Absa Group on 1 April 2022, taking over from Wendy Lucas-Bull, who retired from the position with effect from 1 April 2022.

Following the decision to dissolve Integrated Processing Solutions Proprietary Limited, the Group disposed of the Integrated Processing Solution investment on 30 September 2021. The Group received a cash consideration of R12m on disposal.

#### 48.2 Transactions with key management personnel

IAS 24 Related Party Disclosures (IAS 24), requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Executive Committee (Exco), including those acting in capacity of decision makers even when not formerly appointed to the Exco. 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. 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 2022 Rm	2021 Rm
<b>Key management personnel compensation</b>		
<b>Directors</b>		
Deferred cash payments	-	1
Non-deferred cash payments	18	15
Post-employment benefit contributions	1	1
Salaries and other short-term benefits	47	45
Share-based payments	26	16
	<b>92</b>	<b>78</b>
<b>Other key management personnel</b>		
Deferred cash payments	1	3
Non-deferred cash payments	41	31
Post-employment benefit contributions	2	1
Salaries and other short-term benefits	44	36
Share-based payments	46	30
	<b>134</b>	<b>101</b>

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### 48. Related parties (continued)

#### 48.2 Transactions with key management personnel (continued)

	2022		Group	
	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
<b>Loans</b>				
<b>Balance at the beginning of the reporting period</b>	<b>48</b>	<b>5</b>	37	16
(Discontinuance)/inception of related party relationships <sup>1</sup>	35	-	9	(1)
Loans issued and interest earned	37	2	44	1
Loans repaid	(36)	-	(42)	(11)
<b>Balance at the end of the reporting period</b>	<b>84</b>	<b>7</b>	48	5
<b>Interest income</b>	<b>(14)</b>	<b>(1)</b>	(9)	(3)
<b>Deposits</b>				
<b>Balance at the beginning of the reporting period</b>	<b>25</b>	<b>-</b>	23	-
(Discontinuance)/inception of related party relationships <sup>1</sup>	34	-	3	-
Deposits received	40	23	152	4
Deposits repaid and interest paid	(34)	(21)	(153)	(4)
<b>Balance at the end of the reporting period</b>	<b>65</b>	<b>2</b>	25	-
<b>Interest expense</b>	<b>8</b>	<b>-</b>	3	-
<b>Guarantees</b>	<b>211</b>	<b>8</b>	92	20
<b>Other investments</b>				
<b>Balance at the beginning of the reporting period</b>	<b>114</b>	<b>43</b>	90	35
(Discontinuance)/inception of related party relationships <sup>1</sup>	94	44	-	-
Value of new investments/contributions	-	-	3	-
Value of withdrawals/disinvestments	(10)	-	(7)	-
Fees and charges	-	-	-	-
Investment returns	-	-	28	8
<b>Balance at the end of the reporting period</b>	<b>198</b>	<b>87</b>	114	43

#### Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R1m** (2021: R0m) and received claims of **R0m** (2021:R0m)

<sup>1</sup> Includes balances relating to key management personnel who were appointed/resigned during the reporting period.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 48. Related parties (continued)

#### 48.3 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	2022 % holding	2021 % holding
Absa Group Limited and its subsidiaries				
Absa Capital Securities Proprietary Limited	Stockbrokers.	South Africa	100	100
Absa Development Company Holdings Proprietary Limited	Specialises in township development and sale of residential, commercial and industrial land.	South Africa	100	100
Absa Manx Insurance Company Limited	Captive insurance company for the Group and responsible for investment in insurances markets.	Isle of Man	100	100
Absa Stockbrokers and Portfolio Management Proprietary Limited	Enables customers to trade online or by telephone in shares, warrants and exchange-traded funds.	South Africa	100	100
Absa Securities U.S. Inc.	Broker-dealer trading in debt and equity securities.	United States of America	100	100
Absa Securities United Kingdom Limited	Solicitation, syndication, selling and arranging of equity and debt products.	United Kingdom	100	100
Absa Bank of Ghana Limited	Provides retail and corporate banking.	Ghana	100	100
Absa Bank of Kenya Limited	Provides retail and corporate banking.	Kenya	69	69
Absa Bank Mocambique S.A. (BBM)	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.	Mozambique	99	99
Absa Bank of Botswana Limited	Provides retail and corporate banking.	Botswana	68	68
Absa Bank (Mauritius) Limited	Provides retail and corporate banking.	Mauritius	100	100
Absa Bank (Seychelles) Limited	Provides retail and corporate banking.	Seychelles	100	100
Absa Bank Tanzania Limited	Provides retail and corporate banking.	Tanzania	100	100
Absa Bank Uganda Limited	Provides retail and corporate banking.	Uganda	100	100
Absa Bank Zambia PLC	Provides retail and corporate banking.	Zambia	100	100
Absa Capital Markets Nigeria Limited	Issuing house and underwriter.	Nigeria	100	100
Absa Securities Nigeria Limited	Licence for issuing house and underwriter.	Nigeria	100	100
Absa Stockbrokers Nigeria Limited	Stockbroking, financial consulting, investment advisors and managers.	Nigeria	100	100
National Bank of Commerce Limited (NBC)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.	Tanzania	55	55
Woolworths Financial Services Proprietary Limited	Provides credit cards, in-store cards and personal loans.	South Africa	50	50

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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 48. Related Parties (continued)

#### 48.3 Subsidiaries and consolidated structured entities (continued)

Name	Nature of business	Country of incorporation	Group	2021 % holding
			2022 % holding	
<b>Absa Bank Limited and its subsidiaries</b>	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers and clients.	South Africa	<b>100</b>	100
Absa Representative Office (Nigeria) Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	<b>100</b>	100
Absa Technology Prague s.r.o	Provides information Technology Services to Absa Group.	Czech Republic	<b>100</b>	100
Absa Vehicle Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	<b>100</b>	100
Home Obligor Mortgages Enhanced Securities (RF) Limited	Securitisation vehicle for Absa Home Loans division.	South Africa	<b>100</b>	100
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	<b>100</b>	100
<b>Absa Financial Services Limited and its subsidiaries</b>	Holding company of financial service-related entities.	South Africa	<b>100</b>	100
Absa Financial Services Africa Holdings Proprietary Limited	Holding company of African financial service-related entities.	South Africa	<b>100</b>	100
Absa Alternative Asset Management Proprietary Limited	Asset management.	South Africa	<b>-</b>	100
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.	South Africa	<b>100</b>	100
Absa Insurance Risk Management Services Limited	Providers short-term insurance and other related insurance products.	South Africa	<b>100</b>	100
Absa Life Botswana Proprietary Limited	Provides life assurance products focusing on risk and investment products that Absa's offerings to various market segments in Botswana.	Botswana	<b>100</b>	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	<b>100</b>	100
Absa Trust Limited	Trust administrative services.	South Africa	<b>100</b>	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	<b>100</b>	100
Global Alliance Seguros, S.A.	Provides non-life insurance in Mozambique.	Mozambique	<b>100</b>	100
First Assurance Holdings Limited	Provides short-term insurance and other related insurance products.	Kenya	<b>100</b>	100
Instant Life Proprietary Limited	Provides life assurance products through cell arrangements.	South Africa	<b>100</b>	100

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



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 48. Related Parties (continued)

#### 48.3 Subsidiaries and consolidated structured entities (continued)

			Group	
Name	Nature of business	Country of incorporation	2022 % holding	2021 % holding
<b>Share trusts</b>				
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
<b>Structured entities</b>				
Absa Foundation Trust	Provides funding for community upliftment. It receives a percentage of the Group's dividends which it distributes to identified community-related projects.	South Africa	n/a	n/a
NewFunds Collective Investment Scheme	Collective Investment Scheme.	South Africa	n/a	n/a
iMpumelelo CP Note Programme 1 (RF) Limited	Special purpose, bankruptcy-remote company incorporated for the purpose of issuing Absa Bank guaranteed Commercial Paper and medium-term notes.	South Africa	n/a	n/a
AB Finco 1 (RF) Limited	Securitisation vehicle	South Africa	n/a	n/a
Absa Home Loans 101 (RF) Limited	Securitisation vehicle	South Africa	n/a	n/a
Commissioner Street No 10 (RF) Proprietary Limited	Securitisation vehicle	South Africa	n/a	n/a

A full list of subsidiaries and consolidated Structured Entities (SE's) is available, on request, at the registered address of the Group.

	Group	2021
	2022 Rm	Rm
Subsidiaries' aggregate profits and losses after taxation	24 512	(17 664)

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 48. Related parties (continued)

#### 48.4 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 **R132bn** (2021: R113bn).

##### 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 2022 was **R15bn** and **R15bn** respectively (2021: R14bn and R12bn respectively).

##### Protective rights of non-controlling interests

Absa Bank Limited has issued equity preference shares 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 the Absa Bank Limited or for the reduction of its share capital or share premium accounts.

The particulars of these instruments are shown in note 25.

#### 48.5 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:

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 48. Related parties (continued)

#### 48.5 Associates, joint ventures and retirement benefit fund (continued)

	Group		
	Associates and joint ventures Rm	2022 Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Group	-	715	715
Value of Absa defined contribution pension fund investments managed by the Group	-	-	-
Value of Absa Group Limited shares held by defined benefit pension fund	-	31	31
Value of other Absa Group Limited securities held by defined benefit pension fund	-	766	766
<b>Statement of financial position</b>			-
Other assets	15	-	15
Loans and advances	22 224	-	22 224
Other liabilities	(9)	-	(9)
Deposits	(87)	-	(87)
			-
<b>Statement of comprehensive income</b>			-
Interest income from joint ventures and associates and on pension plan assets <sup>1</sup>	1 691	121	1 812
Interest expense on defined benefit obligation <sup>1</sup>	(5)	(121)	(126)
Fee and commission income	-	-	-
Fee and commission expense	(3)	-	(3)
Current service costs (refer to note 43) <sup>1</sup>	-	-	-
Operating expenses	(1 127)	-	(1 127)
Operating Income	-	-	-

	Associates and joint ventures Rm	2021 Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Group	-	713	713
Value of Absa defined contribution pension fund investments managed by the Group	-	-	-
Value of Absa Group Limited shares held by defined benefit pension fund	-	23	23
Value of other Absa Group Limited securities held by defined benefit pension fund	-	103	103
<b>Statement of financial position</b>			
Other assets	9	-	9
Loans and advances to customers (refer to note 7)	25 918	-	25 918
Other liabilities	(9)	-	(9)
Deposit due to customer	(107)	-	(107)
<b>Statement of comprehensive income</b>			
Interest income from joint ventures and associates and on pension plan assets <sup>1</sup>	1 371	78	1 449
Interest expense on defined benefit obligations <sup>1</sup>	(5)	78	73
Fee and commission income	-	-	-
Fee and commission expense	(3)	-	(3)
Current service costs (refer to note 43) <sup>1</sup>	-	-	-
Operating expenses	(1 305)	-	(1305)
Operating income	-	-	-

<sup>1</sup> 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.

<sup>2</sup> Loans and advances is made up of joint ventures

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 48. Related parties (continued)

#### 48.5 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 on a half-yearly basis.

		Group	
Name	Nature of business	2022 Ownership %	2021 Ownership %
<b>Equity-accounted associates</b>			
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
Sanlam Investment Holdings Proprietary Limited	Operates as an investment holding company. The Company, through its subsidiaries, provides investment management, financial planning, and consulting services.	13	-
<b>Equity-accounted joint ventures</b>			
FFS Finance South Africa (RF) Proprietary Limited	Provides financing solutions to Ford Motor Company customers.	50	50
MAN Financial Services (SA) (RF) Proprietary Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	50	50
Zeerust Joint Venture	Engaged in property investment.	55	55
John Deere Financial Proprietary Limited	Undertakes marketing activities for asset financing of John Deere products.	50	50
<b>Associates and joint ventures designated at fair value through profit or loss</b>	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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 49. Structured entities

#### Exchange-traded funds

Exchange Traded Funds (ETFs) are passively managed index funds that are listed and traded on a securities exchange. An ETF tracks the performance of and/or gains a broad exposure to a particular index, sector or commodity for individual and institutional investors. All ETFs have a market maker to ensure that liquidity is always maintained, and in many instances, the Group will act in this capacity. The Group may therefore hold a direct interest in the fund, but the magnitude of such interest will vary with sufficient regularity. Whether the Group consolidates any of the funds depends on the magnitude of the interest held therein, as well as on the Group's ability to direct the relevant activities of the fund, either directly or indirectly. The Group, through its contractual undertaking to act as market maker, ensures that liquidity is always maintained. The Group earns management fee income from its involvement in the funds. To the extent that the Group holds participatory units in the funds, the Group will receive distributions recognised as investment income, as well as unrealised gains and losses on the revaluations thereof. ETFs are regulated by the Financial Sector Conduct Authority and the Collective Investment Schemes Control Act, No. 45 of 2002.

#### 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.

#### 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 services 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.

#### Securitisation vehicles

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

#### 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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 49. Structured entities (continued)

#### 49.1 Consolidated structured entities

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

Name	Nature of support	Reason for providing support	Group	
			2022 Rm	2021 Rm
The Absa Foundation Trust	Donation	The Trust was constituted to fund community upliftment and social welfare programmes.	-	9
Various ETF Portfolios	Expense Subsidy	Subsidising the fixed cost incurred by the new ETF funds as the funds cannot yet cover their own costs due to low levels of market capitalisation.	-	0

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 2023.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 49. Structured entities (continued)

#### 49.2 Unconsolidated structured entities

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

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

	Group						
	2022						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
<b>Assets</b>							
Trading portfolio	-	-	346	-	-	-	346
Investment securities	-	0	-	-	3 706	-	3 706
Debt securities	-	0	-	-	3 706	-	3 706
Equity securities	-	-	-	-	-	-	-
Loans and advances to customers	29 694	-	-	500	-	13	30 207
Undrawn liquidity facilities and financial guarantees	-	-	-	281	-	-	281
(notional value) <sup>1</sup>	-	-	-	-	-	-	-
	29 694	0	346	781	3 706	13	34 540
<b>Maximum exposure to loss<sup>2</sup></b>	29 694	0	346	781	3 706	13	34 540
<b>Total size of entities<sup>3</sup></b>	122 529	101 861	346	1 447	25 908	13	252 104

<sup>1</sup>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.

<sup>2</sup>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.

<sup>3</sup>Total size of entities is measured relative to total assets.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 49. Structured entities (continued)

#### 49.2 Unconsolidated structured entities (continued)

	Group 2021						Total Rm
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	
<b>Assets</b>							
Investment securities	-	173	234	-	4 225	-	4 632
Debt securities	-	-	234	-	-	-	234
Equity securities	-	173	-	-	4 225	-	4 398
Loans and advances to customers	26 632	-	-	593	-	15	27 240
Undrawn liquidity facilities and financial guarantees (notional value) <sup>1</sup>	-	-	-	240	-	-	240
	26 632	173	234	833	4 225	15	32 112
<b>Liabilities</b>							
Derivatives held for trading	-	-	-	-	-	-	-
Interest rate derivatives (carrying value)	-	-	-	-	-	-	-
Interest rate derivatives (notional value) <sup>1</sup>	-	-	-	-	-	-	-
Deposits due to customers	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
<b>Maximum exposure to loss<sup>2</sup></b>	26 632	173	234	833	4 225	15	32 112
<b>Total size of entities<sup>3</sup></b>	120 168	108 704	234	1 631	27 987	15	258 739

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Total size of entities is measured relative to total assets.



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 49. Structured entities (continued)

#### 49.2 Unconsolidated structured entities (continued)

The Group did not incur losses related to the Group's interests in unconsolidated structured entities in the current financial reporting period (2021: 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 (2021: Rnil) to unconsolidated structured entities.

#### 49.3 Sponsored entities

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

#### Assets transferred to unconsolidated sponsored structured entities

The Group did not transfer assets during the current financial reporting year (2021: Rnil) to its unconsolidated sponsored structured entities.

	Group 2022 Rm	2021 Rm
<b>50. Assets under management and administration (unaudited)</b>		
Alternative asset management and exchange-traded funds	25 908	64 647
Deceased estates	5 558	6 397
Other assets under administration	380 219	315 616
Portfolio management	4 397	21 472
Trusts	7 993	5 638
Unit trusts	90 343	158 346
	<b>514 418</b>	<b>572 116</b>

'Other assets under administration' 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 2022 Rm	2021 Rm
<b>51. Contingencies, commitments and similar items</b>		
Guarantees	55 851	48 828
Irrevocable debt facilities <sup>1</sup>	120 225	125 598
Letters of credit	24 269	17 782
Other	10	-
	<b>200 355</b>	<b>192 208</b>
<b>Authorised capital expenditure</b>		
Contracted but not provided for	690	938

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.

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.

<sup>1</sup>During the year, the group reviewed its classification of certain undrawn facilities granted to customers. As a result of this review, the classification of certain facilities was amended from irrevocable to revocable. This reclassification more accurately reflects the underlying terms of these facilities. The prior year numbers have been restated from R180 023m to R125 598m to reflect this change.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 51. Contingencies, commitments, and similar items (continued)

#### Legal matters

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

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

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

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

#### Regulatory developments

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

The nature and impact of future changes in the legal framework, policies and regulatory action especially in the areas of financial crime, banking and insurance regulation, cannot currently be fully predicted and are beyond the Group's control. We are also awaiting policy positions to be taken by Regulators. Some of these are likely to have an impact on the Group's customers, business lines, systems and earnings.

The Group is continuously evaluating its programmes and controls in general relating to compliance with regulation and responding to the same. The Group undertakes monitoring, review and assurance activities, and has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and has made disclosures on material findings as and when appropriate. The Group regards the relationship with Regulators as very important and manages such engagements on a continuous basis.

The relief measures provided by the PA in 2020 of a temporary relaxation of both capital supply and short-term liquidity requirements, enabled banks to continue the provision of credit into the economy during this period of financial stress. This support was discontinued in its entirety in April 2022.

#### 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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group	
	2022	2021
	Rm	Rm
<b>52. Deferred cash and share-based payments</b>		
<b>Share-based payments expense</b>	<b>730</b>	<b>543</b>
Equity-settled arrangements:		
Absa Group Share Incentive Plan Performance Award (SIPP)	<b>353</b>	342
Absa Group Limited Share Incentive Plan Retention Buyout Award (SIPRB)	<b>23</b>	13
Absa Group Limited Share Incentive Plan Deferred Award (SIPD)	<b>204</b>	146
Absa Group Limited Share Incentive Plan Retention Award (SIPR)	<b>79</b>	11
Cash-settled arrangements:		
Absa Group Share Incentive Plan Performance Award (SIPP)	<b>64</b>	24
Absa Group Limited Share Incentive Plan Retention Buyout Award (SIPRB)	-	2
Absa Group Limited Share Incentive Plan Deferred Award (SIPD)	<b>7</b>	4
Absa Group Limited Share Incentive Plan Retention Award (SIPR)	-	1
<b>Deferred cash expense</b>		
Absa Group Limited Cash Value Plan (CVP)	<b>43</b>	73
<b>Total deferred cash and share-based payments (refer to note 36)</b>	<b>773</b>	616
<b>Total carrying amount of liabilities for cash-settled arrangements (refer to note 16)</b>	<b>138</b>	133
<b>Total carrying amount of the equity settled share based payment arrangements (refer to the statement of changes in equity)</b>	<b>1 102</b>	679

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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 52. Deferred cash and share-based payments (continued)

#### Absa Group Limited Share Incentive Plan Performance Award

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

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.

#### Absa Group Limited Share Incentive Plan Deferred Award

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

#### Absa Group Limited Share Incentive Plan Retention Award

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

#### Additional to the Share Incentive Plan Retention Award: Individual Performance Conditions

Award will Vest on the Vesting Date(s), subject to achieving a performance rating in respect of the 2021, 2022 and 2023 performance years of "Good or above" (or any other equivalent rating in force from time to time).

#### Absa Group Limited Restricted Share Value Plan

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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 52. Deferred cash and share-based payments

	2022					2021					
	Opening balance	Granted	Forfeited	Exercised	Closing balance	Opening balance	Effect of conversion	Granted	Forfeited	Exercised	Closing balance
Equity-settled:											
SIPP	16 033	2 873	(5 091)	(1 064)	12 751	14 392	(8)	3 563	(1 856)	(58)	16 033
SIPRB	231	211	(16)	(115)	311	214	-	156	(36)	(103)	231
SIPD	3 194	1 519	(105)	(1 680)	2 928	5 174	-	587	(402)	(2 165)	3 194
SIPR	1 038	929	(67)	-	1 900	-	-	1 049	(11)	-	1 038
RSVP	52	-	-	(19)	33	71	-	-	-	(19)	52
Cash-settled:											
SIPP	927	201	(320)	(62)	746	628	8	299	(8)	-	927
SIPRB	19	-	-	(11)	8	21	-	14	-	(16)	19
SIPD	50	53	(1)	(24)	78	54	-	18	-	(22)	50
SIPR	64	62	(8)	-	118	-	-	64	-	-	64
RSVP	-	-	-	-	-	-	-	-	-	-	-

The terms and conditions of the above share-based payment arrangements dictate that awards be settled immediately on vesting and therefore there are no awards which have vested but have not yet been settled at any given time. Furthermore the awards outstanding in the aforementioned schemes have no exercise price.

	Weighted average share price at the exercise date (Rands)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (Rands)	
	2022	2021	2022	2021	2022	2021
Equity-						
SIPP	155.26	151.61	1.06	1.33	190.66	137.61
SIPRB	135.95	139.13	1.15	1.20	160.47	129.90
SIPD	102.63	117.42	0.81	0.77	190.96	124.17
SIPR	-	-	1.97	2.75	190.66	153.24
RSVP	153.00	138.43	-	0.09	-	-
Cash-settled:						
SIPP	178.17	-	1.17	1.44	191.00	138.14
SIPRB	183.57	144.67	0.80	1.06	-	111.52
SIPD	190.26	125.12	0.98	0.85	191.00	124.17
SIPR	-	-	2.00	2.75	191.00	153.24

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 52. Deferred cash and share-based payments (continued)

#### Future cash flow affects associated with equity settled share payments

	Group			
	2022			
	Within 1 year	From 1 year to 5 years	More than 5 years	Total
	Rm	Rm	Rm	Rm
Estimate of amount expected to be transferred to tax authorities	715	715	-	1 430

	2021			
	Within 1 year	From 1 year to 5 years	More than 5 years	Total
	Rm	Rm	Rm	Rm
Estimate of amount expected to be transferred to tax authorities	245	572	-	817

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 2022 is **0%** (2021: 0%) of the initial value of the award that vests.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2022 Rm	2021 Rm
<b>53. Cash and cash equivalents</b>		
Mandatory reserve balances with the SARB and other central banks <sup>1</sup>	31 842	28 705
Coins and notes	14 303	14 577
Loans and advances to banks <sup>1,2</sup>	22 319	17 897
Money market assets <sup>1</sup>	2 011	1 695
	<b>70 475</b>	<b>62 874</b>

## 54. Acquisitions and disposals of businesses and other similar transactions

### 54.1 Acquisitions of businesses and other similar transactions during the current reporting period

The Group acquired an equity interest in Sanlam Investment Holdings (Pty) Limited in exchange for its investment management business (refer note 54.2 below). This resulted in the recognition of an investment in associate to the value of **R679m**.

### 54.2 Disposals of businesses and other similar transactions during the current reporting period

On 01 December 2022, the Group sold its investment management business, which comprised of Absa Asset Management (Pty) Limited, Absa Alternative Asset Management (Pty) Limited, Absa Fund Managers (Pty) Limited and the multi-manager business, a division of Absa Investment Management Services (Pty) Limited, to Sanlam Investment Holdings (Pty) Limited (refer note 54.1 above). The Group received consideration comprising of ordinary shares (**R679m, 12.6%**), cumulative, convertible, redeemable preference shares (**R266m, 4.9%**) and a deferred consideration (**R143m**) to be settled in cash.

### 54.3 Acquisitions of businesses and other similar transactions during the previous reporting period

There were no acquisitions of businesses during the previous reporting periods.

### 54.4 Disposals of businesses and other similar transactions during the previous reporting period

The Group disposed of Card Issuing and Personal loan books on 30 June 2021. The Group received a cash consideration of R94m on disposal.

The Group disposed of the Integrated Processing Solution investment on 30 September 2021. The Group received a cash consideration of R12m on disposal.

<sup>1</sup> Restated, refer to note 1.21.

<sup>2</sup> Includes call advances, which are used as working capital for the Group.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 55. Segment report

#### 55.1 Summary of segments

The Group has identified its operating model with 'geography' and 'customer' as primary dimensions, creating a platform for increased focus and dedicated management capacity. The identified reportable segments are in a manner in which the Group's businesses are managed and reported to the Chief Operating Decision Maker (CODM). The Group has changed its operating model, effective from 1 July 2022. This change is part of the Group's journey to enhance market competitiveness, while also improving its transformation position. In essence, the Group has moved from two commercial businesses, Corporate and Investment Bank (CIB) Pan-Africa and Retail and Business Banking (RBB) Pan-Africa, to five business units (Everyday Banking, Relationship Banking, Product Solutions, CIB Pan-Africa and Absa Regional Operations RBB).

The following summary describes the operations in each of the Group's business units:

- > **Product Solutions Cluster:** offers a comprehensive suite of product solutions to the retail consumer segment. Products include mortgages, vehicle financing, life and non-life insurance products, investment products and advisory services. Customers are served through an extensive distribution network, including digital channels, branches, mortgage originators, dealerships, financial advisors and partnerships. The focus remains on providing a consistently superior experience across channel tailored to each customer's needs and expectations.
- > **Everyday Banking:** offers a comprehensive range of day-to-day banking products and services to a diverse spectrum of retail customers, from those needing basic banking services to those requiring sophisticated financial solutions. Everyday Banking focuses on providing a consistently superior experience across multiple channels designed to match the expectations of each customer segment, including digital and voice channels, as well as an extensive network of branch and ATM channels.
- > **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 within the Group. The businesses within Relationship Banking include Business Banking Services, Commercial Payments and Private Wealth. Relationship Banking also includes an Equity portfolio which is being reduced in an orderly manner.
- > **ARO RBB:** offers a comprehensive suite of retail, business banking and insurance products and services for individuals, small to medium enterprises and commercial customers across the region. Various solutions are provided to meet customers' transactional, borrowing, savings, protection and investment needs. The focus is on delivering a superior customer experience matched closely to the needs and expectations of our customers. This is facilitated through branch, self-service, agency banking and digital channels supported by a relationship-based model with a well-defined coverage structure built on specific customer value propositions.
- > **CIB:** provides innovative solutions to meet clients' needs by delivering specialist investment banking, corporate and transactional banking, financing, risk management, and advisory products and services. Clients across various industry sectors such as corporates, financial institutions and public sector bodies are serviced by combining our in-depth product knowledge with regional expertise and an extensive, well-established local presence. CIB's goal is to build a sustainable, trustworthy business that helps clients achieve their ambitions in the right way and by executing this we will create shared growth for clients, employees and communities.
- > **Head Office, Treasury and other operations** consists of various non-banking activities and includes investment income earned by the Group, as well as income earned by Absa Manx Holdings and Corporate Real Estate Services.
- > **Barclay's separation:** Barclays PLC contributed R12.1 billion to the Bank in June 2017, primarily in recognition of the investments required for the Bank to separate from Barclays PLC. This contribution was invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Bank over time. The Separation Programme was completed within agreed timelines. The separation process has had a significant impact on the Group's financial results over the past years, most notably an increase in the capital base and internally generated intangible assets, together with generated endowment revenues, and amortisation of the assets as they are brought into use. The afore-mentioned results show a disconnect between the underlying business performance and the IFRS financial results. Normalised results have therefore been disclosed to reflect the underlying business performance.

#### Reportable segments:

##### > Product Solutions Cluster:

Product Solutions offers a comprehensive suite of residential and vehicle finance solutions along with insurance products and services to protect customer's wealth and investment. The focus is on providing a consistently superior experience across each of the channels, matched closely to the needs and expectations of each customer. Customers across all segments are serviced through an extensive branch network, electronic channels, financial advisors, originators, dealerships as well as alliances and joint ventures.

#### Key business areas:

- **Home Loans** – Offers residential property-related finance solutions directly to customers through personalised services, 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.
- **Insurance SA** consists of:
  - **Life Insurance** – offers life insurance, covering death, disability and retrenchment, as well as funeral and life-wrapped investment products.
  - **Non-Life Insurance** – provides non-life insurance solutions to the retail and commercial market segments. Direct-to-client short-term solutions being iDirect and Activate, are also available to the retail market.
- **Non-Banking Financial Services – Includes the following:**
  - Absa Insurance and Financial Advisors which include face-to-face advisors, a digital advice platform and a direct sales service centre
  - Stockbroking and Portfolio Management products and services to core-middle-market, retail-affluent, private-banking, wealth, and business clients



## Notes to the consolidated financial statements

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### 55. Segment report (continued)

#### 55.1 Summary of segments (continued)

- Absa Trust facilitates wealth preservation through implementing estate planning solutions, including wills drafting and safe custody of wills, estate administration, trust administration and beneficiary fund administration
  - The investment in Sanlam Investment Holdings and management of the associated distribution agreement
  - Insurance Group holding companies, related consolidation entries, allocated shareholder overhead expenses and investments spend.
- > **Everyday Banking** – offers the day-to-day banking services for the retail customer and includes:
- **Card** – offers credit cards through a mix of Absa-branded and co-branded products, including British Airways. This portfolio also includes partnerships with Woolworths Financial Services, which offers in-store cards, credit cards, personal loans, and short-term insurance products.
  - **Personal Loans** – offers unsecured loans through the Absa Mobile Banking app, internet banking, face-to-face engagements, and the contact centre channels.
  - **Transactional and Deposits** – offers a full range of transactional banking, savings, and investment products and services through multiple channels.
- > **Relationship Banking** – places primary focus on client segment in drive to put the customer first. Essentially, the business focuses on the following key client segments Small and Medium Enterprises (SMEs), Commercial Segment and Private Wealth which are serviced by the following key business areas:
- **Business Banking Services** – which offers banking solutions spanning lending and transactional banking products as well as savings and investment products. The lending products consist of commercial asset finance, commercial property finance, term lending, structured lending as well as overdrafts.
  - **Commercial Payments** – accept electronic payments using various payment methods such as cash, debit, credit and prepaid cards as well as mobile payments. Commercial Payments also provides value added services such as money transfer and 'cash back' at point of sale.
  - **Private Wealth** – which offers a full suite of banking services to customers in the Private and Wealth segment including transactional, lending, savings and investment products as well as other wealth management services.
- > **Absa Regional Operations RBB** – offers a range of solution managed through the below key business areas:
- **Retail Banking:** offers day-to-day banking services to individual customers by providing a comprehensive suite of lending, transactional and deposit, cards and payments products across various segments.
  - **Business Banking:** has been identified as being of particular importance as it contributes significantly to job creation and national economic development in the ARO presence markets. Clients are serviced through a direct coverage and relationship-based model with customised solutions.
  - **Insurance ARO** Consists of:
    - **Life Insurance** – The product range covers death, disability and retrenchment, education as well as funeral and life-wrapped investment products; and
    - **Non-Life Insurance** – The product range covers non-life insurance solutions, including motor, medical and workman's compensation, primarily through agents leveraging the banking distribution channels
- > **CIB:** Client Engagement integrates client coverage across Africa to provide holistic solutions to clients through end-to-end relationship management and origination activities, leveraging the deep segment and sector specialisation within CIB across the business areas below. This includes the Growth Capital solutions team, which focuses on offering B-BBEE financing to clients with the aim of creating sustainable local and regional economies. Key business areas serviced are as per below:
- **Corporate:** Provides corporate banking solutions spanning financing and transactional banking requirements, including trade and working capital solutions, and a full suite of cash management, payments and liquidity products and solutions. These services are provided across our African institutional, corporate and public sector client base. The Absa Investor Services business provides a full suite of custody and trustee services, further building out our services and client value proposition.
  - **Investment Bank** comprising:
    - **Global Markets** – engages in trading, sales and research activities across all major asset classes and products in Africa, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients.
    - **Investment Banking Division** – structures innovative solutions delivering to meet clients' strategic advisory, financing and risk management requirements across industry sectors;
    - **Commercial Property Finance (CPF)** – specialises in financing commercial, industrial, retail and residential development property across our African footprint as well as cross border financing in other jurisdictions; and
    - **Private Equity and Infrastructure Investments (PEII)** – Infrastructure Investments acted as a principal by investing in equity to entities focused on infrastructure development in sub-Saharan Africa. Private Equity traditionally acted as a principal by investing in unlisted equity exposures. This portfolio continues to be reduced in line with the Group's strategy to exit non-core businesses.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 55. Segment report (continued)

	Group 2022		
	South Africa and other international operations <sup>1</sup> Rm	Africa regions Rm	Total Rm
<b>55.2 Segment report per geographical segment</b>			
Net interest income - external <sup>2</sup>	44 023	16 475	60 498
Interest and similar income	90 367	21 865	112 232
Interest expense and similar charges	(46 344)	(5 390)	(51 734)
Non-interest income - external	30 263	8 157	38 420
Total assets	1 484 865	308 336	1 793 201

	2021		
	South Africa and other international operations <sup>1</sup> Rm	Africa regions Rm	Total <sup>3</sup> Rm
<b>Segment report per geographical segment</b>			
Net interest income - external	39 791	13 531	53 322
Interest and similar income	72 347	17 148	89 495
Interest expense and similar charges	(32 556)	(3 617)	(36 173)
Non-interest income - external	25 791	6 793	32 584
Total assets	1 354 075	285 458	1 639 533

<sup>1</sup> "Other International operations" include United Kingdom and United States.

<sup>2</sup> The segment reporting presentation has been enhanced based on the requirements of IFRS 8 – Operating Segments. The Group has disaggregated Net interest income into Interest Income and similar income and Interest expense and similar charges as well as other significant items, as well as operating expenses into technology and staff costs.

<sup>3</sup> These numbers have been restated, refer to note 1.21.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Product Solutions Cluster		Everyday Banking		Relationship Banking		ARO RBB	
	2022 Rm	2021 <sup>1</sup> Rm	2022 Rm	2021 <sup>1</sup> Rm	2022 Rm	2021 <sup>1</sup> Rm	2022 Rm	2021 <sup>1</sup> Rm
<b>55.3 Segment report (continued)</b>								
Statement of comprehensive								
Net interest income <sup>3</sup>	9 154	8 248	14 373	12 939	9 337	8 765	9 713	8 372
Interest and similar income	34 371	26 239	13 486	11 119	13 043	10 484	9 354	7 798
Interest expense and similar charges	(25 217)	(17 991)	887	1 820	(3 706)	(1 719)	359	574
Non-interest income (Refer to note 55.5)	5 202	3 248	12 114	11 136	5 105	4 948	4 141	3 268
<b>Total income</b>	<b>14 356</b>	<b>11 496</b>	<b>26 487</b>	<b>24 075</b>	<b>14 442</b>	<b>13 713</b>	<b>13 854</b>	<b>11 640</b>
Impairment losses	(2 586)	(1 292)	(5 775)	(4 348)	( 618)	( 867)	(1 182)	(1 290)
Operating expenses <sup>3</sup>	(6 435)	(5 900)	(13 917)	(13 313)	(7 933)	(7 457)	(9 777)	(8 499)
Depreciation and amortisation	( 173)	( 2)	(1 486)	(1212)	( 258)	(202)	( 645)	(584)
Information technology costs	( 179)	( 187)	( 735)	(647)	( 126)	(109)	(1 092)	(877)
Staff costs	(2 669)	(2 381)	(6 163)	(5955)	(2 664)	(2603)	(5 482)	(4966)
Other operating expenses	(3 414)	(3 330)	(5 533)	(5 499)	(4 885)	(4 543)	(2 558)	(2 072)
Other expenses	( 284)	( 272)	(576)	(439)	(70)	(52)	(425)	(463)
Other impairments	( 36)	(25)	(171)	(120)	-	(4)	(36)	(29)
Indirect taxation	( 248)	(247)	(405)	(319)	(70)	(48)	(389)	(434)
Share of post-tax results of associates and	65	90	-	-	40	22	-	-
<b>Operating profit before income tax</b>	<b>5 116</b>	<b>4 122</b>	<b>6 219</b>	<b>5 975</b>	<b>5 861</b>	<b>5 359</b>	<b>2 470</b>	<b>1 388</b>
Tax expense	(1 396)	(1 163)	(1 846)	(1 655)	(1 661)	(1 473)	( 813)	( 803)
<b>Profit for the reporting period</b>	<b>3 720</b>	<b>2 959</b>	<b>4 373</b>	<b>4 320</b>	<b>4 200</b>	<b>3 886</b>	<b>1 657</b>	<b>585</b>
Profit attributable to:								
Ordinary equity holders	3 505	2 769	4 078	4 121	4 018	3 700	1 036	122
Non-controlling interest - ordinary shares	-	-	158	79	-	-	621	463
Non-controlling interest - preference shares	65	55	42	35	56	55	-	-
Other equity: Additional Tier 1 capital	150	135	95	85	126	131	-	-
	3 720	2 959	4 373	4 320	4 200	3 886	1 657	585
<b>Headline earnings</b>	<b>3 531</b>	<b>2 793</b>	<b>4 108</b>	<b>4 126</b>	<b>4 024</b>	<b>3 719</b>	<b>1 068</b>	<b>106</b>
Statement of financial position								
Loans and advances	402 364	369 589	76 523	73 268	136 091	126 274	72 476	64 035
Loans and advances to customers	400 354	368 351	67 483	60 405	134 778	125 603	72 117	63 726
Loans and advances to banks	2 010	1 238	9 040	12 863	1 313	671	359	309
Investment securities	26 718	23 363	3 901	3 574	6 590	6 111	1 518	1 149
Other assets	59 235	58 632	309 590	292 758	123 819	116 888	57 096	53 249
<b>Total assets</b>	<b>488 317</b>	<b>451 584</b>	<b>390 014</b>	<b>369 600</b>	<b>266 500</b>	<b>249 273</b>	<b>131 090</b>	<b>118 433</b>
Deposits	1 863	1 915	289 606	278 334	201 191	188 394	110 714	101 467
Deposits due to customers	1 863	1 915	289 606	278 334	201 185	188 390	110 439	101 436
Deposits due to banks	-	-	-	-	6	4	275	31
Debt securities in issue	-	-	-	-	-	-	88	84
Other liabilities	476 612	442 132	94 699	84 975	60 914	56 637	19 887	19 584
<b>Total liabilities</b>	<b>478 475</b>	<b>444 047</b>	<b>384 305</b>	<b>363 309</b>	<b>262 105</b>	<b>245 031</b>	<b>130 689</b>	<b>121 135</b>

## Notes to the consolidated financial statements

for the reporting period ended 31 December

CIB		Head office, Treasury and other operations		Total before Barclays separation effects		Barclays separation effects		Group	
2022 Rm	2021 <sup>1</sup> Rm	2022 Rm	2021 <sup>1,2</sup> Rm	2022 Rm	2021 Rm	2022 Rm	2021 Rm	2022 Rm	2021 Rm
16 458	14 571	1 405	402	60 440	53 297	58	25	60 498	53 322
30 972	23 619	11 006	10 236	112 232	89 495	-	-	112 232	89 495
(14 514)	(9 048)	(9 601)	(9 834)	(51 792)	(36 198)	58	25	(51 734)	(36 173)
10 325	9 295	1 547	681	38 434	32 576	(14)	8	38 420	32 584
26 783	23 866	2 952	1 083	98 874	85 873	44	33	98 918	85 906
(1 378)	(736)	(2 164)	34	(13 703)	(8 499)	-	-	(13 703)	(8 499)
(12 508)	(11 217)	(337)	(1 026)	(50 907)	(47 412)	(1 102)	(1 198)	(52 009)	(48 610)
(367)	(64)	(1 872)	(2 846)	(4 801)	(4 910)	(1 045)	(1 115)	(5 846)	(6 025)
(559)	(529)	(2 850)	(2 579)	(5 541)	(4 928)	(2)	(52)	(5 543)	(4 980)
(5 870)	(5 133)	(5 025)	(5 109)	(27 873)	(26 147)	-	14	(27 873)	(26 133)
(5 712)	(5 491)	9 410	9 508	(12 692)	(11 427)	(55)	(45)	(12 747)	(11 472)
(296)	(327)	(890)	(694)	(2 541)	(2 247)	-	42	(2 541)	(2 205)
(16)	(54)	(332)	(152)	(591)	(384)	-	(36)	(591)	(420)
(280)	(273)	(558)	(542)	(1 950)	(1 863)	-	78	(1 950)	(1 785)
15	9	17	11	137	132	-	-	137	132
12 616	11 595	(422)	(592)	31 860	27 847	(1 058)	(1 123)	30 802	26 724
(2 815)	(2 661)	152	151	(8 379)	(7 604)	288	305	(8 091)	(7 299)
9 801	8 934	(270)	(441)	23 481	20 243	(770)	(818)	22 711	19 425
8 965	8 229	(295)	(376)	21 307	18 565	(752)	(802)	20 555	17 763
495	374	25	(65)	1 299	851	(18)	(16)	1 281	835
103	97	-	-	266	242	-	-	266	242
238	234	-	-	609	585	-	-	609	585
9 801	8 934	(270)	(441)	23 481	20 243	(770)	(818)	22 711	19 425
8 977	8 250	(692)	(403)	21 016	18 591	(752)	(766)	20 264	17 825
513 942	452 113	12 003	6 978	1 213 399	1 092 257	-	-	1 213 399	1 092 257
431 614	398 527	3 483	774	1 109 829	1 017 386	-	-	1 109 829	1 017 386
82 328	53 586	8 520	6 204	103 570	74 871	-	-	103 570	74 871
47 252	43 242	129 658	111 459	215 637	188 898	-	-	215 637	188 898
513 409	493 715	(701 282)	(660 404)	361 867	354 838	2 298	3 539	364 165	358 377
1 074 603	989 070	(559 621)	(541 967)	1 790 903	1 635 993	2 298	3 539	1 793 201	1 639 532
499 609	482 385	138 936	121 271	1 241 919	1 173 766	-	-	1 241 919	1 173 766
407 397	409 076	102 792	96 585	1 113 282	1 075 736	-	-	1 113 282	1 075 736
92 212	73 309	36 144	24 686	128 637	98 030	-	-	128 637	98 030
26 669	17 989	178 762	111 702	205 519	129 775	-	-	205 519	129 775
540 231	481 284	(998 888)	(895 666)	193 455	188 946	(740)	(264)	192 715	188 682
1 066 509	981 658	(681 190)	(662 693)	1 640 893	1 492 487	(740)	(264)	1 640 153	1 492 223

<sup>1</sup>These numbers have been restated, refer to note 1.21.

<sup>2</sup>Head Office, Treasury and other operations in South Africa represents a reconciling stripe and is not a reporting segment.

<sup>3</sup>The segment reporting presentation has been enhanced based on the requirements of IFRS 8 – Operating Segments. The Group has disaggregated Net interest income into Interest Income and similar income and Interest expense and similar charges, as well as operating expenses into technology and staff costs.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	2022 Rm	2021 <sup>1</sup> Rm
<b>Segment report (continued)</b>		
<b>55.4 Total Internal Income by Segment</b>		
Product Solutions Cluster	<b>(23 943)</b>	(16 622)
Everyday Banking	<b>15 532</b>	1 2 805
Relationship Banking	<b>4 585</b>	3 752
ARO RBB	<b>2 199</b>	2 079
CIB	<b>(2 209)</b>	( 479)
Head Office, Treasury and other operations	<b>3 894</b>	(1 510)
Barclays PLC separation effects	<b>( 58)</b>	( 25)
	-	-

<sup>1</sup>These numbers have been restated, refer to note 1.21.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 55. Segment report (continued)

#### 55.5 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 2022							
	Product Solutions Cluster Rm	Everyday Banking Rm	Relations hip Banking Rm	ARO RBB Rm	CIB Rm	Head Office, Treasury and other operation s Rm	Barclays PLC separatio n effects Rm	Total Rm
Fee and commission income from contracts with customers	2 534	12 429	5 774	2 992	3 919	( 53)	-	27 595
Consulting and administration fees	198	-	128	26	116	11	-	479
Transactional fees and commissions	727	11 272	3 744	2 331	2 975	72	-	21 121
Cheque accounts	-	2 921	1 729	26	158	-	-	4 834
Credit cards	-	2 342	194	318	( 1)	43	-	2 896
Electronic banking	-	4 045	1 136	221	1 193	-	-	6 595
Other <sup>1</sup>	727	715	561	1 741	1 627	29	-	5 400
Savings accounts	-	1 249	124	25	( 2)	-	-	1 396
Merchant income	-	774	1 717	186	( 6)	-	-	2 671
Trust and other fiduciary services fees	258	-	76	4	18	857	-	1 213
Other fees and commissions	155	9	66	104	441	( 77)	-	698
Insurance commissions received	1 196	374	4	341	1	(916)	-	1 000
Investment banking fees	-	-	39	-	374	-	-	413
Other income from contracts with customers	-	-	27	-	-	-	-	27
Other non-interest income, net of expenses <sup>2,3</sup>	2 668	( 316)	( 696)	1 149	6 406	1 601	( 14)	10 798
Total non-interest income	5 202	12 113	5 105	4 141	10 325	1 548	( 14)	38 420

## Notes to the consolidated financial statements

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### 55. Segment report (continued)

Disaggregation of non-interest income (continued)

2021<sup>4</sup>

	Product Solutions Cluster Rm	Everyday Banking Rm	Relationship Banking Rm	ARO RBB Rm	CIB Rm	Head Office, Treasury and other operations Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	2 267	11 484	5 405	2 635	3 621	137	-	25 549
Consulting and administration fees	201	-	158	19	97	8	-	483
Transactional fees and commissions	668	10 407	3 538	2 116	2 736	(18)	-	19 447
Cheque accounts	-	2 742	1 804	30	139	-	-	4 715
Credit cards	-	2 075	155	287	1	-	-	2 518
Electronic banking	-	3 515	996	180	1 117	-	-	5 808
Other <sup>1</sup>	668	702	454	1 599	1479	(18)	-	4 884
Savings accounts	-	1 373	129	20	-	-	-	1 522
Merchant income	-	725	1 558	147	9	-	-	2 439
Trust and other fiduciary services fees	180	2	60	4	18	993	-	1 257
Other fees and commissions	146	9	49	69	403	(120)	-	556
Insurance commissions received	1 072	341	6	280	-	(726)	-	973
Investment banking fees	-	-	36	-	358	-	-	394
Other income from contracts with customers	-	-	37	-	-	-	-	37
Other non-interest income, net of expenses <sup>2,3</sup>	981	(348)	(494)	633	5 674	544	8	6 998
<b>Total non-interest income</b>	<b>3 248</b>	<b>11 136</b>	<b>4 948</b>	<b>3 268</b>	<b>9 295</b>	<b>681</b>	<b>8</b>	<b>32 584</b>

<sup>1</sup>Other transactional fees and commissions income include service and credit-related fees of **R2 079m** (2021: R1 766m), exchange commission **R795m** (2021: R680m) and guarantees **R222m** (2021: R325m) and transaction fees **R538m** (2021: R452m).

<sup>2</sup>This amount consists of other sources of income not accounted for under IFRS 15. This amount has been included to reconcile to the total non-interest income amount presented in the consolidated statement of comprehensive income.

<sup>3</sup>Other notable non-interest income items include gains from banking and trading activities of **R6.5bn** (2021: R6.0bn), offset by expenses within CIB. For the Product Solutions Cluster this includes insurance premium income of **R7.6bn** (2021: R7bn), offset by net insurance claims of **R4.0bn** (2021: R4.7bn).

<sup>4</sup>These numbers have been restated, refer to note 1.21.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives

#### 56.1 Derivative financial instruments

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

The derivative instrument contract value is derived from one or more underlying financial instruments or indices defined in the contract.

They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group's net interest income, net trading income, net fee and commission income and derivative assets and liabilities.

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

The Group trades the following derivative instruments:

##### **Foreign exchange derivatives**

The Group's principal exchange rate-related contracts are forward foreign exchange contracts, currency swaps and currency options.

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

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

##### **Interest rate derivatives**

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

##### **Credit derivatives**

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

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

##### **Equity derivatives**

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

##### **Commodity derivatives**

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

#### 56.2 Notional amount

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

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



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.3 Derivative financial instruments

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

	Group			Group		
	Assets	Liabilities	Notional contract amount	Assets <sup>1</sup>	Liabilities <sup>1</sup>	Notional contract amount
	Rm	Rm	Rm	Rm	Rm	Rm
Derivatives held for trading (refer to note 4 and note 15) <sup>1</sup>	58 588	(56 591)	10 330 933	57 189	(48 918)	7 274 470
Derivatives designated as hedging instruments (refer to note 4 and note 15) <sup>1</sup>	4 973	(2 237)	291 801	3 697	(2 910)	272 461
<b>Total derivatives</b>	<b>63 561</b>	<b>(58 828)</b>	<b>10 622 734</b>	<b>60 886</b>	<b>(51 828)</b>	<b>7 546 931</b>

#### 56.4 Derivatives held for trading – detail by market and instrument type

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

	Group			Group		
	Assets	Liabilities	Notional contract amount	Assets <sup>1</sup>	Liabilities <sup>1</sup>	Notional contract amount <sup>1</sup>
	Rm	Rm	Rm	Rm	Rm	Rm
<b>Foreign exchange derivatives</b>	<b>17 924</b>	<b>(18 310)</b>	<b>906 868</b>	<b>11 579</b>	<b>(12 687)</b>	<b>660 375</b>
Forwards	6 586	(7 999)	158 574	3 267	(3 674)	116 569
Futures	-	-	14 957	-	-	14 099
Swaps	8 870	(9 662)	521 857	5 591	(8 721)	435 936
Options	2 468	(649)	211 480	2 721	(292)	93 771
<b>Interest rate derivatives</b>	<b>31 491</b>	<b>(32 547)</b>	<b>9 156 886</b>	<b>35 967</b>	<b>(31 883)</b>	<b>6 454 765</b>
Forwards	1 639	(1 665)	2 177 588	848	(1 201)	1 660 420
Futures	-	-	111 209	-	-	78 069
Swaps <sup>1</sup>	29 632	(30 670)	6 825 954	34 975	(30 555)	4 691 406
Options <sup>1</sup>	220	(212)	42 135	144	(127)	24 870
<b>Equity derivatives</b>	<b>8 761</b>	<b>(4 679)</b>	<b>248 137</b>	<b>8 581</b>	<b>(2 682)</b>	<b>148 894</b>
Forwards	547	(823)	30 261	177	(1 170)	23 275
Futures	-	-	102 105	-	-	22 408
Swaps <sup>1</sup>	4 974	(3 730)	51 536	532	(1 320)	50 388
Options <sup>1</sup>	3 240	(126)	52 701	7 872	(192)	40 034
Options – exchange traded	-	-	-	-	-	3 951
Other – OTC	-	-	11 534	-	-	8 838
<b>Commodity derivatives</b>	<b>188</b>	<b>(117)</b>	<b>6 764</b>	<b>920</b>	<b>(824)</b>	<b>5 359</b>
Forwards	23	(69)	4 381	85	(88)	4 792
Swaps	129	(25)	2 056	578	(540)	403
Options	36	(23)	327	257	(196)	164
Default swaps	224	(938)	12 279	142	(842)	5 077
<b>Derivatives held for trading</b>	<b>58 588</b>	<b>(56 591)</b>	<b>10 330 934</b>	<b>57 189</b>	<b>(48 918)</b>	<b>7 274 470</b>

#### Note

4

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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.

<sup>1</sup>During the year the Group determined that certain items previously disclosed as Swaps within Interest rate and Equity derivatives would be more appropriately disclosed as Options within these same categories. Amounts have accordingly been reclassified as follows:  
Interest rate derivatives (Assets – R110m; Liabilities – R114m; Notionals – R22 090m)  
Equity derivatives (Assets – R1 249m; Notionals – R3 951m)

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.5 Derivative held for investment purposes

No derivatives were held for investment purposes for the 2022 or prior period.

#### 56.6 Counterparty netting and collateral

Derivative assets subject to counterparty netting agreements amounted to **R62 379m** (2021: R58 623m). Additionally, the Group held **R1 730m** (2021: R 2 504m) of collateral against the net derivative asset exposure. OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association ("ISDA") Master Agreement is used by the Group. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

#### 56.7 Hedge Accounting

##### Risk Management Strategy

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

Hedge accounting is predominantly applied for the following risks:

- Interest rate risk – arises due to exposure to capital or income volatility because of a mismatch between the interest rate exposures of its assets and liabilities.
- Contractually linked inflation risk – arises from certain financial instruments with a contractually specified inflation rate.
- Currency risk – arises due to transactional foreign exchange risk where assets, liabilities or highly probable expenditure are not denominated in the functional currency of the transacting entity. The group is also exposed at a consolidated level to translation foreign currency risk where the functional currency of the foreign operation is different from the parent. Please refer to note 60 for additional information about the group's Risk Management.

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.

The hedge ratio between the hedged item and the hedging instrument, 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. The assessment of the effectiveness of hedge relationships are performed on a cumulative life to date basis.

##### Interest rate risk

Interest rate derivatives designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans and advances.

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

In certain circumstances, hedged 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).

In some hedging relationships, the Group designates risk components or proportions of hedged items as follows:

- Benchmark interest rate risk as a component of interest rate risk, for example JIBAR or a Risk Free Rate (RFR). Designating the benchmark interest rate risk component only results in other risks, such as credit risk and liquidity risk, being excluded from the hedge accounting relationship, improving the effectiveness of the hedge relationship.
- Components of cash flows of hedged items, for example certain interest payments for part of the life of an instrument. Hedging a component of cash flows assist in meet a certain risk management objective for example hedging certain tenors within the interest rate risk cycle as required to be within the Group's risk appetite.
- Proportions of cash flows of hedged items, for example only a portion of the hedged items cash flows are designated in the hedge relationship. Hedging a portion of cash flows primarily assists in preventing the hedge relationship becoming over-hedged due to prepayments or credit risk and resultantly reducing ineffectiveness.

##### Inflation risk

Inflation derivatives designated as fair value hedges, primarily hedge fixed real interest rate risk to a nominal floating rate risk, introduced due to the contractually specified inflation rate within certain investment securities held. The contractually specified inflation risk is designated and hedged as a risk component, this results in other risks, such as credit risk and liquidity risk, being excluded from the hedge accounting relationship, improving the effectiveness of the hedge relationship.

##### Foreign currency risk

Foreign exchange derivatives designated as cash flow hedges, primarily hedge the cash flow variability arising from highly probable forecast foreign denominated expenditure. In addition, the Group hedges the cash flow variability of certain financial assets and liabilities denominated in a currency other than the functional currency. For these hedges the Group will

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designate the entire hedge item in the hedge relationship, therefore both the spot and forward component.

Foreign exchange derivatives designated as net investment hedge, hedges the translation foreign currency exposure to a net investment in a foreign operation. The spot exchange risk component is designated as the hedged item for these hedge relationships to reduce ineffectiveness.

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 over- or under-hedged.
- (iv) Derivatives used as hedging instruments with non-zero fair values on designation date.

These sources of ineffectiveness are applicable to all risk types. No other sources of ineffectiveness arose during the period.

## Notes to the consolidated financial statements

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### 56. Derivatives (continued)

#### 56.7 Hedge Accounting (continued)

##### 56.7.1 Fair value hedge accounting

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

	Group						
	2022						
	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
<b>Interest rate risk-Interest rate swaps</b>	<b>6 776</b>	<b>586</b>	<b>3 390</b>	<b>28 713</b>	<b>1 630</b>	<b>32 835</b>	<b>73 930</b>
Hedge of investment securities	817	-	2 229	19 528	171	32 265	55 010
Hedge of loans and advances	882	544	569	141	42	320	2 498
Hedge of debt securities in issue	125	42	592	2 178	1 417	250	4 604
Hedge of borrowed funds	4 952	-	-	6 866	-	-	11 818
<b>Interest rate risk-Cross currency swaps</b>							
Hedge of Investment securities	-	-	-	-	-	-	-
<b>Inflation risk-Interest rate swaps</b>							
Hedge of investment securities	225	280	100	-	-	379	984

	2021						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
<b>Interest rate risk-Interest rate swaps</b>	<b>6 161</b>	<b>7 066</b>	<b>827</b>	<b>4 129</b>	<b>27 588</b>	<b>26 925</b>	<b>72 696</b>
Hedge of investment securities	2 700	817	239	2 967	18 403	24 892	50 018
Hedge of loans and advances	1 867	823	546	570	141	366	4 313
Hedge of debt securities in issue	1 229	125	42	592	2 178	1 667	5 833
Hedge of borrowed funds	365	5 301	-	-	6 866	-	12 532
<b>Interest rate risk - cross currency swaps</b>							
Hedge of investment securities	2 857	-	-	-	-	-	2 857
<b>Inflation risk-Interest rate swaps</b>							
Hedge of investment securities	736	200	155	100	-	379	1 570

	Group	
	2022 Average price or rate %	2021 Average price or rate %
<b>Interest rate risk</b>		
Interest rate swaps		
Average fixed interest rate	8%	8%
<b>Inflation risk</b>		
Average fixed interest rate	3%	3%

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.7 Hedge Accounting (continued)

##### 56.7.1. Fair value hedge accounting (continued)

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

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

	Group 2022				
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2022 Rm	Ineffectiveness recognised in profit and loss Rm
<b>Total</b>	<b>74 914</b>	<b>4 498</b>	<b>(1 274)</b>	<b>2 798</b>	<b>(15)</b>
<b>Interest rate risk</b>	<b>73 930</b>	<b>4 160</b>	<b>(1 015)</b>	<b>2 824</b>	<b>10</b>
Interest rate swaps - hedge of investment securities	55 010	5 080	(812)	4 036	-
Cross currency swaps - hedge of investment securities	-	-	-	(2)	-
Interest rate swaps -hedge of loans and advances	2 498	17	(168)	124	9
Interest rate swaps -hedge of borrowed funds	11 818	(987)	-	(1 001)	1
Interest rate swaps - hedge of debt securities in issue	4 604	50	(35)	(333)	-
<b>Inflation risk</b>					
Inflation linked swaps - hedge of investment securities	984	16	(259)	(26)	(25)
Collateral held against derivatives <sup>2</sup>	-	322	-	-	-

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.7 Hedge Accounting (continued)

##### 56.7.1. Fair value hedge accounting (continued)

	Group 2021				
	Notional amount Rm	Assets <sup>1</sup> Rm	Liabilities <sup>1</sup> Rm	Change in fair value used for calculating hedge ineffectiveness for 2021 Rm	Ineffectiveness recognised in profit and loss Rm
<b>Total</b>	77 123	1 265	(2 755)	1 508	(34)
<b>Interest rate risk</b>	75 553	1 295	(2 262)	1 503	1
Interest rate swaps - hedge of investment securities <sup>1</sup>	50 018	789	(1 878)	2 078	11
Cross currency swaps - hedge of investment securities	2 857	-	(71)	(2)	-
Interest rate swaps -hedge of loans and advances <sup>1</sup>	4 313	-	(311)	183	1
Interest rate swaps -hedge of borrowed funds <sup>1</sup>	12 532	110	-	(359)	1
Interest rate swaps - hedge of debt securities in issue <sup>1</sup>	5 833	396	( 2)	(397)	(12)
<b>Inflation risk</b>					
Inflation linked swaps - hedge of investment securities <sup>1</sup>	1 570	15	(493)	5	(35)
Collateral held against derivatives <sup>2</sup>	-	(45)	-	-	-

The hedge ineffectiveness in profit and loss is presented within gains and losses from banking and trading activities on the Statement of Comprehensive Income, and the hedging instruments of the Group are presented within Hedging portfolio assets and liabilities on the Statement of Financial Position.

<sup>1</sup>These amounts have been restated, refer to reporting changes overview note 1.21.

<sup>2</sup>These disclosures have been included for fair presentation.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.7 Hedge Accounting (continued)

##### 56.7.1 Fair value hedge accounting (continued)

Hedged item statement of financial position classification and risk category	Group			
	2022			
	Carrying amount Rm	Accumulated fair value adjustment included in the carrying amount of the hedged item Rm	Portion related to items no longer in a hedge relationship Rm	Change in value used for calculating hedge ineffectiveness Rm
<b>Financial Assets</b>				
Investment securities	54 665	(3 762)	(10)	(3 989)
Interest rate risk	52 339	(3 643)	(13)	(4 035)
Inflation risk	2 326	(119)	3	46
Loans and advances				
Interest rate risk	2 953	( 58)	(5)	(139)
<b>Financial Liabilities</b>				
Debt securities in issue				
Interest rate risk	(5 347)	23	0	333
Borrowed funds				
Interest rate risk	(15 329)	940	-	1 000

Hedged item statement of financial position classification and risk category	2021			
	Carrying amount Rm	Accumulated fair value adjustment included in the carrying amount of the hedged item Rm	Portion related to items no longer in a hedge relationship Rm	Change in value used for calculating hedge ineffectiveness Rm
	Rm	Rm	Rm	Rm
<b>Financial Assets</b>				
Investment securities	56 363	728	(6)	(2 057)
Interest rate risk	52 901	783	(14)	(2 087)
Inflation risk	3 462	(55)	8	30
Loans and advances				
Interest rate risk	3 975	71	(7)	(195)
<b>Financial Liabilities</b>				
Debt securities in issue				
Interest rate risk	(6 503)	(337)	0	409
Borrowed funds				
Interest rate risk	(15 170)	(60)	-	358

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.7 Hedge Accounting (continued)

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

	Group						Total Rm
	2022						
	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	
Interest rate risk-Interest rate swaps							
Hedge of loans and advances	78 895	21 763	26 754	28 305	23 717	21 200	200 634
Foreign currency risk-Cross currency swaps	6 887	30	-	5 420	-	-	12 337
Hedge of debt securities	-	30	-	-	-	-	30
Hedge of borrowed funds	6 887	-	-	5 420	-	-	12 307
Foreign currency risk-Forwards							
Hedge of highly probable forecast expenditure	2 804	1 112	-	-	-	-	3 916

	2021						Total Rm
	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	
<b>Interest rate risk-Interest rate swaps</b>							
Hedge of loans and advances	59 424	32 592	18 393	26 513	28 295	15 432	180 649
<b>Foreign currency risk - cross currency swaps</b>	-	6 887	50	-	5 420	128	12 485
Hedge of investment securities	-	-	-	-	-	128	128
Hedge of debt securities	-	-	50	-	-	-	50
Hedge of borrowed funds	-	6 887	-	-	5 420	-	12 307
<b>Foreign currency risk-Forwards</b>							
Hedge of highly probable forecast expenditure	2 112	92	-	-	-	-	2 204

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

	Group	
	2022 Average price or rate %	2021 Average price or rate %
<b>Interest rate risk</b>		
Interest rate swaps		
Average fixed interest rate	7%	7%
<b>Foreign currency risk</b>		
Average EUR/ZAR exchange rates	18.75	11.99
Average GBP/ZAR exchange rates	21.84	14.34
Average USD/ZAR exchange rates	16.93	17.04
Average CZK/ZAR exchange rates	0.71	0.00



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.7 Hedge Accounting (continued)

##### 56.7.2 Cash flow hedge accounting (continued)

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

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

	Group 2022					
	Notional amount Rm	Assets Rm	Liabilities Rm	Changes in fair value used to calculate hedge ineffectiveness Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffect iveness recognised in profit or loss Rm
<b>Interest rate risk</b>						
<b>Total</b>	<b>216 887</b>	<b>474</b>	<b>(963)</b>	<b>(6 402)</b>	<b>(3 438)</b>	<b>(208)</b>
Interest rate swaps - hedge of loans and advances	200 634	92	(4 595)	(6 387)	(3 490)	(218)
<b>Foreign currency risk - cross currency swaps</b>	<b>12 337</b>	<b>220</b>	<b>-</b>	<b>(52)</b>	<b>15</b>	<b>-</b>
Foreign currency swaps - hedge of investment securities	-	-	-	-	-	-
Foreign currency swaps - hedge of debt securities	30	11	-	(9)	(1)	-
Foreign currency swaps - hedge of borrowed funds	12 307	209	-	(43)	16	-
<b>Foreign currency risk - forwards</b>						
Forwards - hedge of forecast expenditure	3 916	162	(63)	37	37	10
Collateral held against derivatives <sup>1</sup>	-	-	3 695	-	-	-
	2021					
	Notional amount Rm	Assets <sup>1</sup> Rm	Liabilities <sup>1</sup> Rm	Changes in fair value used to calculate hedge ineffectiveness Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffect iveness recognised in profit or loss Rm
<b>Interest rate risk</b>						
<b>Total</b>	<b>195 338</b>	<b>2 429</b>	<b>(154)</b>	<b>(6,427)</b>	<b>(1,463)</b>	<b>(539)</b>
Interest rate swaps - hedge of loans and advances <sup>1</sup>	180 649	2 694	(139)	(6 688)	(1 802)	(535)
<b>Foreign currency risk - cross currency swaps</b>	<b>12 485</b>	<b>355</b>	<b>-</b>	<b>183</b>	<b>262</b>	<b>1</b>
Foreign currency swaps - hedge of investment securities	128	142	-	(1)	66	1
Foreign currency swaps - hedge of debt securities	50	20	-	(2)	10	-
Foreign currency swaps - hedge of borrowed funds	12 307	193	-	186	186	-
<b>Foreign currency risk - forwards</b>						
Forwards - hedge of forecast expenditure	2 204	48	(15)	78	77	(5)
Collateral held against derivatives <sup>1</sup>	-	(668)	-	-	-	-

The hedging instruments of the Group are presented within Hedging portfolio assets/liabilities, on the Statement of Financial Position. Hedge accounting has not been applied to any forecast transactions that have not subsequently occurred. The hedge ineffectiveness in profit and loss is presented within gains and losses from banking and trading activities on the Statement of Comprehensive Income.

<sup>1</sup>These amounts have been restated, refer to reporting changes overview note 1.21.

<sup>2</sup>These disclosures have been included for fair presentation.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.7 Hedge Accounting (continued)

##### 56.7.2 Cash flow hedge accounting (continued)

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

	Group			Group		
	2022			2021		
	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
<b>Cash flow hedge of interest rate risk</b>	<b>2 663</b>	<b>(3)</b>	<b>2 660</b>	<b>4 211</b>	<b>27</b>	<b>4 238</b>
Recycled to interest income	2 486	24	2 510	3 902	15	3 917
Recycled to interest expense	177	(27)	150	309	12	321
<b>Cash flow hedge of currency risk</b>	<b>47</b>	<b>11</b>	<b>58</b>	<b>(75)</b>	<b>-</b>	<b>(75)</b>
Recycled to interest income	-	11	11	68	-	68
Recycled to interest expense	59	-	59	-	-	-
Recycled to operating expenses	(12)	-	(12)	(143)	-	(143)
<b>Total</b>	<b>2 710</b>	<b>8</b>	<b>2 718</b>	<b>4 136</b>	<b>27</b>	<b>4 163</b>

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

	Group			Group		
	2022			2021		
	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
<b>Loans and advances</b>						
Interest rate risk	6 983	(4 586)	(42)	5 960	1 546	(22)
<b>Highly probable forecast transactions</b>						
Foreign exchange risk	(37)	80	-	(78)	30	-
<b>Investment securities</b>						
Foreign exchange risk	-	-	-	1	11	-
<b>Debt securities</b>						
Foreign exchange risk	9	-	-	2	1	-
<b>Borrowed funds</b>						
Foreign exchange risk	(43)	143	-	(186)	186	-

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.7 Hedge Accounting (continued)

##### 56.7.3 Hedges of net investments in foreign operations

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

At 31 December 2022 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						
	Notional amount Rm	Assets Rm	Liabilities Rm	2022 Changes 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
<b>Foreign currency risk</b>							
Forwards	-	-	-	(21)	(21)	-	-
	2021						
	Notional amount Rm	Assets Rm	Liabilities Rm	Changes 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
<b>Foreign currency risk</b>							
Forwards	-	-	-	(6)	(6)	-	-

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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.7 Hedge Accounting (continued)

##### 56.7.4 Reconciliation of equity

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

	Group			Group		
	2022	Net	Foreign	2021	Net	Foreign
	Cash flow	Investment	currency	Cash flow	Investment	currency
	hedge	hedge	translation	hedge	hedge	translation
	reserve	reserve	reserve	reserve	reserve	reserve
	Rm	Rm	Rm	Rm	Rm	Rm
<b>Balance at the beginning of the year</b>	<b>1 751</b>	<b>-</b>	<b>54</b>	<b>7 377</b>	<b>-</b>	<b>60</b>
Foreign currency translation movements	-	-	-	-	-	-
Hedging (losses)/gains for the reporting period	<b>(3 438)</b>	<b>(21)</b>		<b>(1 463)</b>	<b>(6)</b>	
Interest rate risk	<b>(3 490)</b>	-	-	<b>(1 802)</b>	-	-
Foreign currency risk	<b>52</b>	<b>(21)</b>	-	<b>339</b>	<b>(6)</b>	-
Amounts reclassified to profit or loss						
In relation to cash flows affecting profit or loss	<b>(2 718)</b>	-	-	<b>(4 163)</b>	-	-
Amounts transferred within OCI	-	<b>21</b>	<b>(21)</b>	-	<b>6</b>	<b>(6)</b>
<b>Balance at the end of the year</b>	<b>(4 405)</b>	<b>-</b>	<b>33</b>	<b>1 751</b>	<b>-</b>	<b>54</b>

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.8 Interest rate benchmark reform

##### Background

The Group structures and executes a variety of transactions, including equity-linked offerings, debt issuances, lending activities as well as structured and derivative transactions.

Fair value hedges are used by the Group to protect against changes in the fair value of financial instruments due to movements in interest rates and are therefore affected by the interest rate benchmark reform. The financial instruments hedged for interest rate risk include fixed rate investment securities, fixed rate loans and advances, fixed debt securities and borrowed funds. The hedging instruments typically utilised are interest rate swaps or cross currency swaps, which reference a floating rate, such as ZAR JIBAR or USD LIBOR.

Cash flow hedges are used by the Group to protect against the potential cash flow variability arising from exposure to interest rate and foreign currency risk and are therefore also affected by interest rate benchmark reform. The financial instruments designated as hedged items include variable rate loans and advances, and the hedging instruments typically utilised are interest rate swaps or cross currency swaps which reference a floating rate, such as ZAR JIBAR or USD LIBOR.

In addition, the Group has derivative and non-derivative financial instruments linked to IBORs that are not in hedge accounting relationships.

The GBP, EUR and JPY LIBOR rates and the one-week and two-month USD LIBOR rates were discontinued at 31 December 2021. The remaining USD LIBOR rates are expected to be discontinued post 30 June 2023.

The Group's exposure to IBORs subject to change at 31 December 2022 were not significant compared to those expected to be changed post June 2023. The GBP LIBOR, EUR LIBOR, JPY LIBOR and USD LIBOR have transitioned to the Sterling Overnight Index Average (SONIA), Euro Short-Term Rate (€STR), Tokyo Overnight Average Rate (TONAR) and Secured Overnight Financing Rate (SOFR) respectively, as alternative reference rates.

The SARB announced in 2020 that the JIBAR would cease to exist in the near future as it did not comply with the International Organisation of Securities Commissions Principles for Financial Benchmarks. The SARB Market Practitioners Group (MPG), a joint public-private body has been mandated to facilitate decisions on the choice of alternative reference rates for financial contracts that should replace JIBAR.

The transition journey for JIBAR has made some progress at an industry level however transition timelines are yet to be announced by the SARB. The Group participates in the SARB's MPG which has started the preparations for the transition of JIBAR at an industry level. The Group will leverage the experience it gained in the IBOR transition journey to plan for the upcoming JIBAR transition. The Group's JIBAR journey thus far includes daily submission of transaction data to the SARB for the calculation and publication of ZARONIA.

The Group's IBOR transition steering committee which comprises a series of business and function workstreams with oversight and coordination provided by a central project team is currently managing the transition. Workstreams actively participate in industry-wide working groups to remain informed of the latest developments and to ensure consistency with the approaches of other market participants.

The main risks to which the Group is exposed as result of IBOR reform are detailed below:

**Conduct risk:** The transition to alternative benchmark rates could result in the risk of market or customer misconduct, which may lead to customer complaints, regulatory sanctions or reputational impact. This includes the risk of misleading clients, anti-competitive practices, both during and after transition (such as collusion and information sharing) and risks arising from conflicts of interest.

**Pricing and Valuation considerations:** International Securities and Derivatives Association (ISDA) published the IBOR Fallbacks Supplement (the Supplement) and ISDA 2020 IBOR Fallbacks Protocol (the Protocol) on 23 October 2020. New fallbacks for derivatives linked to key IBORs came into effect on 25 January 2021, ensuring a viable safety net is in place in the event an IBOR becomes permanently unavailable while entities continue to have exposure to that rate. The supplement incorporates the fallbacks into all new non-cleared derivatives contracts from 25 January 2021 that reference the 2006 ISDA Definitions. Derivative participants can incorporate the fallback into legacy non-cleared derivatives contracts via use of an ISDA protocol or through bilateral negotiation. For cleared derivatives, central counterparties have incorporated the ISDA IBOR fallbacks in their rule books for both new and legacy contracts.

**Accounting:** If transition to alternative benchmark rates for certain contracts is finalised in a manner that does not permit the application of the reliefs introduced in the Phase 2 amendments, this could lead to discontinuation of hedge accounting relationships, increased volatility in profit or loss if re-designated hedges are not fully effective, and volatility in the profit or loss if non-derivative financial instruments are modified or derecognised. The Group is aiming to agree changes to contracts that would allow IFRS 9 reliefs to apply. In particular, the Group is not seeking to novate derivatives or close out derivatives and enter into new on-market derivatives where derivatives have been designated in hedging relationships.

**Litigation risk:** If no agreement is reached to implement the interest rate benchmark reform on existing contracts, (e.g. arising from differing interpretation of existing fallback terms), there is a risk of litigation and prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working proactively with all counterparties to minimise this risk from occurring.

**Operational risk:** Our Group's IT systems are undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time, resulting in additional manual procedures which give rise to operational risks.

These risks are being managed through either the Group's IBOR Steering Committee or where more appropriate the relevant function best placed to monitor and/or mitigate risk.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.8 Interest rate benchmark reform

##### Developments made towards implementing alternative benchmark interest rates

For derivatives subject to interest rate reform, the Group and a significant portion of its counterparties have adhered to the Protocol as well as the Supplement. The protocol provides for the calculation of an economically equivalent rate to previous rates when IBORs are no longer available.

The Group has been systematically including fallback language in all new contracts as of January 2021 across all LIBOR currencies. For legacy contracts referencing LIBOR, particularly for non-USD currencies, the Group has either included fallback language into the contracts or actively transitioned these to new risk-free rates i.e. re-contracted using the risk-free rates in preparation of the cessation of LIBOR. As at 31 December 2021 all active transactions referencing non-USD LIBOR, either contain fallback language, have been actively transitioned or will naturally roll-off as they do not have further reset dates. Absa is in the process of transiting contracts referencing USD LIBOR either through the use of fallbacks or the active transitions approach and will aim to complete this activity by 30 June 2023.

The Group will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty on the timing and amount of cash flows arising from interest rate benchmark reform ends. It is expected that this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread. The Group has elected to apply the Phase 2 amendments prospectively from effective date with no restatement of comparatives.

The Group's cash flow hedging relationships of JIBAR and USD LIBOR risks extend beyond the anticipated cessation dates for both IBORs. There is uncertainty over the timing and amount of the replacement rate cash flows which may impact the hedging relationship i.e. its effectiveness assessment and highly probable assessment. For the purposes of these assessments, the Group assumes that the hedged benchmark interest rate, the cash flows of the hedged item and/or the hedging instrument will not be altered as a result of IBOR reform.

If a hedging relationship impacted by uncertainty about IBOR reform has not been highly effective throughout the financial reporting period, then the Group evaluates whether the hedge is expected to be highly effective prospectively and whether the effectiveness of the hedging relationship can be reliably measured. The hedging relationship will not be discontinued as long as it meets all criteria for hedge accounting, with the exception of the requirement that the hedge was actually highly effective.

Hedging relationships impacted by uncertainty about IBOR reform may experience ineffectiveness attributable to market participants' expectations of when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and the hedging instrument, which may lead to hedge ineffectiveness. The Group has measured its hedging instruments indexed to IBORs using available quoted market rates for IBOR-based instruments of the same tenor and similar maturity and has measured the cumulative change in the present value of hedged cash flows attributable to changes in IBOR on a similar basis.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.8 Interest rate benchmark reform (continued)

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

	Group 2022						
	Notional amount					Notional not impacted by benchmark reform	Total
	ZAR JIBAR Rm	USD LIBOR Rm	EUR LIBOR Rm	JPY LIBOR Rm	Total Rm	Rm	Notional Rm
<b>Cash Flow Hedges</b>	<b>200 634</b>	-	-	-	<b>200 634</b>	<b>16 253</b>	<b>216 887</b>
Interest Rate Swaps	200 634	-	-	-	200 634	-	200 634
Cross Currency Swaps	-	-	-	-	-	12 337	12 337
Forwards	-	-	-	-	-	3 916	3 916
<b>Fair Value Hedges</b>	<b>59 800</b>	<b>15 114</b>	-	-	<b>74 914</b>	-	<b>74 914</b>
Interest Rate Swaps	58 816	15 114	-	-	73 930	-	73 930
Cross Currency Swaps	-	-	-	-	-	-	-
Inflation Rate Swaps	984	-	-	-	984	-	984

	2021						
	Notional amount					Notional not impacted by benchmark reform	Total
	ZAR JIBAR Rm	USD LIBOR Rm	EUR LIBOR Rm	JPY LIBOR Rm	Total Rm	Rm	Notional Rm
<b>Cash Flow Hedges</b>	<b>192 956</b>	-	50	128	<b>193 134</b>	<b>2 204</b>	<b>195 338</b>
Interest Rate Swaps	180 649	-	-	-	180 649	-	180 649
Cross Currency Swaps	12 307	-	50	128	12 485	-	12 485
Forwards	-	-	-	-	-	2 204	2 204
<b>Fair Value Hedges</b>	<b>61 052</b>	<b>15 943</b>	-	128	<b>77 123</b>	-	<b>77 123</b>
Interest Rate Swaps	56 625	15 943	-	128	72 696	-	72 696
Cross Currency Swaps	2 857	-	-	-	2 857	-	2 857
Inflation Rate Swaps	1 570	-	-	-	1 570	-	1 570

The table below provides information on financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period

	2022					
	Carrying values of financial instruments impacted by benchmark reform and yet to transition					Total
	USD LIBOR Rm	GBP LIBOR Rm	EUR LIBOR Rm	JPY LIBOR Rm	Other Rm	Rm
Non-derivative assets <sup>1</sup>	44 336	-	-	-	-	44 336
Non-derivative liabilities <sup>1</sup>	2 891	-	-	-	-	2 891
Derivative notionals <sup>2</sup>	768 685	-	-	-	-	768 685

<sup>1</sup> Includes both on balance sheet and off-balance sheet exposures. Carrying amounts for on balance sheet and notional amounts for off-balance sheet have been included. <sup>2</sup> Balances represent the notional amount of derivative assets and liabilities directly impacted by the IBOR reform.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 56. Derivatives (continued)

#### 56.8 Interest rate benchmark reform (continued)

	2021					Total Rm
	Carrying values of financial instruments impacted by benchmark reform and yet to transition					
	USD LIBOR	GBP LIBOR	EUR LIBOR	JPY LIBOR	Other	
	Rm	Rm	Rm	Rm	Rm	
Assets						
Non-derivative assets <sup>1</sup>	90 676	1 573	1 697	15	0	93 961
Non-derivative liabilities <sup>1</sup>	5 251	0	0	0	0	5 251
Derivative notionals <sup>2</sup>	972 088	4 001	2 212	63	0	978 364

#### Financial instrument modifications due to IBOR reforms

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform if the following conditions are met; the change is necessary as a direct consequence of the reform; and the new basis for determining the contractual cash flows is economically equivalent to the previous basis i.e. the basis immediately before the change.

<sup>1</sup> Includes both on balance sheet and off-balance sheet exposures. Carrying amounts for on balance sheet and notional amounts for off-balance sheet have been included.

<sup>2</sup> Balances represent the notional amount of derivative assets and liabilities directly impacted by the IBOR reform.



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2022				
	Fair value through profit or loss <sup>7</sup>			Total
	Mandatorily held at fair value <sup>7</sup>	Designated at fair value <sup>4</sup>	Hedging instruments	
	Rm	Rm	Rm	
<b>57. Consolidated statement of financial position summary – IFRS 9 classification</b>				
<b>Assets</b>				
Cash, cash balances and balances with central banks	3 831	-	-	3 831
Investment securities <sup>7</sup>	12 524	9 397	-	21 921
Trading portfolio assets	205 822	-	-	205 822
Hedging portfolio assets <sup>2</sup>	-	-	4 973	4 973
Other assets	2	-	-	2
Loans and advances	83 401	31 675	-	115 076
Investments linked to investment contracts	19 288	-	-	19 288
Non-current assets held for sale	-	-	-	-
Assets outside the scope of IFRS 9	-	-	-	-
	<b>324 868</b>	<b>41 072</b>	<b>4 973</b>	<b>370 913</b>
<b>Liabilities</b>				
Trading portfolio liabilities	94 895	-	-	94 895
Hedging portfolio liabilities <sup>3</sup>	-	-	2 237	2 237
Other liabilities	-	21	-	21
Deposits	-	124 330	-	124 330
Debt securities in issue	-	61 606	-	61 606
Liabilities under investment contracts	-	19 999	-	19 999
Borrowed funds	-	-	-	-
Liabilities outside the scope of IFRS 9 <sup>5</sup>	-	-	-	-
	<b>94 895</b>	<b>205 956</b>	<b>2 237</b>	<b>303 088</b>

2021				
	Fair value through profit or loss			Total
	Mandatorily held at fair value <sup>7</sup>	Designated at fair value <sup>4</sup>	Hedging instruments	
	Rm	Rm	Rm	
<b>Consolidated statement of financial position summary – IFRS 9 classification</b>				
<b>Assets</b>				
Cash, cash balances and balances with central banks	4 017	-	-	4 017
Investment securities <sup>7</sup>	13 014	281	-	13 295
Trading portfolio assets <sup>6</sup>	202 598	-	-	202 598
Hedging portfolio assets <sup>2,6</sup>	-	-	3 697	3 697
Other assets	13	-	-	13
Loans and advances	88 692	29 514	-	118 206
Investments linked to investment contracts	19 803	-	-	19 803
Non-current assets held for sale	-	-	-	-
Assets outside the scope of IFRS 9	-	-	-	-
	<b>328 137</b>	<b>29 795</b>	<b>3 697</b>	<b>361 629</b>
<b>Liabilities</b>				
Trading portfolio liabilities <sup>6</sup>	73 568	-	-	73 568
Hedging portfolio liabilities <sup>3,6</sup>	-	-	2 910	2 910
Other liabilities	-	59	-	59
Deposits	-	123 181	-	123 181
Debt securities in issue <sup>6</sup>	-	23 437	-	23 437
Liabilities under investment contracts	-	21 126	-	21 126
Borrowed funds	-	-	-	-
Liabilities outside the scope of IFRS 9 <sup>5</sup>	-	-	-	-
	<b>73 568</b>	<b>167 803</b>	<b>2 910</b>	<b>244 281</b>

<sup>1</sup> Includes non-financial assets and liabilities and financial instruments outside the scope of IFRS 9.

<sup>2</sup> Includes derivative assets to the amount of **R474m** (2021: R3 644m) and **R 4 498m** (2021: R1 300m) that have been designated as cash flow and fair value hedging instruments respectively.

<sup>3</sup> Includes derivative liabilities to the amount of **R 963m** (2021: R913m) and **R 1 274m** (2021: R2 746m) that have been designated as cash flow and fair value hedging instruments respectively.

<sup>4</sup> Includes items designated as hedged items in fair value hedging relationships.

<sup>5</sup> Liabilities outside the scope of IFRS 9 includes **R1 318m** (2021: R1 080m) that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

<sup>6</sup> These amounts have been restated, refer to reporting changes overview note 1.21.

<sup>7</sup> In the prior year the Group inadvertently disclosed listed equity instruments classified as fair value through profit and loss of R 1 579m within fair value through other comprehensive income. These disclosures reflect the corrected classification and have no impact on the statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows.

<sup>8</sup> The investment in unlisted equity and hybrid instruments represent investments that are held for strategic long term purposes but have the ability to be sold at any point. Due to this dual intention these investments have been designated at fair value through other comprehensive income.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

2022

Fair value through other comprehensive income <sup>8</sup>				Amortised cost			Outside the scope of IFRS 9 <sup>1</sup>	Total assets and liabilities
Debt instruments	Equity instruments	Hedged items <sup>4</sup>	Total	Debt instruments	Hedged items <sup>4</sup>	Total		
Rm	Rm		Rm	Rm	Rm	Rm	Rm	Rm
2 379	-	-	2 379	60 969	-	60 969	-	67 179
118 322	747	29 926	148 995	19 982	24 739	44 721	-	215 637
-	-	-	-	-	-	-	614	206 436
-	-	-	-	-	-	-	-	4 973
-	-	-	-	21 722	-	21 722	3 466	25 190
-	-	-	-	1 098 323	-	1 098 323	-	1 213 399
-	-	-	-	-	-	-	-	19 288
-	-	-	-	86	-	86	126	212
-	-	-	-	-	-	-	40 887	40 887
120 701	747	29 926	151 374	1 201 082	24 739	1 225 821	45 093	1 793 201
-	-	-	-	-	-	-	-	94 895
-	-	-	-	-	-	-	-	2 237
-	-	-	-	31 990	-	31 990	4 509	36 520
-	-	-	-	1 117 588	-	1 117 588	-	1 241 919
-	-	-	-	138 566	5 347	143 913	-	205 519
-	-	-	-	-	-	-	-	19 999
-	-	-	-	11 091	15 329	26 420	-	26 420
-	-	-	-	-	-	-	12 644	12 644
-	-	-	-	1 299 235	20 676	1 319 911	17 153	1 640 153

2021

Fair value through other comprehensive income				Amortised cost			Assets/ liabilities outside the scope of IFRS 9 <sup>1</sup>	Total assets and liabilities
Debt instruments	Equity instruments	Hedged items <sup>4</sup>	Total	Debt instruments	Hedged items <sup>4</sup>	Total		
Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2 242	-	-	2 242	59 782	-	59 782	-	66 041
101 477	712	36 744	138 933	17 051	19 619	36 670	-	188 898
-	-	-	-	-	-	-	642	203 240
-	-	-	-	-	-	-	-	3 697
-	-	-	-	20 995	-	20 995	3 148	24 156
-	-	-	-	970 076	3 975	974 051	-	1 092 257
-	-	-	-	-	-	-	-	19 803
-	-	-	-	842	-	842	3 417	4 259
-	-	-	-	-	-	-	37 181	37 181
103 719	712	36 744	141 175	1 068 746	23 594	1 092 340	44 388	1 639 532
-	-	-	-	-	-	-	-	73 568
-	-	-	-	-	-	-	-	2 910
-	-	-	-	43 776	-	43 776	4 574	48 409
-	-	-	-	1 050 585	-	1 050 585	-	1 173 766
-	-	-	-	99 836	6 503	106 339	-	129 775
-	-	-	-	-	-	-	-	21 126
-	-	-	-	11 430	15 170	26 600	-	26 600
-	-	-	-	-	-	-	16 069	16 069
-	-	-	-	1 205 627	21 673	1 227 300	20 643	1 492 223

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58. Fair value disclosures

#### 58.1 Assets and liabilities held at fair value

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

	Group							
	Level 1	2022	Level 3 <sup>1</sup>	Total	Level 1	2021	Level 3	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
<b>Financial assets</b>								
Cash, cash balances and balances with central banks	-	6 210	-	6 210	-	6 259	-	6 259
Investment securities	78 599	81 212	11 105	170 916	56 221	87 446	8 561	152 228
Trading and hedging portfolio assets	123 288	74 701	12 806	210 795	115 035	88 933	2 327	206 295
Debt instruments <sup>3</sup>	81 118	8 796	1 803	91 717	66 659	11 313	122	78 094
Derivative assets	-	59 191	4 370	63 561	-	59 501	1 386	60 887
Commodity derivatives	-	188	-	188	-	907	13	920
Credit derivatives	-	32	192	224	-	2	140	142
Equity derivatives	-	5 009	3 752	8 761	-	7 349	1 232	8 581
Foreign exchange derivatives	-	17 498	426	17 924	-	11 578	1	11 579
Interest rate derivatives	-	36 464	-	36 464	-	39 665	-	39 665
Equity instruments	39 676	-	-	39 676	47 283	-	-	47 283
Money market assets	2 494	6 714	6 633	15 841	1 093	18 119	819	20 031
Other assets	-	2	-	2	-	13	-	13
Loans and advances	-	104 417	10 659	115 076	-	101 477	16 729	118 206
Investments linked to investment contracts	17 011	2 277	-	19 288	17 804	1 999	-	19 803
<b>Total financial assets</b>	<b>218 898</b>	<b>268 819</b>	<b>34 570</b>	<b>522 287</b>	<b>189 060</b>	<b>286 127</b>	<b>27 617</b>	<b>502 804</b>
<b>Financial liabilities</b>								
Trading and hedging portfolio liabilities	38 304	58 300	528	97 132	24 650	51 555	273	76 478
Derivative liabilities	-	58 300	528	58 828	-	51 555	273	51 828
Commodity derivatives	-	117	-	117	-	823	1	824
Credit derivatives	-	678	260	938	-	749	93	842
Equity derivatives	-	4 589	90	4 679	-	2 513	169	2 682
Foreign exchange derivatives	-	18 132	178	18 310	-	12 687	-	12 687
Interest rate derivatives	-	34 784	-	34 784	-	34 783	10	34 793
Short positions	38 304	-	-	38 304	24 650	-	-	24 650
Other liabilities	-	21	-	21	-	59	-	59
Deposits	1	120 560	3 769	124 330	156	119 828	3 197	123 181
Debt securities in issue <sup>3</sup>	609	60 997	-	61 606	536	22 901	-	23 437
Liabilities under investment contracts	-	19 999	-	19 999	-	21 126	-	21 126
<b>Total financial liabilities</b>	<b>38 914</b>	<b>259 877</b>	<b>4 297</b>	<b>303 088</b>	<b>25 342</b>	<b>215 469</b>	<b>3 470</b>	<b>244 281</b>
<b>Non-financial assets</b>								
Commodities	614	-	-	614	642	-	-	642
Investment properties	-	-	397	397	-	-	421	421
<b>Non-recurring fair value measurements</b>								
Non-current assets held for sale <sup>2</sup>	-	-	126	126	-	-	3 417	3 417
Non-current liabilities held for sale <sup>2</sup>	-	-	26	26	-	-	3 465	3 465

<sup>1</sup> As a result of the uncertainties inherent in measuring the fair value of financial instruments, its measurement is estimated based on valuation assumptions and inputs derived from market expectations. Estimation involves judgements based on the latest available, reliable information. Resultantly, any changes in key assumptions relating to their valuation is treated as a change in accounting estimate and has been accounted for prospectively in the financial statements.

<sup>2</sup> Includes certain items classified in terms of the requirements of IFRS 5 which are measured at fair value in terms of their respective standards.

<sup>3</sup> These amounts have been restated, refer to reporting changes overview note 1.21.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58. Fair value disclosures (continued)

#### 58.2 Reconciliation of Level 3 assets and liabilities

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

	Group		
	2022		
	Trading and hedging portfolio assets	Loans and advances	Investment securities
	Rm	Rm	Rm
<b>Opening balance at the beginning of the reporting period</b>	<b>2 327</b>	<b>16 729</b>	<b>8 561</b>
Net interest income	-	202	144
Gains and losses from banking and trading activities	(544)	(447)	(114)
Gains and losses from investment activities	-	-	-
Purchases	5 689	839	868
Sales	(304)	(2 464)	(3 751)
Movement in other comprehensive income	-	-	16
Issues	-	-	-
Settlements	-	-	-
Transferred to/(from) assets/liabilities	-	-	-
Transfer to Level 3	6,178	1 110	5,381
Transfer out of Level 3	(539)	(5 310)	-
Foreign currency conversion on assets/liabilities	-	-	-
<b>Closing balance at the end of the reporting</b>	<b>12 807</b>	<b>10 659</b>	<b>11 105</b>

2021

	Trading and hedging portfolio assets	Loans and advances	Investment securities
	Rm	Rm	Rm
<b>Opening balance at the beginning of the reporting period</b>	<b>2 502</b>	<b>13 597</b>	<b>11 912</b>
Net interest income	-	180	47
Gains and losses from banking and trading activities	906	(96)	(16)
Purchases	626	6 008	920
Sales	(42)	(4 136)	(2 892)
Movement in other comprehensive income	-	-	(157)
Settlements	-	-	(60)
Transfer to Level 3	175	1 176	-
Transfer out of Level 3	(1 840)	-	(1 193)
<b>Closing balance at the end of the reporting</b>	<b>2 327</b>	<b>16 729</b>	<b>8 561</b>

#### 58.2.1 Significant transfers between levels

During the 2022 and 2021 reporting periods, transfers between levels occurred because of changes in the observability of valuation inputs, in some instances owing to changes in the level of market activity. Transfers between level 1 and level 2 are not considered significant for disclosure.

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

## Notes to the consolidated financial statements

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Investment properties	Investments linked to investment contracts	Total assets at fair value	Trading and hedging portfolio liabilities	Deposits	Total liabilities at fair value
Rm	Rm	Rm	Rm	Rm	Rm
421	-	28 038	273	3 197	3 470
-	-	346	-	-	-
(7)	-	(1 112)	(28)	(84)	(112)
(14)	-	(14)	-	-	-
-	-	7 396	-	(253)	(253)
(1)	-	(6 519)	-	(7)	(7)
-	-	16	-	-	-
-	-	-	403	8 215	8 618
-	-	-	(8)	(7 124)	(7 132)
-	-	-	-	-	-
-	-	12 669	2	-	2
-	-	(5 849)	(114)	(18)	(132)
(2)	-	(2)	-	(157)	(157)
397	-	34 969	528	3 769	4 297

Investment properties	Investments linked to investment contracts	Total assets at fair value	Trading and hedging portfolio liabilities	Deposits	Total liabilities at fair value
Rm	Rm	Rm	Rm	Rm	Rm
496	618	29 125	173	4 682	4 855
-	-	227	-	-	-
(7)	-	(7)	-	-	-
(25)	-	769	48	(118)	(70)
-	-	7 554	-	5	5
(51)	-	(7 121)	-	-	-
19	-	(138)	-	117	117
-	-	-	55	6 216	6 271
-	-	(60)	(1)	(7 554)	(7 555)
(11)	-	(11)	-	-	-
-	-	1 351	-	-	-
-	(618)	(3 651)	(2)	(151)	(153)
421	-	28 038	273	3 197	3 470

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58. Fair value disclosures (continued)

#### 58.3 Unrealised gains and losses on Level 3 assets and liabilities

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

	Group 2022				
	Trading and hedging portfolio assets Rm	Loans and advances Rm	Investment securities Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	2 777	(306)	24	-	2 495

	2021				
	Trading and hedging portfolio assets Rm	Loans and advances Rm	Investment securities Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	576	1 833	19	-	2 428

	Group 2022		
	Trading and hedging portfolio liabilities Rm	Deposits Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	(30)	354	324

	2021		
	Trading and hedging portfolio liabilities Rm	Deposits Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	189	1 190	1 379

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58. Fair value disclosures (continued)

#### 58.4 Sensitivity analysis of valuations using unobservable inputs

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

The following tables reflect the reasonable possible variances applied to significant parameters utilised in our valuations:

Significant unobservable parameter	Positive/(negative) variance applied to parameters
Credit spreads	100/(100) bps
Volatilities	10/(10)%
Basis curves	100/(100) bps
Yield curves and repo curves	100/(100) bps
Future earnings and marketability discounts	15/(15)%
Funding spreads	100/(100) bps

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value of the asset or liability by more than 10% of the underlying value of the affected item.

This is demonstrated by the following sensitivity analysis which includes reasonable range of possible outcomes:

		2022	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
		Favourable/(Unfavourable)	Favourable/(Unfavourable)
		Rm	Rm
	Significant unobservable parameters		
Deposits	Absa Group Limited / Absa funding spread	119/(128)	-/-
Investment securities and investments linked to investment contracts	Risk adjustment yield curves, future earnings and marketability discount	-/-	(103)/106
Loans and advances	Credit spreads	(623)/683	-/-
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	216/(210)	-/-
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(457)/457	-/-

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58. Fair value disclosures (continued)

#### 58.4 Sensitivity analysis of valuations using unobservable inputs (continued)

		2021	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits	<b>Absa Group Limited /Absa funding spread</b>	126/(138)	-/-
Investment securities and investments linked to investment contracts	<b>Risk adjustment yield curves, future earnings and marketability discount</b>	-/-	(240)/251
Loans and advances	<b>Credit spreads</b>	(979)/1 060	-/-
Trading and hedging portfolio assets	<b>Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads</b>	(41)/41	-/-
Trading and hedging portfolio liabilities	<b>Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads</b>	(37)/37	-/-

The significant unobservable inputs used in determining the fair value of the investment properties are annual rent, discount rates, prevailing bulk selling prices and annual growth rate. Significant increases/decreases of these inputs in isolation, would result in a significantly lower/higher fair value measurement of the investment properties.



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58 Fair value disclosures (continued)

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

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

	Group	
	2022	2021
	Rm	Rm
<b>Opening balance at the beginning of the reporting period</b>	<b>(521)</b>	(446)
New transactions	<b>(394)</b>	(212)
Amounts recognised in profit or loss during the reporting period	<b>281</b>	137
<b>Closing balance at the end of the reporting period</b>	<b>(634)</b>	(521)

#### 58.6 Third party credit enhancements

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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58. Fair value disclosure (continued)

#### 58.7 Financial assets and financial liabilities not held at fair value

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

	Group				
	2022				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
<b>Financial assets</b>					
Balances with other central banks <sup>1</sup>	15 564	15 564	15 564	-	-
Balances with the SARB <sup>1</sup>	31 103	31 103	31 103	-	-
Coins and bank notes <sup>1</sup>	14 302	14 302	14 302	-	-
<b>Cash, cash balances and balances with central banks<sup>1</sup></b>	<b>60 969</b>	<b>60 969</b>	<b>60 969</b>	<b>-</b>	<b>-</b>
<b>Investment securities</b>	<b>44 721</b>	<b>44 295</b>	<b>40 292</b>	<b>1 988</b>	<b>2 015</b>
<b>Other assets</b>	<b>21 722</b>	<b>21 486</b>	<b>7 004</b>	<b>4 894</b>	<b>9 588</b>
Product Solutions	400 354	384 545	-	-	384 545
Home Loans	293 402	285 089	-	-	285 089
Vehicle and Asset Finance	106 952	99 456	-	-	99 456
Everyday Banking	67 484	65 823	-	-	65 823
Card	43 984	43 984	-	-	43 984
Personal loans	20 382	18 721	-	-	18 721
Transactions and deposits	3 118	3 118	-	-	3 118
Relationship Banking	134 778	133 552	-	-	133 552
ARO RBB	72 117	72 316	-	-	72 316
CIB	357 812	360 840	-	-	360 840
CIB South Africa	289 014	291 937	-	-	291 937
CIB ARO	68 798	68 903	-	-	68 903
Head Office, Treasury and other operations	3 482	3 482	-	3 152	330
<b>Loans and advances to customers</b>	<b>1 036 027</b>	<b>1 020 558</b>	<b>-</b>	<b>3 152</b>	<b>1 017 406</b>
<b>Loans and advances to banks<sup>1</sup></b>	<b>62 296</b>	<b>62 299</b>	<b>34 581</b>	<b>27 718</b>	<b>-</b>
<b>Loans and advances</b>	<b>1 098 323</b>	<b>1 082 857</b>	<b>34 581</b>	<b>30 870</b>	<b>1 017 406</b>
<b>Non-current assets held for sale</b>	<b>86</b>	<b>86</b>	<b>-</b>	<b>-</b>	<b>86</b>
<b>Total assets (not held at fair value)</b>	<b>1 225 821</b>	<b>1 209 693</b>	<b>142 846</b>	<b>37 752</b>	<b>1 029 095</b>
<b>Financial liabilities</b>					
<b>Other liabilities</b>	<b>31 990</b>	<b>31 803</b>	<b>13 406</b>	<b>11 216</b>	<b>7 181</b>
Call deposits <sup>1</sup>	121 433	121 099	119 999	1 100	-
Cheque account deposits <sup>1</sup>	313 982	313 982	313 982	-	-
Credit card deposits <sup>1</sup>	2 142	2 142	2 142	-	-
Fixed deposits	211 070	211 082	-	106 919	104 163
Foreign currency deposits	64 408	64 408	-	58 321	6 087
Notice deposits	67 562	67 562	-	67 562	-
Other deposits	1 144	1 144	367	635	142
Saving and transmission deposits <sup>1</sup>	260 086	260 086	242 000	1 145	16 941
<b>Deposits due to customers</b>	<b>1 041 827</b>	<b>1 041 505</b>	<b>678 490</b>	<b>235 682</b>	<b>127 333</b>
<b>Deposits from banks</b>	<b>75 761</b>	<b>75 808</b>	<b>2 666</b>	<b>73 131</b>	<b>11</b>
<b>Deposits</b>	<b>1 117 588</b>	<b>1 117 313</b>	<b>681 156</b>	<b>308 813</b>	<b>127 344</b>
<b>Debt securities in issue</b>	<b>143 913</b>	<b>143 804</b>	<b>-</b>	<b>143 664</b>	<b>140</b>
<b>Borrowed funds</b>	<b>26 420</b>	<b>26 407</b>	<b>-</b>	<b>26 407</b>	<b>-</b>
<b>Total liabilities (not held at fair value)</b>	<b>1 319 911</b>	<b>1 319 327</b>	<b>694 562</b>	<b>490 100</b>	<b>134 665</b>

<sup>1</sup>These financial instruments have been included in level 1 as the carrying value approximates fair value and no valuation techniques are applied.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58. Fair value disclosure (continued)

#### 58.7 Financial assets and financial liabilities not held at fair value (continued)

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

	Group 2021				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
<b>Financial assets</b>					
Balances with other central banks <sup>1</sup>	17 521	17 521	17 521	-	-
Balances with the SARB <sup>1</sup>	27 684	27 684	27 684	-	-
Coins and bank notes <sup>1</sup>	14 577	14 577	14 577	-	-
<b>Cash, cash balances and balances with central banks<sup>1</sup></b>	<b>59 782</b>	<b>59 782</b>	<b>59 782</b>	<b>-</b>	<b>-</b>
<b>Investment securities</b>	<b>36 670</b>	<b>37 689</b>	<b>33 906</b>	<b>2 659</b>	<b>1 124</b>
<b>Other assets</b>	<b>20 995</b>	<b>20 995</b>	<b>8 854</b>	<b>4 337</b>	<b>7 804</b>
Product solutions <sup>1</sup>	368 352	367 117	-	-	367 117
Home Loans	270 276	266 310	-	-	266 310
Vehicle and Asset Finance	98 076	100 807	-	-	100 807
Everyday Banking	60 404	60 578	-	-	60 578
Card	38 960	38 960	-	-	38 960
Personal loans	18 610	18 784	-	-	18 784
Transactions and deposits	2 834	2 834	-	-	2 834
Relationship Banking	125 603	130 464	-	-	130 464
ARO RBB	63 727	63 723	-	-	63 723
CIB	308 538	308 309	-	-	308 309
CIB South Africa	248 252	249 275	-	-	249 275
CIB ARO	60 286	59 034	-	-	59 034
Head Office, Treasury and other operations	774	774	-	-	774
<b>Loans and advances to customers</b>	<b>927 398</b>	<b>930 965</b>	<b>-</b>	<b>-</b>	<b>930 965</b>
<b>Loans and advances to banks<sup>1</sup></b>	<b>46 653</b>	<b>46 647</b>	<b>28 655</b>	<b>17 992</b>	<b>-</b>
<b>Loans and advances</b>	<b>974 051</b>	<b>977 612</b>	<b>28 655</b>	<b>17 992</b>	<b>930 965</b>
<b>Non-current assets held for sale</b>	<b>842</b>	<b>842</b>	<b>-</b>	<b>-</b>	<b>842</b>
<b>Total assets (not held at fair value)</b>	<b>1 092 340</b>	<b>1 096 920</b>	<b>131 197</b>	<b>24 988</b>	<b>940 735</b>
<b>Financial liabilities</b>					
<b>Other liabilities</b>	<b>43 776</b>	<b>43 776</b>	<b>24 287</b>	<b>19 489</b>	<b>-</b>
Call deposits <sup>1</sup>	136 443	136 443	136 443	-	-
Cheque account deposits <sup>1</sup>	301 215	301 215	301 215	-	-
Credit card deposits <sup>1</sup>	2 137	2 137	2 137	-	-
Fixed deposits	182 369	178 783	-	176 308	2 475
Foreign currency deposits	54 075	54 075	-	54 075	-
Notice deposits <sup>1</sup>	70 148	70 148	33 623	36 525	-
Other deposits	1 268	1 268	-	1 268	-
Saving and transmission deposits <sup>1</sup>	249 068	249 068	52 847	18 082	178 139
<b>Deposits due to customers</b>	<b>996 723</b>	<b>993 137</b>	<b>526 265</b>	<b>286 258</b>	<b>180 614</b>
<b>Deposits from banks</b>	<b>53 862</b>	<b>53 851</b>	<b>9 492</b>	<b>44 359</b>	<b>-</b>
<b>Deposits</b>	<b>1 050 585</b>	<b>1 046 988</b>	<b>535 757</b>	<b>330 617</b>	<b>180 614</b>
<b>Debt securities in issue</b>	<b>106 339</b>	<b>105 662</b>	<b>-</b>	<b>105 662</b>	<b>-</b>
<b>Borrowed funds</b>	<b>26 600</b>	<b>26 423</b>	<b>-</b>	<b>26 423</b>	<b>-</b>
<b>Total liabilities (not held at fair value)</b>	<b>1 227 300</b>	<b>1 222 849</b>	<b>560 044</b>	<b>482 191</b>	<b>180 614</b>

<sup>1</sup>These financial instruments have been included in level 1 as the carrying value approximates fair value and no valuation techniques are applied.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 59. Credit risk of financial instruments designated at fair value

The following table represents the maximum exposure to credit risk of financial assets designated at fair value through profit or loss at the reporting date before taking into account collateral held or other credit enhancements:

	Group	
	2022 Rm	2021 Rm
<b>Assets</b>		
Investment securities	9 397	3 701
Loans and advances	31 675	29 514
Loans and advances to banks	367	-
Loans and advances to customers	31 308	29 514
	<b>41 072</b>	<b>33 215</b>

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.

The Group does not hold any collateral against the financial assets designated at fair value in the current year.

### 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			
	2022 Carrying amount Rm	Contractual obligation Rm	2021 Carrying Amount Rm	Contractual obligation Rm
<b>Liabilities</b>				
Deposits	124 330	136 536	123 181	129 499
Deposits from banks	52 876	51 968	44 168	44 825
Deposits due to customers	71 454	84 568	79 013	84 674
Other liabilities	21	21	59	59
Debt securities in issue <sup>1</sup>	61 606	71 163	23 437	29 180
Liabilities under investment contracts	19 999	19 999	24 301	24 301
	<b>205 956</b>	<b>227 719</b>	<b>170 978</b>	<b>183 039</b>

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

	Group	
	2022 Rm	2021 Rm
<b>Liabilities</b>		
Deposits from banks and customers	(202)	(36)

### Cumulative adjustments in fair value attributable to changes in own risk

<b>Liabilities</b>		
Deposits from banks and customers	712	510

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.

<sup>1</sup>These numbers have been restated, please refer to 1.21.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management

#### 60.1 Effective risk management and control are essential for sustainable and profitable growth

The Group actively identifies and assesses risks arising from internal and external environments, while also proactively identifying emerging risks. To ensure effective implementation, this consolidated response is monitored as follows:

- An integrated and dynamic governance structure at Group, country, business and enterprise core function levels, promoting a sound risk culture.
- Well-defined material risk categories, known as principal risks, for complete risk coverage.
- A combined assurance model with clear accountability for managing and overseeing the effective execution of assurance throughout the Group.
- Comprehensive and structured processes for evaluating, responding to and monitoring risks.
- An entrenched risk culture underpinning an effective risk operating model and appropriate risk practices, tools and techniques to support the Group's strategy.

The role of risk management is to evaluate, respond to and monitor risks in the execution of the Group's strategy. The Group's strategy is supported by an effective ERMF. The Group's risk function performs conformance reviews; checks and challenges the risk profile; and retains independence in analysis and decision-making, underpinned by regular reporting to the Executive Committee and the Board. The GCRO assumes responsibility for the ERMF.

The ERMF:

- Outlines the approach to the management of risk and provides the basis for setting frameworks and policies, and establishing appropriate risk practices throughout the Group;
- Defines the risk management process and sets out the activities, tools, techniques and the operating model to ensure material risks can be identified and managed;
- Ensures appropriate responses are in place to protect the Group and its stakeholders; and
- Sets out principal risks and assigns clear ownership and accountability for these risks.

The principal risks as defined in the ERMF are credit, traded market, treasury, insurance, business, model, operational, resilience, conduct, financial crime, reputational and sustainability. Risks are defined in recognition of their significance to the Group's strategic ambitions.

The ERMF is reviewed and approved annually by the Board.

#### Strategy and risk appetite

The risk strategy is developed alongside the Group's business strategy and forms an integral part of the integrated planning process. Within the risk strategy, risk appetite defines the nature and amount of risk that the Group is willing to take to meet its strategic objectives. This forms part of the strategic planning process to ensure the business strategy is achievable within risk appetite, and risk information is considered in the organisation's decision-making and planning process.

The Group's risk appetite:

- Specifies the level of risk the Group is willing to take.
- Considers all principal and material risks individually and, where appropriate, in aggregate.
- Consistently measures, monitors and communicates the level of risk for different risk types, expressed in qualitative and quantitative terms.
- Describes agreed parameters for the Group's performance under varying levels of financial stress relating to earnings, capital adequacy, leverage and liquidity ratios.
- Is considered in key decision-making processes, including business planning, mergers and acquisitions, new product approvals and business change initiatives.

The Group's risk appetite is stated qualitatively in terms of risk principles and risk preferences, and refers to the types of risk the Group actively seeks as well as those it accepts and avoids. In addition, the maximum amount of risk that the Group is prepared to accept to achieve its business objectives is defined using a range of quantitative metrics relating to capital adequacy, earnings volatility, liquidity and leverage. These are cascaded to the level of principal risk, legal entity and business unit.

#### Stress testing and scenario planning

Stress testing and scenario analyses are key elements of the Group's integrated planning and risk management process. The use thereof allows the Group to assess the performance and resilience of its business model in specific economic environments.

Stress tests provide a forward-looking view of risks under adverse circumstances to estimate the potential impact on the financial system and the Group, including its subsidiaries and business lines / portfolios. This is supported by a framework, policies, procedures and consideration of international best practice and infrastructure platforms.

The Group Risk and Capital Management Committee is responsible for oversight of the stress testing results with senior management committees such as the Executive Risk Committee tasked with developing, reviewing and challenging the robustness of the process.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.1 Effective risk management and control are essential for sustainable and profitable growth (continued)

##### Credit risk

Credit risk is the risk of suffering financial loss due to a borrower, counterparty to a derivative transaction, or an issuer of debt securities defaulting on its contractual obligations.

##### Traded market risk

The risk of the Group's earnings or capital being adversely impacted due to changes in the level or volatility of prices affecting the positions in its active trading activities across the Group. This includes but is not limited to changes in interest rates, credit spreads, commodity prices, equity prices and foreign exchange levels.

##### Liquidity risk

The risk that the Group is unable to meet its contractual or contingent liquidity obligations or that it does not have the appropriate amount, tenor and composition of funding to support its assets.

##### Capital risk

The risk that the Group has an insufficient level or inappropriate composition of capital to support its normal business activities and to remain within its Board-approved capital target ranges under normal operating conditions or above regulatory capital requirements under stressed conditions.

##### Interest rate risk in the Banking book

The risk that the Group's current or projected financial condition and resilience might be adversely affected by changes in interest rate levels, yield curves and spreads. This risk arises in the banking book, due to re-pricing differences between assets, liabilities and equity, and also includes funding spread risk and foreign exchange rate risk.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.2. Credit risk

The following table sets out information regarding the credit quality of financial instruments to which the impairment requirements in IFRS 9 are applicable

Maximum exposure to credit risk	Gross maximum exposure Rm	2022		
		Stage 1 <sup>1</sup>		
		DG1-9 Rm	DG10-19 Rm	DG20-21 Rm
Balances with other central banks	15 591	7 333	3 231	33
Balances with the SARB	31 103	31 103	-	-
Money market assets	2 379	2 379	-	-
<b>Cash, cash balances and balances with central banks</b>	<b>49 073</b>	<b>40 815</b>	<b>3 231</b>	<b>33</b>
Government bonds	150 306	130 625	13 192	-
Other	9 347	3 811	2 337	-
Treasury bills	33 518	28 120	3 346	-
<b>Investment securities</b>	<b>193 171</b>	<b>162 556</b>	<b>18 875</b>	<b>-</b>
Accounts receivable	14 629	5 854	8 698	-
Settlement accounts	7 106	3 837	3 269	-
<b>Other assets</b>	<b>21 735</b>	<b>9 691</b>	<b>11 967</b>	<b>-</b>
Product Solutions Cluster	414 412	36 597	295 637	19 283
Home Loans	300 980	31 623	216 777	9 038
Vehicle and Asset Finance	113 432	4 974	78 860	10 245
Everyday Banking	81 632	14 266	39 546	5 477
Card	52 295	13 639	23 696	2 066
Personal Loans	25 345	365	13 712	3 202
Transactions and Deposits	3 940	262	2 138	209
Other	52	-	-	-
Relationship Banking	139 605	13 026	106 061	-
ARO RBB	77 938	4 584	60 740	469
CIB	364 085	185 064	143 696	627
CIB SA	292 253	178 238	97 235	10
CIB ARO	71 832	6 826	46 461	617
Head Office, Treasury and other operations	3 165	2 300	863	-
<b>Loans and advances to customers</b>	<b>1 080 837</b>	<b>255 837</b>	<b>646 543</b>	<b>25 856</b>
<b>Loans and advances to banks</b>	<b>62 375</b>	<b>40 032</b>	<b>15 192</b>	<b>-</b>
<b>Loans and advances</b>	<b>1 143 212</b>	<b>295 869</b>	<b>661 735</b>	<b>25 856</b>
<b>Off statement of financial position exposure</b>				
Guarantees	55 851	25 331	22 973	39
Letters of credit	24 269	7 607	12 664	215
Revocable and irrevocable debt facilities <sup>2</sup>	238 893	49 162	179 804	761
<b>Total off statement of financial position exposure</b>	<b>319 013</b>	<b>82 100</b>	<b>215 441</b>	<b>1 015</b>

<sup>1</sup> Refer to note 1.2.1.3 for DG bucket definitions.

<sup>2</sup> Includes the risk that certain revocable debt facilities may be drawn down, without further intervention from the Group.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.2. Credit risk (continued)

Group			
2022			
Stage 2 <sup>1</sup>			Stage 3 <sup>1</sup>
DG1-9 Rm	DG10-19 Rm	DG20-21 Rm	Default Rm
-	19	4 975	-
-	-	-	-
-	-	-	-
-	19	4 975	-
-	408	-	6 081
-	1 697	-	1 502
-	341	1 711	-
-	2 446	1 711	7 583
-	77	-	-
-	-	-	-
-	77	-	-
497	13 322	19 489	29 587
496	9 774	12 094	21 178
1	3 548	7 395	8 409
101	6 571	4 016	11 655
11	3 750	1 931	7 202
16	2 154	1 977	3 919
74	667	108	482
-	-	-	52
741	12 103	-	7 674
-	2 673	3 418	6 054
2 538	17 324	3 214	11 622
2 538	8 229	127	5 876
-	9 095	3 087	5 746
-	2	-	-
3 877	51 995	30 137	66 592
90	6 765	296	-
3 967	58 760	30 433	66 592
14	6 090	594	810
21	2 266	1 389	107
502	5 191	1 078	2 395
537	13 547	3 061	3 312



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.2. Credit risk (continued)

		2021 <sup>1</sup>		
		Stage 1 <sup>2</sup>		
	Gross maximum exposure	DG1-9	DG10-19	DG20-21
Maximum exposure to credit risk	Rm	Rm	Rm	Rm
Balances with other central banks	17 543	5 934	10 613	-
Balances with the SARB	27 684	27 684	-	-
Money market assets	2 242	2 242	-	-
<b>Cash, cash balances and balances with central banks</b>	<b>47 469</b>	<b>35 860</b>	<b>10 613</b>	<b>-</b>
Government bonds	121 640	105 325	16 315	-
Other	9 977	6 038	1 063	-
Treasury bills	43 288	36 647	3 454	-
<b>Investment securities</b>	<b>174 905</b>	<b>148 010</b>	<b>20 832</b>	<b>-</b>
Accounts receivable	12 312	3 954	8 305	-
Settlement accounts	8 782	5 984	2 798	-
<b>Other assets</b>	<b>21 094</b>	<b>9 938</b>	<b>11 103</b>	<b>-</b>
Product Solutions Cluster	381 507	38 168	265 973	19 215
Home Loans	277 414	27 784	197 952	10 469
Vehicle and Asset Finance	104 093	10 384	68 021	8 746
Everyday Banking	73 006	12 401	35 949	5 782
Card	46 779	11 712	21 512	2 070
Personal Loans	22 571	444	12 593	3 417
Transactions and Deposits	3 603	245	1 844	295
Other	53	-	-	-
Relationship Banking	130 839	13 280	95 480	-
ARO RBB	69 251	1 974	54 206	534
CIB	313 737	139 321	125 252	212
CIB SA	251 129	135 092	81 203	200
CIB ARO	62 608	4 229	44 049	12
Head Office, Treasury and other operations	416	343	9	-
<b>Loans and advances to customers</b>	<b>968 756</b>	<b>205 487</b>	<b>576 869</b>	<b>25 743</b>
<b>Loans and advances to banks</b>	<b>46 735</b>	<b>31 883</b>	<b>11 719</b>	<b>-</b>
<b>Loans and advances</b>	<b>1 015 491</b>	<b>237 370</b>	<b>588 588</b>	<b>25 743</b>
<b>Off-statement of financial position exposure</b>				
Guarantees	48 828	28 707	16 392	22
Letters of credit	17 782	2 207	12 759	-
Revocable and irrevocable debt facilities <sup>3</sup>	233 430	66 606	156 814	750
<b>Total off-statement of financial position exposure</b>	<b>300 040</b>	<b>97 520</b>	<b>185 965</b>	<b>772</b>

<sup>1</sup> These numbers have been restated, refer to note 1.21.

<sup>2</sup> Refer to note 1.2.1.3 for DG bucket definitions.

<sup>3</sup> Includes the risk that certain revocable debt facilities may be drawn down, without further intervention from the Group.

**Notes to the consolidated financial statements**

for the reporting period ended 31 December

**60. Risk management (continued)****60.2. Credit risk (continued)**

	2021 <sup>1</sup>			Stage 3 <sup>2</sup>
	Stage 2 <sup>2</sup>			
	DG1-9 Rm	DG10-19 Rm	DG20-21 Rm	Default Rm
	-	996	-	-
	-	-	-	-
	-	-	-	-
	-	996	-	-
	-	-	-	-
	253	1 752	-	871
	-	3 187	-	-
	253	4 939	-	871
	-	53	-	-
	-	-	-	-
	-	53	-	-
	561	13 571	16 885	27 134
	529	10 003	10 678	19 999
	32	3 568	6 207	7 135
	100	4 690	3 376	10 708
	22	3 233	1 477	6 753
	14	946	1 766	3 391
	64	511	133	511
	-	-	-	53
	266	13 464	-	8 349
	-	3 229	3 840	5 468
	6 023	32 322	689	9 918
	6 023	23 035	142	5 434
	-	9 287	547	4 484
	-	64	-	-
	6 950	67 340	24 790	61 577
	-	3 021	112	-
	6 950	70 361	24 902	61 577
	63	2 649	406	589
	-	2 724	90	2
	652	5 674	941	1 993
	715	11 047	1 437	2 584

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.2. Credit risk (continued)

The following table sets out information about the credit quality of financial instruments which are classified at fair value through profit or loss:

	2022			
	Gross carrying amount Rm	DG1-9 Rm	DG10-19 Rm	DG20-21 Rm
<b>Maximum exposure to credit risk</b>				
<b>Cash, cash balances and balances with central banks</b>	<b>3 831</b>	<b>3 831</b>	<b>-</b>	<b>-</b>
Money market assets	3 831	3 831	-	-
<b>Investment securities</b>	<b>15 072</b>	<b>14 665</b>	<b>407</b>	<b>-</b>
Government bonds	-	-	-	-
Other	3 943	3 536	407	-
Treasury bills	11 129	11 129	-	-
<b>Trading and hedging portfolio assets</b>	<b>171 118</b>	<b>129 423</b>	<b>41 519</b>	<b>176</b>
Debt instruments	91 717	72 754	18 792	171
Derivative assets	63 560	46 390	17 165	5
Money market assets	15 841	10 279	5 562	-
<b>Other assets</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>-</b>
Accounts receivable	2	2	-	-
<b>Loans and advances</b>	<b>115 076</b>	<b>38 744</b>	<b>76 332</b>	<b>-</b>
Loans and advances to customers	73 802	24 941	48 861	-
Loans and advances to banks	41 274	13 803	27 471	-
<b>Reinsurance assets</b>	<b>662</b>	<b>253</b>	<b>409</b>	<b>-</b>
Insurance contracts	662	253	409	-
<b>Investment linked to investment contracts</b>	<b>1 778</b>	<b>1 778</b>	<b>-</b>	<b>-</b>
Debt instruments	1 767	1 767	-	-
Money market assets	11	11	-	-
<b>Total</b>	<b>307 539</b>	<b>188 696</b>	<b>118 667</b>	<b>176</b>

	2021			
	Gross carrying amount Rm	DG1-9 Rm	DG10-19 Rm	DG20-21 Rm
<b>Maximum exposure to credit risk</b>				
<b>Cash, cash balances and balances with central banks</b>	<b>4 017</b>	<b>4 017</b>	<b>-</b>	<b>-</b>
Money market assets	4 017	4 017	-	-
<b>Investment securities</b>	<b>7 490</b>	<b>7 146</b>	<b>344</b>	<b>-</b>
Government bonds	15	15	-	-
Other	3 509	3 165	344	-
Treasury bills	3 966	3 966	-	-
<b>Trading and hedging portfolio assets</b>	<b>159 012</b>	<b>114 536</b>	<b>44 253</b>	<b>223</b>
Debt instruments <sup>1</sup>	78 094	51 139	26 955	-
Derivative assets <sup>1</sup>	60 886	51 991	8 672	223
Money market assets	20 032	11 406	8 626	-
<b>Other assets</b>	<b>13</b>	<b>13</b>	<b>-</b>	<b>-</b>
Accounts receivable	13	13	-	-
<b>Loans and advances</b>	<b>118 206</b>	<b>52 696</b>	<b>65 510</b>	<b>-</b>
Loans and advances to customers	89 988	38 685	51 303	-
Loans and advances to banks	28 218	14 011	14 207	-
<b>Reinsurance assets</b>	<b>732</b>	<b>732</b>	<b>-</b>	<b>-</b>
Insurance contracts	732	732	-	-
<b>Investment linked to investment contracts</b>	<b>2 038</b>	<b>2 038</b>	<b>-</b>	<b>-</b>
Debt instruments	1 978	1 978	-	-
Money market assets	60	60	-	-
<b>Total</b>	<b>291 508</b>	<b>181 178</b>	<b>110 107</b>	<b>223</b>

<sup>1</sup>These amounts have been restated, refer to reporting changes overview note 1.21.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.2. Credit risk (continued)

##### Concentration of credit risk

Concentration of credit risk exists when a number of counterparties are located in a geographical region, such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions.

Geographical concentration of risk	Group 2022				
	Asia, Americas and Australia Rm	Europe Rm	Africa Regions Rm	South Africa Rm	Total Rm
<b>On-statement of financial position exposure</b>					
Cash, cash balances and balances with central banks	-	-	18 524	34 379	52 903
Investment securities	11 359	25 296	54 895	116 693	208 243
Trading portfolio assets	5 341	23 687	17 002	120 116	166 146
Hedging portfolio assets	-	-	-	4 972	4 972
Other assets	63	50	4 686	16 938	21 737
Loans and advances	30 435	40 475	218 569	968 809	1 258 288
Reinsurance assets	-	-	500	163	663
Investment linked to investment contracts	-	-	-	1 778	1 778
<b>Subject to credit risk</b>	<b>47 198</b>	<b>89 508</b>	<b>314 176</b>	<b>1 263 848</b>	<b>1 714 730</b>
<b>Off-statement of financial position exposures</b>					
Guarantees	1 687	3 055	15 629	35 481	55 852
Letters of credit	999	461	15 733	7 076	24 269
Revocable and irrevocable debt facilities <sup>2</sup>	364	50	24 557	213 922	238 893
<b>Subject to credit risk</b>	<b>3 050</b>	<b>3 566</b>	<b>55 919</b>	<b>256 479</b>	<b>319 014</b>

Geographical concentration of risk	2021				
	Asia, Americas and Australia Rm	Europe Rm	Africa Regions Rm	South Africa Rm	Total Rm
<b>On-statement of financial position exposure</b>					
Cash, cash balances and balances with central banks	-	-	20 526	30 960	51 486
Investment securities	8 951	13 399	57 591	102 454	182 395
Trading portfolio assets <sup>1</sup>	1 820	21 579	23 723	108 193	155 315
Hedging portfolio assets <sup>1</sup>	-	-	2	3 695	3 697
Other assets	60	71	4 951	16 025	21 107
Loans and advances	32 113	51 698	172 709	877 177	1 133 697
Reinsurance assets	-	-	570	162	732
Investment linked to investment securities	-	-	-	2 038	2 038
<b>Subject to credit risk</b>	<b>42 944</b>	<b>86 747</b>	<b>280 072</b>	<b>1 140 704</b>	<b>1 550 467</b>
<b>Off-statement of financial position exposures</b>					
Guarantees	2 130	3 436	16 444	26 818	48 828
Letters of credit	1 345	303	12 665	3 469	17 782
Revocable and irrevocable debt facilities <sup>2</sup>	404	543	24 316	208 167	233 430
<b>Subject to credit risk</b>	<b>3 879</b>	<b>4 282</b>	<b>53 425</b>	<b>238 454</b>	<b>300 040</b>

<sup>1</sup>These amounts have been restated, refer to reporting changes overview note 1.21.

<sup>2</sup>Includes the risk that certain revocable debt facilities may be drawn down, without further intervention from the Group.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.2. Credit risk (continued)

##### IFRS disclosures in terms of credit mitigation

The financial effect and forms of collateral and credit enhancements for financial instruments that are credit impaired at the reporting date are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset and off – statement of financial position exposure as described in note 1.2.1.

The Group offsets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Group has a legally enforceable right to do so. Amounts disclosed in the maximum exposure category are stated net of these.

The collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying amount and the undrawn facility of the related credit exposure where a loan is possibly over-collateralised.

The Group may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount of this collateral and the value of this collateral is not reported.

During the period there were no changes in the Group's collateral policies.

##### Collateral includes:

- Guarantees and/or letters of credit from third parties.
- Credit default swaps and other credit derivatives.
- Credit insurance.
- Physical collateral including fixed charges over property.
- Cash collateral.
- Other forms including master netting agreements, put options, and highly liquid securities held under reverse repo agreements.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk Management (continued)

#### 60.2 Credit risk (continued)

Analysis of credit risk mitigation and collateral	Gross maximum exposure <sup>1</sup> Rm	2022 Collateral- credit impaired financial assets			
		Guarantees credit Insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm
Debt instruments	91 718	-	-	-	-
Derivative assets	63 561	-	-	-	-
Money market assets	15 841	-	-	-	-
<b>Trading portfolio assets</b>	<b>171 120</b>	-	-	-	-
Product Solutions Cluster	470 749	-	25 601	-	-
Home Loans	355 768	-	18 965	-	-
Vehicle and Asset Finance	114 981	-	6 636	-	-
Everyday Banking	119 761	-	-	-	-
Card	85 424	-	-	-	-
Personal Loans	25 853	-	-	-	-
Transactions and Deposits	8 432	-	-	-	-
Other	52	-	-	-	-
Relationship Banking	163 173	87	4 383	2	2
ARO RBB	84 104	227	2 275	48	168
CIB	554 623	35	1 429	-	932
CIB SA	464 042	-	515	-	-
CIB ARO	90 581	35	914	-	932
Head Office, Treasury and other operations	1 122	-	-	-	-
<b>Loans and advances to customers</b>	<b>1393 532</b>	<b>349</b>	<b>33 688</b>	<b>50</b>	<b>1 102</b>
<b>Loans and advances to banks</b>	<b>103 649</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Loans and advances</b>	<b>1 497 181</b>	<b>349</b>	<b>33 688</b>	<b>50</b>	<b>1 102</b>
<b>Off balance sheet</b>					
Guarantees	55 849	2	14	-	-
Letters of credit	24 269	-	-	-	-
<b>Total off-statement of financial position exposure</b>	<b>80 118</b>	<b>2</b>	<b>14</b>	<b>-</b>	<b>-</b>

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

<sup>1</sup> Included in the gross maximum exposure is the exposure for off-statement of financial position exposure for irrevocable debt facilities and those revocable debt facilities which expose the Group to the risk of draw down in the absence of further intervention from the Group.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk Management (continued)

#### 60.2 Credit risk (continued)

2022							
Collateral- not credit impaired financial assets							
Unsecured Rm	Total maximum exposure credit impaired financial assets <sup>1</sup> 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 <sup>1</sup> Rm
-	-	-	-	-	-	91 718	91 718
-	-	6 550	-	1 727	48 390	6 894	63 561
-	-	-	-	-	-	15 841	15 841
-	-	6 550	-	1 727	48 390	114 453	171 120
4 028	29 629	-	374 625	-	-	66 495	441 120
2 255	21 220	-	313 517	-	-	21 031	334 548
1 773	8 409	-	61 108	-	-	45 464	106 572
13 163	13 163	-	-	-	-	106 598	106 598
8 690	8 690	-	-	-	-	76 734	76 734
3 923	3 923	-	-	-	-	21 930	21 930
498	498	-	-	-	-	7 934	7 934
52	52	-	-	-	-	-	-
3 293	7 767	1 442	142 984	122	6	10 852	155 406
3 480	6 198	3 467	20 713	621	1 292	51 813	77 906
9 834	12 230	5 705	70 409	311	107 957	358 011	542 393
5 361	5 876	-	56 248	-	103 496	298 422	458 166
4 473	6 354	5 705	14 161	311	4 461	59 589	84 227
-	-	-	-	-	778	344	1 122
33 798	68 987	10 614	608 731	1 054	110 033	594 113	1324 545
-	-	-	-	-	47 552	56 097	103 649
33 798	68 987	10 614	608 731	1 054	157 585	650 210	1428 194
793	809	450	2 444	755	81	51 310	55 040
107	107	70	48	90	14	23 940	24 162
900	916	520	2 492	845	95	75 250	79 202

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk Management (continued)

#### 60.2 Credit risk (continued)

Analysis of credit risk mitigation and collateral	Gross maximum exposure <sup>2</sup> Rm	2021 <sup>1</sup> Collateral- credit impaired financial assets			
		Guarantees credit Insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm
Debt instruments	78 094	-	-	-	-
Derivative assets	60 886	-	-	-	-
Money market assets	20 031	-	-	-	-
<b>Trading portfolio assets</b>	<b>159 011</b>	-	-	-	-
Product Solutions Cluster	438 816	-	23 260	-	-
Home Loans	332 256	-	17 906	-	-
Vehicle and Asset Finance	106 560	-	5 354	-	-
Everyday Banking	110 683	-	-	-	-
Card	79 300	-	-	-	-
Personal Loans	23 108	-	-	-	-
Transactions and Deposits	8 222	-	-	-	-
Other	53	-	-	-	-
Relationship Banking	155 059	173	4 377	57	54
RBB ARO	75 025	215	2 031	75	79
CIB	511 831	75	1 262	2	370
CIB SA	426 436	-	456	-	-
CIB ARO	85 395	75	806	2	370
Head Office, Treasury and other operations	760	-	-	-	-
<b>Loans and advances to customers</b>	<b>1 292 174</b>	<b>463</b>	<b>30 930</b>	<b>134</b>	<b>503</b>
<b>Loans and advances to banks</b>	<b>74 953</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Loans and advances</b>	<b>1 367 127</b>	<b>463</b>	<b>30 930</b>	<b>134</b>	<b>503</b>
<b>Off balance sheet</b>					
Guarantees	48 828	21	12	-	-
Letters of credit	17 782	-	-	-	-
<b>Total off-statement of financial position exposure</b>	<b>66 610</b>	<b>21</b>	<b>12</b>	<b>-</b>	<b>-</b>

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

<sup>1</sup> These numbers have been restated, refer to note 1.21.

<sup>2</sup> Included in the gross maximum exposure is the exposure for off-statement of financial position exposure for irrevocable debt facilities and those revocable debt facilities which expose the Group to the risk of draw down in the absence of further intervention from the Group.



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk Management (continued)

#### 60.2 Credit risk (continued)

2021 <sup>1</sup>							
Collateral- not credit impaired financial assets							
Unsecured Rm	Total maximum exposure credit impaired financial assets <sup>2</sup> 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 <sup>1</sup> Rm
-	-	-	-	-	-	78 094	78 094
-	-	-	-	3 723	47 111	10 052	60 886
-	-	-	-	-	-	20 031	20 031
-	-	-	-	3 723	47 111	108 177	159 011
3 919	27 179	-	344 684	-	-	66 953	411 637
2 138	20 044	-	289 364	-	-	22 848	312 212
1 781	7 135	-	55 320	-	-	44 105	99 425
12 261	12 261	-	-	-	-	98 422	98 422
8 276	8 276	-	-	-	-	71 024	71 024
3 396	3 396	-	-	-	-	19 712	19 712
536	536	-	-	-	-	7 686	7 686
53	53	-	-	-	-	-	-
3 781	8 442	2 073	134 262	887	181	9 214	146 617
3 255	5 655	1 734	18 241	699	1 838	46 858	69 370
7 946	9 655	6 888	54 799	686	90 629	349 174	502 176
4 600	5 056	-	44 321	-	85 497	291 562	421 380
3 346	4 599	6 888	10 478	686	5 132	57 612	80 796
-	-	-	-	-	-	760	760
31 162	63 192	10 695	551 986	2 272	92 648	571 381	1 228 982
-	-	2	-	-	28 874	46 077	74 953
31 162	63 192	10 697	551 986	2 272	121 522	617 458	1 303 935
557	590	751	5 559	1 429	94	40 405	48 238
2	2	96	57	198	20	17 409	17 780
559	592	847	5 616	1 627	114	57 814	66 018

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.2 Credit risk (continued)

##### Financial assets written off during the financial period but still subject to enforcement activities

Contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity:

	Group 2022 Rm	2021 Rm
Assets written off during financial period still subject to enforcement activities	11 150	13 505

##### Reconciliation of impairment loss allowance

The following table's show reconciliations from the opening to closing balance of the loss allowances by classes of financial assets:

	Group 2022			
	Stage 1	Lifetime expected credit losses ('LEL')		Total expected credit losses
	Rm	Stage 2	Stage 3	Rm
Cash, cash balances and balances with central banks at amortised cost		Rm	Rm	
Balance at the beginning of the reporting period	6	16	-	22
Asset moved/Allowance transferred to stage 2	-	-	-	-
Current period provision	(36)	41	-	5
Foreign exchange movements	4	(5)	-	(1)
Balance at the end of the reporting period	(26)	52	-	26

	2021			
	Stage 1	Lifetime expected credit losses ('LEL')		Total expected credit losses
	Rm	Stage 2	Stage 3	Rm
Cash, cash balances and balances with central banks at amortised cost		Rm	Rm	
Balance at the beginning of the reporting period	2	0	(0)	2
Asset moved/Allowance transferred to stage 2	(14)	14	-	-
Current period provision	18	2	-	20
Balance at the end of the reporting period	6	16	-	22

	Group 2022			
	Stage 1	Lifetime expected credit losses ('LEL')		Total expected credit losses
	Rm	Stage 2	Stage 3 <sup>1</sup>	Rm
Investment securities at amortised cost and FVOCI		Rm	Rm	
Balance at the beginning of the reporting period	184	20	210	414
Asset moved/Allowance transferred to stage 1	8	(8)	-	-
Asset moved/Allowance transferred to stage 2	-	-	-	-
Asset moved/Allowance transferred to stage 3	(20)	-	20	-
Current period provision	91	(19)	2 106	2 178
Foreign exchange movements	(9)	34	23	48
Net change in interest	-	-	17	17
Balance at the end of the reporting period	254	27	2 376	2 657

<sup>1</sup> The significant increase in Stage 3 ECL allowance relates to Ghana government bonds which have been classified as default (PD: 100%) due to the debt crisis in Ghana.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.2 Credit risk (continued)

##### Reconciliation of impairment loss allowance (continued)

	Stage 1	2021		Total expected credit losses
		Lifetime expected credit losses ('LEL')		
		Stage 2	Stage 3	
Investment securities at amortised cost and FVOCI	Rm	Rm	Rm	Rm
Balance at the beginning of the reporting period	158	69	-	227
Asset moved/Allowance transferred to stage 1	1	(1)	-	-
Asset moved/Allowance transferred to stage 2	(53)	53	-	-
Current period provision	80	(103)	210	187
Foreign exchange movements	(2)	2	-	-
Balance at the end of the reporting period	184	20	210	414

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.2 Credit risk (continued)

##### Reconciliation of impairment loss allowance (continued)

	2022							Total expected credit losses
	Product Solutions Cluster	Everyday Banking	Relationship Banking	ARO RBB	CIB SA	CIB ARO	Head Office, Treasury and other Operations	
Loans and advances at amortised cost and undrawn facilities <sup>1</sup>	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
<b>Balances at the beginning of the reporting period</b>	<b>13 156</b>	<b>12 601</b>	<b>5 236</b>	<b>5 556</b>	<b>2 922</b>	<b>2 447</b>	<b>2</b>	<b>41 920</b>
Stage 1	1 535	2 285	682	1 135	1 137	403	2	7 179
Stage 2	2 001	2 396	913	1 129	256	501	-	7 196
Stage 3	9 620	7 920	3 641	3 292	1 529	1 543	-	27 545
Transfers between stages	-	-	-	-	-	-	-	-
Stage 1 net transfers	546	107	337	281	(47)	53	-	1 277
Transfers to/ (from) stage 1	805	558	409	336	(56)	88	-	2 140
Transfers from/ (to) stage 2	(159)	(243)	(42)	(37)	8	(19)	-	(492)
Transfers from/ (to) stage 3	(100)	(208)	(30)	(18)	1	(16)	-	(371)
Stage 2 net transfers	(200)	(996)	(411)	(484)	48	(72)	-	(2 115)
Transfers from/ (to) stage 1	(500)	(497)	(351)	(291)	56	(88)	-	(1671)
Transfers to/ (from) stage 2	909	225	110	58	(8)	19	-	1 313
Transfers from/ (to) stage 3	(609)	(724)	(170)	(251)	-	(3)	-	(1 757)
Stage 3 net transfers	(346)	889	74	203	(1)	19	-	838
Transfers from/ (to) stage 1	(305)	(62)	(58)	(45)	-	-	-	(470)
Transfers from/ (to) stage 2	(750)	19	(68)	(21)	-	-	-	(820)
Transfers to/ (from) stage 3	709	932	200	269	(1)	19	-	2 128
Credit impairment charges raised	2 607	5 900	771	1 434	333	716	10	11 771
Amounts written off	(2 678)	(5 279)	(1 648)	(1 252)	(173)	(119)	(1)	(11 150)
Net change in interest	973	927	468	292	185	227	-	3 072
Foreign exchange movements	-	-	-	(175)	-	(86)	-	(261)
<b>Balance at the end of the reporting period</b>	<b>14 058</b>	<b>14 149</b>	<b>4 827</b>	<b>5 855</b>	<b>3 267</b>	<b>3 185</b>	<b>11</b>	<b>45 352</b>
Stage 1	1 534	2 503	544	1 163	779	528	6	7 057
Stage 2	2 209	2 897	747	908	311	458	5	7 535
Stage 3	10 315	8 749	3 536	3 784	2 177	2 199	-	30 760

<sup>1</sup>Previously the Group presented the loans and advances and undrawn facilities ECL reconciliation at a consolidated level. To enhance the disclosure, this has been disaggregate per segment to provide users with more granularity in the current year and will be applied prospectively.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.2 Credit risk (continued)

##### Reconciliation of impairment loss allowance (continued)

	2021 <sup>1</sup>							
	Product Solutions Cluster	Everyday Banking	Relationship Banking	ARO RBB	CIB SA	CIB ARO	Head Office, Treasury and other Operations	Total expected credit losses
Loans and advances at amortised cost and undrawn facilities	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
<b>Balances at the beginning of the reporting period</b>	13 198	15 762	5 446	4 651	2 885	2 329	19	44 290
Stage 1	1 601	2 161	800	1 007	1 335	482	19	7 405
Stage 2	1 789	3 435	1 228	1 220	381	508	-	8 561
Stage 3	9 808	10 166	3 418	2 424	1 169	1 339	-	28 324
Transfers between stages	-	-	-	-	-	-	-	-
Stage 1 net transfers	704	625	240	(18)	(52)	34	-	1 533
Transfers (from)/ to stage 1	946	1 061	332	203	(61)	69		2 550
Transfers from/ (to) stage 2	(153)	(164)	(54)	(157)	9	(35)		(554)
Transfers (to) stage 3	(89)	(272)	(38)	(64)	-	-		(463)
Stage 2 net transfers	506	(1 059)	(280)	(232)	48	(26)	-	(1 043)
Transfers from/ (to) stage 1	(526)	(897)	(272)	(189)	61	(69)		(1 892)
Transfers (from)/ to stage 2	1 549	926	99	165	(13)	46		2 772
Transfers (to) stage 3	(517)	(1 088)	(107)	(208)	-	(3)		(1 923)
Stage 3 net transfers	(1 210)	434	40	250	4	(8)	-	(490)
Transfers (to) stage 1	(420)	(164)	(60)	(14)	-	-		(658)
Transfers from/ (to) stage 2	(1 396)	(762)	(45)	(8)	4	(11)		(2 218)
Transfers to stage 3	606	1 360	145	272	-	3		2 386
Credit impairment charges raised	999	3 961	980	1 414	237	93	(17)	7 667
Amounts written off	(1 729)	(8 088)	(1 719)	(1 475)	(321)	(173)	-	(13 505)
Net change in interest	688	966	529	471	121	42	-	2 817
Foreign exchange movements	-	-	-	495	-	156	-	651
<b>Balance at the end of the reporting period</b>	13 156	12 601	5 236	5 556	2 922	2 447	2	41 920
Stage 1	1 535	2 285	682	1 135	1 137	403	2	7 179
Stage 2	2 001	2 396	913	1 129	256	501	-	7 196
Stage 3	9 620	7 920	3 641	3 292	1 529	1 543	-	27 545

<sup>1</sup>These numbers have been restated, refer to note 1.21.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60.2 Credit risk (continued)

#### Reconciliation of impairment loss allowance by market segment for loans and advances:

##### Product Solutions Cluster:

- During the current financial year, gross loans and advances increased to R414 412m particularly driven by new business in Home loans and Vehicle and asset finance. This resulted in an increase in ECL allowance of R1 843m.
- The value of loans written off during the year amounted to R2 678m (Home loans: 680m, Vehicle and asset finance: R1 998m). This led to a decrease in the ECL allowance for the year R 2 678m.
- Loan modifications that did not result in derecognition of the loan amounted to R3 300m (Home loans: R1 530m, Vehicle and asset finance: R1 770m)
- No gross loans and advances sold during the current year

##### Everyday Banking:

- During the current financial year, gross loans and advances increased to R81 632m particularly driven by new business in Personal loans, Transactions and deposits and higher consumer spend in the Credit Card portfolio. This resulted in an increase in ECL allowance of R3 918m
- The value of loans written off during the year amounted to R5 279m (Personal loans: R 2 084m; Transactions and deposits: R513m; Card: R2 682m). This led to a decrease in the ECL allowance for the year of R 5 279m.
- Loan modifications that did not result in derecognition of the loan amounted to R1 343m (Personal loans: R670m; Transactions and deposits: R65m; Card: R608m)
- Gross loans and advances sold during the current year amounted to R1 347m (Personal loans: R770m, Card: R577m,). This resulted in a decrease of R1 215 to the ECL allowance.

##### Relationship Banking:

- During the current financial year, gross loans and advances increased to R139 605m, particularly driven by new business in the Agri and Commercial Asset Finance portfolios. This resulted in an increase in ECL allowance of R236m.
- The value of gross loans written off during the year amounted to R1 648m. This led to a decrease in the ECL allowance for the year of R1648m.
- No gross loans and advances sold during the current year

##### ARO RBB

- During the current financial year, gross loans and advances increased to R77 938m, particularly driven by new business in low-risk sectors and government employee schemes in Kenya and NBC further supported by mortgages in Mauritius as well as increase in working capital needs from clients in Zambia. This resulted in an increase in ECL allowance of R30m.
- The value of gross loans written off during the year amounted to R1 252m. This led to a decrease in the ECL allowance for the year of R1 252m
- No gross loans and advances sold during the current year.

##### CIB SA:

- During the current financial year, gross loans and advances increased to R366 055m, particularly driven by new business in Transactional Banking (overdrafts) and Investment Banking (foreign currency loans), offset by trades maturing across these Business Units. This resulted in a increase in ECL allowance of R434m.
- The value of loans written off during the year amounted to R173m. This led to a decrease in the ECL allowance for the year of 173m.
- No new loan modifications that did not result in derecognition of the loan were observed.
- Gross loans and advances sold during the current year amounted to R37m. This resulted in an increase of R2m to the ECL allowance.

##### CIB ARO:

- During the current financial year, gross loans and advances increased to R 71 832m, particularly driven by book growth predominantly in Mauritius. Growth in loans and advances was driven by an increase in working capital needs from clients in the oil importation and energy sectors, primarily due to an increase in demand for working capital given the increase in commodity prices. This resulted in an increase in ECL allowance of R 711m.
- The value of gross loans written off during the year amounted to R 119m. This led to a decrease in the ECL allowance for the year of R 119m.
- No gross loans and advances sold during the current year.

##### Head Office, Treasury and other operations:

- No material ECL balance in the current year.

##### 2021

Although gross loans and advances increased to R1 134bn during the period, particularly driven by a 7% growth in Retail SA secured lending products and a 6% growth in CIB, ECL allowances decreased due to:

- Higher write-offs in Retail SA of R9.8bn in the unsecured portfolios and the workout of NPLs as backlogs in legal processes started to clear.
- Sale of unsecured legal balances in Personal Loans of R881m and Card of R512m.
- Benefits realised from model enhancements and the revised application of the existing definition of default which now aligns more closely with industry practice. Refer to note 1.2.1 Approach to credit risk and impairment of loans and advances.
- The improvement in forward-looking assumptions relative to initial expectations and consumption of the macro-overlay as anticipated risks have either materialised or dissipated over time.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.2 Credit risk (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 **R3 072m** (2021: R2 817m) disclosed is therefore reflective of the amount of interest not recognised during the current reporting period.

	Group			
	2022			
	Stage 1	Lifetime expected credit losses ('LEL')		Total expected credit losses
		Stage 2	Stage 3	
Guarantees and letters of credit	Rm	Rm	Rm	Rm
Balance at the beginning of the reporting period	122	90	388	600
Asset moved/Allowance transferred to stage 1	(22)	(1)	23	-
Asset moved/Allowance transferred to stage 2	-	-	-	-
Asset moved/Allowance transferred to stage 3	-	-	-	-
Current period provision	88	88	35	211
Foreign exchange movements	(11)	(4)	59	44
Balance at the end of the reporting period	177	173	505	855

	2021			
	Lifetime expected credit losses ('LEL')			Total expected credit losses
	Stage 1	Stage 2	Stage 3	
	Rm	Rm	Rm	Rm
<b>Guarantees and letters of credit</b>				
<b>Balance at the beginning of the reporting period</b>	<b>120</b>	<b>65</b>	<b>138</b>	<b>323</b>
Asset moved/Allowance transferred to stage 1	4	(4)	-	-
Asset moved/Allowance transferred to stage 2	(4)	4	-	-
Asset moved/Allowance transferred to stage 3	-	(4)	4	-
Current period provision	(2)	18	240	256
Foreign exchange movements	4	11	6	21
<b>Balance at the end of the reporting period</b>	<b>122</b>	<b>90</b>	<b>388</b>	<b>600</b>

#### Other financial assets measured at amortised cost:

The ECL recognised on other assets for the current financial year amounted to **R13m** (2021: R99m).

#### Modified financial assets

The following table provides information on financial assets that were modified during the reporting period, specifically where a gain or loss has arisen and without resulting in derecognition, while they had a loss allowance measured at an amount equal to lifetime ECL:

	Group	
	2022	2021
	Rm	Rm
<b>Financial assets modified during the period</b>		
<b>Loans and advances</b>		
Amortised cost before modification	3 960	3 546
Net modification loss	(891)	(247)

There were no financial assets modified during the year for which loss allowance has changed to 12-month measurement.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.3. Macro-overlays, payment relief and sensitivity analysis

##### Macro-overlays

The Group continues to use macro-overlays to ensure adequate protection against future losses. The macro-overlay has however materially reduced from pandemic-period highs as a larger portion of anticipated risks are now captured through incurred losses or recalibrated IFRS 9 models, which reflect the COVID-19 loss experience. The remaining macro-overlay is primarily held for adjustments to modelled forecast parameters across the ARO portfolio and adjustments for vulnerable sectors in CIB.

Coverage levels have remained fairly stable despite the reduction in the macro-overlay. For further details on expected credit loss analysis by market segment and credit exposure type, please see note 2.1 in the Group's Summary consolidated financial results. The segment report per market segment also provides further insights on key credit metrics.

##### Sensitivity of expected credit losses

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

	2022	
	Rm	% Change
ECL allowance on stage 1 and stage 2 loans and advances	14 170	0
Baseline	13 841	(2)
Upside	12 256	(14)
Downside	16 549	17
	2021	
	Rm	% Change
ECL allowance on stage 1 and stage 2 loans and advances.	13 996	-
Baseline	13 752	(2)
Upside	13 722	(2)
Downside	14 444	3

##### Sensitivity of expected credit losses

In addition, as at 31 December 2022, the Group assessed what the impact on expected credit losses would be, if 5% of the gross carrying amount of loans and advances to customers in stage 1 experience a SICR and move to stage 2. The ECL changes below include the effect on undrawn committed facilities and guarantees which are reflected as 'provisions' in the statement of financial position. This impact has been presented below:

	2022	
	Stage 2 Increase in gross carrying amount Rm	Increase in expected credit loss Rm
Product Solutions Cluster	17 576	1 088
Everyday Banking	2 964	679
Relationship Banking	5 954	319
ARO RBB	3 290	428
CIB SA	13 774	344
CIB ARO	2 695	78
	2021 <sup>1</sup>	
	Stage 2 Increase in gross carrying amount Rm	Increase in expected credit loss Rm
Product Solutions Cluster	16 168	966
Everyday Banking	2 707	680
Relationship Banking	5 438	328
ARO RBB	2 836	392
CIB SA	10 825	38
CIB ARO	2 415	104

<sup>1</sup> These numbers have been restated, refer to 1.21.



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.3. Macro-overlays, payment relief and sensitivity analysis (continued)

##### Payment relief measures

Payment relief provided to clients under Directive 3/2020 has fully matured. Inflows into arrears of the expired payment relief portfolio have stabilised and the portfolio is performing in line with expectation. The credit portfolio is once again managed on a holistic basis and the normal credit stage allocation methodology is applied across the entire portfolio.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.4 Equity investment risk

Equity risk in the banking book (ERBB) is defined as the risk of a loss arising from a decline in the value of investments in equity or an equity type instrument. This can be caused by the deterioration in the underlying operating asset performance, net asset value, enterprise value of the issuing entity, or by a decline in the market price of the equity or instrument itself.

Banking book equity risk is governed under the Non-traded Equity Risk and Purchased Debt Standard. Its purpose is to set the criteria for in-scope non-traded equity, lay out the minimum approval requirements, outline the minimum monitoring requirements and controls, and defines the key criteria covering the methodology for investment valuation. Banking book equity limits consume banking book capital, while equity exposures in the trading book are managed by market risk and consume capital in the trading book.

Strategic investments are typically Board-approved investments for the Group (such as investments in subsidiaries), investments for public interest or in utilities. Within each equity portfolio, the Group aims to achieve a level of asset diversification to manage concentration risk.

#### Approach

The Group's governance of equity investments is based on the following key fundamental principles:

- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Group's equity investments are held in CIB and RBB – Business Banking. Equity and other investments held by insurance entities are addressed in the insurance risk management section of this report.

#### Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and economic capital (EC) requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Group employs the market-based simple risk weight approach as prescribed by Regulation 31 of the Regulations relating to Banks to calculate risk-weighted assets (RWA) and regulatory capital (RC) and a historical simulation approach with volatility scaling to calculate EC for ERBB.

Consequently, the RWA requirement is calculated using adjusted risk weightings of **318%** (2021: 318%) and **424%** (2021: 424%) for listed and unlisted equity investments, respectively. For investments in which the Group owns between 10% and 20% of the issued common share capital of a financial entity, a 250% risk weight is applied. For investments not in the common share capital of financial entities, as well as any investments in financial entities (in common and non-common share capital) with a shareholding percentage of more than 20%, the Group applies a common equity Tier 1 capital deduction, also referred to as the threshold deduction, in accordance with Regulation 38 of the Regulations relating to Banks. RC requirements in respect of investments in associates and joint ventures, defined as financial companies in the Regulations relating to Banks, are calculated with reference to either the pro rata consolidation methodology or the deduction approach.

The approach in determining the EC requirement employs a historical simulation, which assumes that historical price movements of a different industry sector can be used to proxy the changes in the market value of the portfolio and a volatility forecast is applied to scale the historical returns to better reflect current market conditions. This allows for the capturing of diversification between individual industry sectors.

The Solvency Assessment Management (SAM) regime is a risk-based regulatory and solvency regime, prescribed by the Insurance Act of 2017, and applies to regulated insurance entities and insurance groups. Absa Financial Services entities' liabilities, capital and solvency positions will continue to be reported under parallel processes accordingly.

#### Analysis of equity investment risk in the banking book

The table below illustrates the equity sensitivity analysis and discloses the impact on pre-tax profit or loss and equity after the effect of hedges. Debt instruments have been excluded from the sensitivity analysis.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.4 Equity investment risk (continued)

	Group					2021			
	2022					Impact of a 5% or 10% reduction in fair value <sup>1</sup>		Impact of a 5% or 10% increase in fair value <sup>1</sup>	
	Profit or loss	Equity	Fair value	Profit or loss	Equity	Profit or loss	Equity	Fair value	Profit or loss
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
<b>Insurance activities' listed and unlisted equity investments<sup>2,3</sup></b>	(85)	(98)	3 379	85	98	(94)	(58)	2 702	94
Listed equity investments	(58)	( 98)	3 113	58	98	(61)	(58)	2 376	61
Unlisted equity investments	(27)	-	266	27	-	(33)	-	326	33
<b>Group listed and unlisted equity investments, excluding insurance activities' investments</b>	(225)	(126)	4 217	225	126	(248)	(95)	3 981	248
Listed equity investments	(19)	(51)	1 415	19	51	(32)	(21)	1 072	32
Unlisted equity investments	(206)	(75)	2 802	206	75	(216)	(74)	2 909	216
<b>Total on Group equity investments</b>	(310)	(224)	7 596	310	224	(342)	(153)	6 683	342

<sup>1</sup> The sensitivity impact analysis on listed investments is based on 5% whereas unlisted investments is based on 10%.

<sup>2</sup> The above sensitivities were only calculated on shareholder and non-linked policyholder assets (for unit linked policyholder liabilities there is no impact on the sensitivity analysis due to the fact that the asset and liability is 100% matched) and exclude all assets linked to investment and unit linked contracts due to the fact that the asset and liability is 100% matched.

<sup>3</sup> 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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.5 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 (VaR) 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 VaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The VaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 99%

The historical simulation methodology can be split into three parts:

- Calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves.
- Sum of all hypothetical profits or losses for day one across all positions, giving one total profit or loss. Repeat for all other days in the two-year history.
- VaR 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 VaR 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 VaR and sVaR model multiplier to be used in RC calculations. In addition to the VaR internal model, products which have not received IMA approval are capitalized under the standardized approach.

General position risk in trading books in the Absa Regions is also capitalised under the regulatory standardised approach. Issuer-specific risk is currently reported in accordance with the regulatory standardised approach across the Group.

The performance of the VaR model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when actual losses from trading activities exceed the corresponding 99% level of confidence assuming a one-day holding period calculated by the VaR model.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.5 Market 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 VaR, sVaR 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 VaR, increased to **R56.49** (2021: R51.86m) for the reporting period, which is a **9%** (2021: 18%) increase on the prior year average. This was principally due to increased volatility in the current two year timeseries and changes in risk positioning, primarily affecting interest rate products as central banks acted aggressively in raising interest rates in order to stem inflation and market liquidity remained sporadic in various markets.

	Group				2021			
	2022							
	Average	High <sup>1</sup>	Low <sup>1</sup>	As at the reporting date	Average	High <sup>1</sup>	Low <sup>1</sup>	As at the reporting date
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Interest rate risk	67.42	135.24	39.76	97.27	56.64	174.77	26.00	62.67
Foreign exchange risk	15.23	38.31	3.74	38.31	21.75	58.94	5.01	14.43
Equity risk	15.46	27.99	5.97	11.43	10.98	30.64	3.03	16.83
Commodity risk	0.72	2.93	0.43	0.94	0.85	4.85	0.39	0.54
Inflation risk	48.35	73.93	23.70	68.41	35.83	117.64	13.36	43.69
Credit spread risk	8.78	12.15	5.09	5.10	10.33	11.69	8.36	9.17
Diversification effect	(99.47)	-	-	(140.12)	(84.52)	-	-	(94.31)
Total DVaR	56.49	85.30	31.83	81.34	51.86	83.33	30.53	53.01
Expected shortfall	91.99	309.36	59.77	110.55	81.29	221.71	41.92	70.03
Regulatory VaR <sup>2</sup>	56.49	85.30	31.83	81.35	51.86	83.33	30.53	53.01
Regulatory sVaR <sup>2</sup>	64.62	109.11	34.10	75.19	78.60	121.65	48.18	65.23

#### 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.

<sup>1</sup> The high (and low) VaR figures reported for each category did not necessarily occur on the same day as the high (and low) total VaR. Consequently, a diversification effect number for the high (and low) VaR figures would not be meaningful and is therefore omitted.

<sup>2</sup> Regulatory VaR and sVaR are reported with a one-day holding period at a 99% confidence level. The sVaR period is subject to ongoing review for appropriateness.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.6 Treasury risk

- **Liquidity risk:** The risk that the Group is unable to meet its contractual or contingent cash obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.
- **Capital risk:** The risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board-approved capital target ranges and above regulatory capital requirements.
- **Interest rate risk in the banking book (IRRBB):** The risk that the Group is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its banking book assets and liabilities.

##### 60.6.1 Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its contractual or contingent liquidity obligations or that it does not have the appropriate amount, tenor and composition of funding to support its assets. These outflows would deplete available cash resources for client lending, trading activities and investments. Such outflows could be through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of group-specific and market-wide events.

Liquidity risk is monitored at Group level under a single comprehensive Treasury Risk Framework. The Treasury Risk Framework was designed to deliver an appropriate tenor structure and composition of funding consistent with the risk appetite set by the Board. This framework is delivered through a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring.

##### Priorities

The Group's liquidity risk management 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 HQLA position in line with the Board-approved framework and ensure compliance with regulatory requirements.
- Continue to lengthen and diversify the funding base to support asset growth and other strategic initiatives, while optimising funding costs.
- Collaborate with the regulatory authorities and other stakeholders on the SARB's approach to resolution planning, depositor insurance schemes and the monetary policy implementation framework in South Africa.

##### Approach to liquidity risk

The efficient management of liquidity is essential for safeguarding the Group's depositors, preserving market confidence and maintaining the Group's brand. The Group considers sustainable access to appropriate liquidity for each of its entities to be extremely important. Liquidity risk is managed under the Liquidity Risk Policy in line with the Treasury Risk Framework to:

- Maintain liquidity resources that are sufficient in amount and quality together with a funding profile that is appropriate to meet the risk appetite as expressed by the Board.
- Maintain market confidence.
- Set limits to manage liquidity risk within and across lines of business and legal entities.
- Price liquidity costs accurately and incorporate these into product pricing and performance measurement.
- Monitor early warning indicators (EWIs) to immediately identify the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources.
- Fully project over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items.
- Maintain a recovery plan that incorporates a contingent funding plan (CFP) that is comprehensive and proportionate to the nature, scale and complexity of the business and regularly tested to ensure it is operationally robust.

##### Stress and scenario testing

Under the Treasury Risk Framework, the Group established the internal liquidity stress metric (ILSM), which sets the level of liquidity risk the Group chooses to take to achieve its business objectives and in meeting its regulatory requirements. It is measured with reference to the anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to determine the appropriate size of the liquidity pool, along with the LCR.

Each entity in the Group undertakes a range of stress tests appropriate to its business. Stress tests consider both name-specific and market-wide scenarios. The results of the stress tests are used to determine the liquid asset buffer, to develop the CFP which is a component of the Group's recovery plan. Stress testing results are also considered when setting limits for the management of liquidity risk and the business planning process.

As part of stress and scenario testing, the relevant liquid assets portfolio serves as the main source of liquidity under stress. Liquidity value is also assigned to unsecured funding lines, readily marketable investment securities and price-sensitive overnight loans.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.6 Treasury risk (continued)

##### 60.6.1 Liquidity risk (continued)

###### Contingency funding planning

The Contingency Funding Plan (CFP) includes, inter alia:

- the roles and responsibilities of senior management in a crisis.
- authorities for invoking the plan.
- communications strategy.
- an analysis of a realistic range of market-wide and Group-specific liquidity stress tests.
- scenario analyses and the extent to which each stress test and scenario can be mitigated by the management of the balance sheet.
- a range of early warning indicators (EWIs), which assist in informing management when deciding whether the CFP should be invoked.

Each banking entity in the Group must establish local processes and procedures to manage local liquidity stresses that are consistent with the Group's plan. The CFPs set out the specific requirements to be undertaken locally in a crisis. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets. For the Group the CFP was merged with the recovery plan.

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

The Group's foreign currency funding position remained robust with diversified funding facilities from international banks and appropriate tenors to meet term funding asset growth.

###### Contractual maturity of financial assets and liabilities

The table below provides detail on the contractual maturity and mismatch position of all financial instruments. 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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.6 Treasury risk (continued)

##### 60.6.1 Liquidity risk (continued)

	Group					
	2022					
	Carrying amount (excluding impairment losses on amortised cost instruments)				Impairment Losses	Total
	On demand	Within 1 year	From 1 year to 5 years	More than 5 years		
Discounted maturity	Rm	Rm	Rm	Rm	Rm	Rm
Assets						
Cash, cash balances and balances with central banks	48 156	18 424	625	-	(26)	67 179
Investment securities	6 381	77 094	79 057	53 307	(202)	215 637
Trading and hedging portfolio assets	205 823	193	313	4 467	-	210 796
Derivative assets	58 588	193	313	4 467	-	63 561
Non-derivative assets	147 235	-	-	-	-	147 235
Other financial assets	7 977	13 760	-	1	( 13)	21 725
Loans and advances	193 851	326 859	425 904	311 674	(44 889)	1 213 399
Non-current assets held for sale	-	86	-	-	-	86
Reinsurance assets	-	539	93	31	-	663
Investments linked to investment contracts	4	5	758	18 521	-	19 288
Financial assets	462 192	436 960	506 750	388 001	(45 130)	1 748 773
Non-financial assets <sup>2</sup>						44 428
Total assets						1 793 201
Liabilities <sup>1</sup>						
Trading and hedging portfolio liabilities	94 898	599	1 364	271	-	97 132
Derivative liabilities	56 594	599	1 364	271	-	58 828
Non-derivative liabilities	38 304	-	-	-	-	38 304
Other financial liabilities	16 382	11 751	300	-	-	28 433
Deposits	708 245	454 817	69 315	9 541	-	1 241 918
Debt securities in issue	2 074	117 783	74 054	11 608	-	205 519
Liabilities under investment contracts	558	5	784	18 652	-	19 999
Policyholder liabilities under insurance contracts	978	2 243	384	1 779	-	5 384
Borrowed funds	253	17 738	8 172	257	-	26 420
Financial liabilities	823 388	604 936	154 373	42 108	-	1 624 805
Non-financial liabilities <sup>2</sup>						15 348
Total liabilities						1 640 153
Equity						153 048
Total equity and liabilities						1 793 201
Net liquidity position of financial instruments	(361 196)	(167 976)	352 377	345 893	(45 130)	123 968



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for the reporting period ended 31 December

	Group 2021					
	Carrying amount (excluding impairment losses on amortised cost instruments)				Impairment losses	Total
	On demand	Within 1 year	From 1 year to 5 years	More than 5 years		
Discounted maturity	Rm	Rm	Rm	Rm	Rm	Rm
<b>Assets</b>						
Cash, cash balances and balances with central banks <sup>3</sup>	44 976	20 923	164	-	(22)	66 041
Investment securities	12 774	72 816	71 029	32 293	(14)	188 898
Trading and hedging portfolio assets <sup>3</sup>	202 731	355	2 400	809	-	206 295
Derivative assets <sup>3</sup>	57 322	355	2 400	809	-	60 886
Non-derivative assets <sup>3</sup>	145 409	-	-	-	-	145 409
Other financial assets	8 553	12 336	218	-	(99)	21 008
Loans and advances	188 789	291 793	380 997	272 118	(41 440)	1 092 257
Non-current assets held for sale	714	128	-	-	-	842
Reinsurance assets	-	541	139	52	-	732
Investments linked to investment contracts	729	1 493	5 713	11 868	-	19 803
Financial assets <sup>3</sup>	476 060	383 591	460 660	317 140	(41 575)	1 595 876
Non-financial assets <sup>2</sup>						43 656
<b>Total assets<sup>3</sup></b>						1 639 532
<b>Liabilities<sup>1</sup></b>						
Trading and hedging portfolio liabilities <sup>3</sup>	70 662	365	1 967	574	-	73 568
Derivative liabilities <sup>3</sup>	46 012	365	1 967	574	-	48 918
Non-derivative liabilities <sup>3</sup>	24 650	-	-	-	-	24 650
Other financial liabilities	27 788	12 014	279	-	-	40 081
Deposits	706 218	397 411	60 652	9 485	-	1 173 766
Debt securities in issue <sup>3</sup>	462	53 443	67 916	7 954	-	129 775
Liabilities under investment contracts	1 896	1 476	5 141	12 613	-	21 126
Policyholder liabilities under insurance contracts	1 260	1 988	22	2 461	-	5 731
Borrowed funds	50	7 803	18 747	-	-	26 600
Financial liabilities <sup>3</sup>	808 336	474 500	154 724	33 087	-	1 470 647
Non-financial liabilities <sup>2</sup>						21 576
<b>Total liabilities</b>						1 492 223
<b>Equity</b>						147 309
<b>Total equity and liabilities<sup>3</sup></b>						1 639 532
					(4	
					-349 070	
<b>Net liquidity position of financial instruments</b>	(349 070)	(74 115)	305 936	284 053	1 575)	125 229

<sup>1</sup>The above table does not include the maturity analysis of finance lease payables, which is detailed in Note 33.

<sup>2</sup>The following current items are disclosed under non-financial assets and liabilities: Current Tax Liabilities, Provisions (please refer to note 17 for the split), Current Tax Liability and Deferred Tax Asset/Liability.

The following non-current items are disclosed under non-financial assets and liabilities: Investments in associates and joint ventures, Goodwill and Intangible assets, Provisions, (please refer to note 17 for the split), Investment property, Property and Equipment and Deferred Tax Asset/Liability.

<sup>3</sup>These numbers have been restated, refer to restatement note 1.21

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.6 Treasury risk (continued)

##### 60.6.1 Liquidity risk (continued)

Undiscounted maturity <sup>1</sup> (statement of financial position value with impact of future interest)	Group					
	2022					Total Rm
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	
<b>Liabilities</b>						
<b>On-statement of financial position</b>						
Trading and hedging portfolio liabilities	94 898	622	1 723	572	( 683)	97 132
Derivative liabilities	56 595	622	1 723	572	( 684)	58 828
Non-derivative liabilities	38 303	-	-	-	-	38 304
Other financial liabilities	16 377	11 822	353	-	( 119)	28 433
Deposits	708 263	461 186	87 763	21 634	(36 928)	1 241 918
Debt securities in issue	2 074	121 523	92 127	22 039	(32 244)	205 519
Liabilities under investment contracts	558	6	1 105	45 098	(26 768)	19 999
Policyholder liabilities under insurance contracts	978	2 351	432	5 493	(3 870)	5 384
Borrowed funds	253	19 142	6 966	613	( 554)	26 420
<b>Financial liabilities</b>	<b>837 248</b>	<b>724 872</b>	<b>198 792</b>	<b>95 449</b>	<b>(102 919)</b>	<b>1 624 805</b>
<b>Non-financial liabilities</b>						<b>15 348</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 640 153</b>
<b>Off-statement of financial position</b>						
Financial guarantee contracts	55 851	-	-	-	-	55 851
Loan commitments	98 627	21 598	-	-	-	120 225
Letters of credit <sup>3</sup>	24 269	-	-	-	-	24 269

Undiscounted maturity <sup>1</sup> (statement of financial position value with impact of future interest)	2021					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
<b>Liabilities</b>						
<b>On-statement of financial position</b>						
Trading and hedging portfolio liabilities <sup>2</sup>	70 663	371	2 470	1 172	(1 109)	73 568
Derivative liabilities <sup>2</sup>	46 013	371	2 470	1 172	(1 109)	48 918
Non-derivative liabilities <sup>2</sup>	24 650	-	-	-	-	24 650
Other financial liabilities	27 788	12 083	326	-	(116)	40 081
Deposits	706 232	400 641	70 352	19 886	(23 345)	1 173 766
Debt securities in issue <sup>2</sup>	462	54 507	80 098	13 541	(18 832)	129 775
Liabilities under investment contracts	1 896	1 502	6 137	23 214	(11 623)	21 126
Policyholder liabilities under insurance contracts	1 260	2 066	24	6 250	(3 869)	5 731
Borrowed funds	50	7 927	23 573	-	(4 950)	26 600
<b>Financial liabilities<sup>2</sup></b>	<b>808 351</b>	<b>479 097</b>	<b>182 980</b>	<b>64 063</b>	<b>(63 844)</b>	<b>1 568 677</b>
<b>Non-financial liabilities<sup>2</sup></b>						<b>21 576</b>
<b>Total liabilities</b>						<b>1 492 223</b>
<b>Off-statement of financial position</b>						
Financial guarantee contracts	48 828	-	-	-	-	48 828
Loan commitments	98 268	27 330	-	-	-	125 598
Letters of credit <sup>3</sup>	17 782	-	-	-	-	17 782

<sup>1</sup> The above table does not include the maturity analysis of finance lease payables, which is detailed in note 42.

<sup>2</sup> These numbers have been restated, refer to 1.21

<sup>3</sup> The disclosure has been enhanced to incorporate letters of credit.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.6 Treasury risk

##### 60.6.2 Capital management

Capital risk is the risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board capital target ranges and above regulatory capital requirements.

The Group's capital management strategy, which is in line with and in support of the Group's strategy, is to create sustainable value for shareholders within the boundaries imposed by the Group's risk appetite through effective financial risk management.

The Group's capital management priorities are to:

- Create sustainable value for shareholders while maintaining sufficient capital supply for growth, with capital ratios within the Board approved risk appetite and above minimum levels of regulatory capital.
- Remain above the minimum Board capital targets and maintain a sustainable dividend pay-out-ratio.
- Monitor and assess upcoming regulatory developments that may affect the capital position. These include the Basel III enhancements, including FRTB; the proposed amendments to the regulations relating to banks; the resolution framework and the financial conglomerate supervisory framework in South Africa.
- Prioritise the issuance of first loss after capital instruments following the promulgation of the Financial Sector Laws Amendment Bill.
- Appropriately deploy and repatriate capital to and from subsidiaries.
- 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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.6 Treasury risk

##### 60.6.2 Capital management

#### Capital adequacy ratios (unaudited)

Group	2022	2021	2022		2021	
			Board target ranges	Minimum regulatory capital requirements <sup>1</sup>	Board target ranges	Minimum regulatory capital requirements
			%	%	%	%
<b>Statutory capital ratios (includes unappropriated profits) (%)</b>						
Common Equity Tier 1	12.8	12.8	11 - 12.5	8.5	11.0 - 12.5	8.0
Tier 1	14.4	14.6	>12.0	10.3	>12.0	9.5
Total	16.6	17.0	>14.5	12.5	>14.5	11.5
<b>Capital supply and demand for the reporting period (Rm)</b>						
Qualifying capital	166 905	158 717				
Total RWA	1007 993	931 524				

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.

During the past year, the Group complied in full with all externally imposed capital requirements which remained the same .

<sup>1</sup>The 2022 minimum total regulatory capital adequacy requirement of 12.5% (2021: 11.5%) includes the capital conservation buffer, Pillar 2A which was reinstated at 1% and the D-SIB add-on but excludes the bank specific individual capital requirement (Pillar 2B add-on) as required by regulatory guidance.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.6 Treasury risk (continued)

##### 60.6.3 Interest rate risk in banking book (IRRBB) (continued)

###### 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.

###### 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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.6 Treasury risk (continued)

##### 60.6.3 Interest rate risk in banking book (IRRBB) (continued)

###### Annual earnings at risk (AEaR)/Net interest income (NII) sensitivity

AEaR/NII sensitivity measures the sensitivity of NII over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. AEaR is monitored against approved internal limits.

###### Daily value at risk (DVaR)

The Group uses a sensitivity-based approach to calculate DVaR at a 95% confidence level for measuring IRRBB. The DVaR is monitored against approved internal limits, and is used as a complementary metric to AEaR. The DVaR is supplemented by non-DVaR, stress and tail metrics.

###### Economic value of equity (EVE) sensitivity

EVE sensitivity measures the sensitivity of the present value of the banking book at a specific point in time (PIT) to a specified shock to the yield curve. Similar to DVaR, EVE is a present value sensitivity and is complementary to income sensitivity measures such as AEaR. EVE sensitivity is measured against regulatory guidelines and not against approved internal limits.

###### Stress testing

Stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. Stress testing is carried out by Market Risk to supplement the DVaR and AEaR metrics for South Africa. Stress testing for the Absa Regional Operation is carried out by Market Risk and the risk functions in each country and has been adopted as one of the primary risk metrics for the Rest of Africa and is monitored against formal internal limits.

###### Risk control

Market risk is controlled through the use of AEaR, DVaR and stress limits as appropriate and supported by non-DVaR metrics (position and sensitivity limits), as well as the monthly monitoring of the risk profiles and EVE sensitivity. Limits are set and monitored in accordance with the limit framework. Limits for AEaR, DVaR and stress are agreed by the GMRC. Compliance with limits is monitored by the respective Rest of Africa market risk team with oversight provided by Market Risk.

###### Risk reporting

DVaR and supporting metrics are reported daily for Group Treasury, with the exception of two businesses, where reporting is performed on a monthly basis. The re-pricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for Group Treasury.

###### Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Group's banking book are set out in the table that follows, namely, the re-pricing profile of the book, the potential effect of changes in market interest rates on annual earnings and impact on equity reserves.

###### Re-pricing profile

The re-pricing profile of the Group's banking books shows that the banking book remains asset sensitive, as interest-earning assets re-price sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.6 Treasury risk (continued)

##### 60.6.3 Interest rate risk in banking book (IRRBB) (continued)

Expected re-pricing profile	Group			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
<b>Domestic bank book<sup>1</sup></b>				
Interest rate sensitivity gap	147 047	(4 632)	(58 428)	(46 695)
Derivatives <sup>2</sup>	(127 205)	(18 469)	53 854	91 820
Net interest rate sensitivity gap	19 842	(23 101)	(4 574)	45 125
Cumulative interest rate gap	19 842	(3 259)	(7 833)	37 292
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	1.3		(0.5)	2.5
<b>Foreign subsidiaries' bank books</b>				
Interest rate sensitivity gap	2 741	(3 493)	(3 969)	14 462
Derivatives <sup>2</sup>	-	-	-	-
Net interest rate sensitivity gap	2 741	(3 493)	(3 969)	14 462
Cumulative interest rate gap	2 741	(752)	(4 721)	9 741
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	0.96		(1.65)	3.41
<b>Total</b>				
Cumulative interest rate gap	22 583	(4 011)	(12 554)	47 033
Cumulative gap as a percentage of the Group's total assets (%)	1.3	(0.2)	(0.7)	2.6

Expected re-pricing profile	2021			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
<b>Domestic bank book<sup>1</sup></b>				
Interest rate sensitivity gap	135 961	(26 896)	(31 272)	(43 958)
Derivatives <sup>2</sup>	(148 911)	31 819	26 036	91 056
Net interest rate sensitivity gap	(12 950)	4 923	(5 236)	47 098
Cumulative interest rate gap	(12 950)	(8 027)	(13 263)	33 835
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	(1.0)	(0.6)	(1.0)	2.5
<b>Foreign subsidiaries' bank books</b>				
Interest rate sensitivity gap	27 444	(5 396)	(8 962)	(9 593)
Derivatives <sup>2</sup>	-	-	-	-
Net interest rate sensitivity gap	27 444	(5 396)	(8 962)	(9 593)
Cumulative interest rate gap	27 444	22 048	13 086	3 493
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	10.34	8.31	4.93	1.32
<b>Total</b>				
Cumulative interest rate gap	14 494	14 021	(1 777)	37 328
Cumulative gap as a percentage of the Group's total assets (%)	0.9	0.9	(0.0)	2.3

<sup>1</sup> Includes exposures held in the CIB banking book.

<sup>2</sup> Derivatives for interest rate risk management purposes (net nominal value).

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.6 Treasury risk (continued)

##### 60.6.3 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 **R1.527bn** (2021: R1.668bn). A similar increase would result in an increase in projected 12-month net interest income of **R1.098bn** (2021: R1.216bn). AEaR decreased to **2.5%** (2021: 3.2%) of the Group's net interest income.

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

	Group			
	2022			
	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book (Rm) <sup>1</sup>	( 614)	( 296)	318	628
Foreign subsidiaries' bank books (Rm) <sup>2</sup>	( 913)	( 506)	235	470
Total (Rm)	(1 527)	( 802)	553	1 098
Percentage of the Group's net interest income (%)	( 2.5)	( 1.3)	0.9	1.8
Percentage of the Group's equity (%)	( 1.0)	( 0.5)	0.4	0.7

	2021			
	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book (Rm) <sup>1</sup>	( 700)	(290)	209	414
Foreign subsidiaries' bank books (Rm) <sup>2</sup>	(968)	(506)	401	802
Total (Rm)	(1 668)	( 796)	610	1 216
Percentage of the Group's net interest income (%)	(3.2)	(1.5)	1.2	2.3
Percentage of the Group's equity (%)	(1.1)	(0.5)	0.4	0.8

###### Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:

- Higher or lower profit after tax resulting from higher or lower net interest income;
- Higher or lower fair value through other comprehensive income reserve reflecting higher or lower fair values of fair value through other comprehensive income financial instruments; and
- Higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the effective tax rate for the reporting period.

The equity reserve sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and fair value through other comprehensive income portfolios which are mark-to-market through reserves. The impact on equity is calculated by revaluing the fixed rate fair value through other comprehensive income assets, including the effect of any associated hedges and derivatives designated as cash flow hedges, for an assumed change in market interest rates. The increase in sensitivity of the fair value through other comprehensive income reserves is mainly due to the increase in the net directional risk.

<sup>1</sup>Includes exposures held in the CIB banking book.

<sup>2</sup>African subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.6 Treasury risk (continued)

##### 60.6.3 Interest rate risk in banking book (IRRBB) (continued)

Sensitivity of reserves to market interest rate movements

	Group			2021		
	Impact on equity at the reporting date Rm	2022 Maximum impact <sup>1,2</sup> Rm	Minimum impact <sup>1,2</sup> Rm	Impact on equity at the reporting date Rm	Maximum impact <sup>1,2</sup> Rm	Minimum impact <sup>1,2</sup> Rm
<b>+100 bps parallel move in all curves</b>						
Fair value through other comprehensive income reserve	1 877	2 405	1 119	1 877	2 405	1 119
Cash flow hedging reserve	(1 148)	191	(5 287)	(1 148)	191	(5 287)
	729	2 596	(4 168)	729	2 596	(4 168)
<b>As a percentage of Group equity (%)</b>	0.5	1.7	(2.7)	0.5	1.8	(2.8)

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 remained constant.

### 60.7 Foreign exchange risk

The Group is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

#### Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Group's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Group's policy, there were no significant net open currency positions outside the trading book at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

#### Foreign currency translation sensitivity analysis

The following table depicts the carrying value of foreign currency net investments and the pre-tax impact on equity of a 5% change in the exchange rate between the ZAR and the relevant functional foreign currencies.

Functional foreign currency

	Group		2021	
	2022 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	3 845	192	3 498	175
Ghana cedi <sup>3</sup>	3 135	157	5 734	287
Kenya shilling	8 744	437	7 983	399
Mauritian rupee	1 391	70	1 244	62
Mozambican metical	2 393	120	2 009	100
Namibian dollar	95	5	93	5
Nigerian naira	16	1	50	3
Seychelles rupee	781	39	716	36
Pound sterling	684	34	394	20
Tanzanian shilling	3 765	188	3 081	154
Uganda shilling	3 155	158	2 767	138
United States dollar	5 110	256	5 465	273
Zambia kwacha	3 134	157	2 034	102
	36 248	1 814	35 068	1 754

<sup>1</sup>The maximum and minimum impacts for each reserve category did not necessarily occur for the same months.

<sup>2</sup>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).

<sup>3</sup>The exchange rate used to convert Absa Bank of Ghana balances at year end was **0.71 GHS** as this was determined to be the rate the Group would be able to access on repatriation of funds to South Africa.

## Notes to the consolidated financial statements

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### 60. Risk management (continued)

#### 60.8 Insurance risk management

##### Definition

Insurance risk is the risk that future claims, expenses, policyholder behaviour and investment returns will be adversely different from allowances made in measuring policyholder liabilities and in product pricing. Insurance risk arises when:

- Aggregate insurance premiums received from policyholders under a portfolio of insurance contracts are inadequate to cover the claims arising from those policies and the expenses associated with the management of the portfolio;
- Premiums are not invested to adequately match the duration, timing and size of expected claims and expense outflows;
- Unexpected fluctuations in claims arise or when excessive exposure (e.g. in individual or aggregate exposures) relative to capacity is retained in an insurance entity; or
- Counterparties to an agreement are unable or unwilling to fulfil their obligations. This is primarily driven by exposure on reinsurance contracts and investments, but can also arise due to outstanding premiums and broker exposure.

##### Objectives

The Group's insurance risk management objectives are to:

- Pursue profitable growth opportunities within the financial volatility and solvency risk appetite approved by the Board;
- Balance exposure between, and within, life and non-life insurance to allow for better diversification, and optimal risk-adjusted returns; and
- Leverage off the Absa presence and infrastructure across Africa.

##### Governance

Insurance entities are standalone legal entities within Absa Group, and each has its own board. All Absa insurance legal entities fall within Absa Financial Services Ltd (AFS), which is a regulated insurance group. As such, AFS has its own board, committee structures and governance requirements. The regulated insurance group AFS and South African insurance entities form part of the Product Solutions Cluster (PSC) and have representation in PSC committees.

The following AFS and PSC committees oversee all elements of the Insurance Principal Risk Management Framework (IPRMF) as well as all other risks within insurance entities:

## Notes to the consolidated financial statements

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Committee	Main objectives
AFS and entity boards	Set the standard for risk culture within AFS. Approve risk appetite, dividends and strategy. Responsible to ensure that the AFS Group and legal entities have in place effective systems for risk management and monitoring of risk strategy delivery and business performance. Further, the boards are responsible for ensuring that the entities comply with all applicable regulatory requirements.
AFS Audit, Risk and Compliance Committee (ARCC)	Committee of the AFS Board. Oversight on behalf of the AFS and entity boards. Oversees internal controls, risk, compliance, internal and external audit matters 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.
AFS 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 enables the Head of Actuarial Function and Statutory Actuaries to fulfil their professional and statutory duties.
AFS Sustainability, Social and Ethics Committee (SSEC)	The purpose of the Committee is to specifically monitor the Insurance Group's activities, having regard to any relevant legislation, or prevailing codes of best practice on matters relating to social and economic development; good and responsible corporate citizenship; the environment; health and public safety; labour and employment; conduct and ethics; consumer relationships; stakeholder management and transformation. Monitor implementation of policies that protect the interests of policyholders and other stakeholders.
AFS Insurance Risk Committee (IRC)	A management committee that is responsible for insurance risk oversight and monitoring across the Absa Group, with a particular emphasis on AFS, the regulated insurance group, and associated licensed insurance entities. Agree risk appetite limits for insurance risk and insurance model risk, and monitor adherence thereto. Oversee the relevant Own Risk and Solvency Assessment processes, and capital management. Refresh of relevant Insurance Principal Risk Management Frameworks, and supporting policies.
Executive Risk Committee (ERC)	Responsible for the oversight of all risks applicable to the business unit. Reviews and monitors the control environment as well as the risk culture of the business unit, monitors the risk profile against the approved appetite, as well as assurance activities.
Life Insurance Financial and Actuarial Management Committee / Non-Life Financial Risk Committee	These Committees support the management of the relevant business units and Boards of Directors in discharging their responsibility regarding the governing of financial risk, and also advise on the management and oversight of financial risk and capital management as a function of the ERC.
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.

In addition, Insurance Risk is overseen by the Absa Group committee structures and governance.

The Absa Group Executive Risk Committee oversees all elements of risk within insurance entities and the Insurance Principal Risk Management Framework.

The following Absa Group Board committees provides additional oversight of all or some elements of the risk within insurance entities and the Insurance Principal Risk Management Framework:

- The Group Risk and Capital Management Committee (Board) - approves the Insurance Principal Risk Management Framework and provides oversight over the Insurance Risk Profile.
- Group Audit and Compliance Committee (Board) - oversight over the control environment.
- Group Remuneration Committee (Board) and Remuneration Review Panel (Executive Management) - oversight of certain people related risks.
- Information Technology Committee (Board) - oversight over technology risk, including security related risks.
- The Sustainability, Social and Ethics Committee (Board) - oversight of conduct risk.

## Notes to the consolidated financial statements

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### 60. Risk management (continued)

#### 60.8 Insurance risk management

##### IPRMF and supporting policies

The IPRMF defines the management processes for the collection of related insurance risk management activities and is one of the supporting frameworks of the ERMF. The IPRMF is supported by policies and standards which provide more detail on expectations of business areas and employees in order to effectively manage insurance risk. AFS's insurance entities are required to comply with the IPRMF and the eight supporting insurance risk policies:

- Insurance Asset Liability Management Policy;
- Insurance Capital and Liquidity Management Policy;
- Insurance Concentration and Credit Policy;
- Insurance Investment Management Policy;
- Insurance Own Risk and Solvency Assessment (ORSA) Policy;
- Insurance Reserving Policy;
- Insurance Underwriting Policy; and
- Reinsurance and Risk Transfer Policy.

Other policies required by the Governance and Operational Standard for Insurers (GOI) 3 such as Operational Risk are addressed in the ERMF under other risk types.

##### Insurance Risk Subtypes

The types of insurance risk that can occur are broad and varied. Insurance risk can be broken down into three primary risk groupings. These are then further segmented into insurance sub-risks, which are aligned with the Insurance Prudential Standard requirements. The insurance risk primary groupings and sub-types below reflect this broad spectrum of financial risk types inherent to insurance entities. These are reviewed at least annually.

Primary Risk Grouping	Insurance Sub-Risks
Insurance exposure	<p>Adverse policyholder demographic experience or management expense deviations allocated to policyholders result in financial losses, which can occur as follows:</p> <p>Underwriting risk: 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.</p> <p>Reserving risk: Current reserves are insufficient to cover current and future claims and the expenses associated with the management of the portfolio.</p> <p>Reinsurance risk: The inability to obtain and contractually agree reinsurance arrangements that provide suitable cover. Arrangements are considered suitable where they ensure that an insurance entity's risk profile remains within appetite, whilst providing a desired risk adjusted return on capital and not resulting in undue secondary risks.</p>
Investment portfolio	<p>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:</p> <p>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.</p> <p>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.</p>
Financial Soundness	<p>Insufficient or inappropriate financial resources, which may impact the ability to effectively conduct business activities in normal and stressed operating conditions. This is considered in terms of:</p> <p>Capital risk: 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).</p> <p>Liquidity risk: 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.</p> <p>Concentration risk: Insufficient diversification of counterparties, i.e., due to concentrations in asset classes, sectors, geographies, 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).</p> <p>Counterparty default risk: A counterparty to an agreement will be unable or unwilling to fulfil its obligations. Primarily driven by counterparty exposure on reinsurance contracts and investments, but can also arise due to on- and off-balance sheet counterparties.</p>

Non-financial risks that insurance legal entities are exposed to are covered by associated principal risk frameworks, as defined in the ERMF.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.8 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	<b>Risk Measurement</b>	<p>An insurance entity must quantify all insurance liabilities and assets as required for local regulatory and financial reporting purposes.</p> <p>An insurance entity must quantify the capital adequacy requirements defined for local regulatory, insurance group regulatory (as required) and internal solvency purposes.</p>
	<b>Critical Process Assessment</b>	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.
	<b>Stress and scenario testing</b>	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 and liquidity assessment and risk appetite setting process.
	<b>Emerging Risk Assessment</b>	This is part of the Evaluate stage and is covered by the Operational Risk Management Framework (ORMF) for all risks within the ERMF.
	<b>ORSA</b>	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.
	<b>Assurance</b>	<p>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. It is designed to provide comfort that material risks and key controls are being effectively managed.</p> <p>Assurance requirements for insurance risk operate consistently with other risks in the ERMF.</p>
Respond	<b>Insurance Risk Appetite</b>	<p>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.</p> <p>Insurance risk appetite is considered from three perspectives:</p> <ul style="list-style-type: none"> <li>○ <b>Economic Capital Coverage:</b> 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, management).</li> <li>○ <b>Financial volatility:</b> The level of potential deviation from expected performance that the Group is prepared to sustain at an appropriate near-term return period.</li> <li>○ <b>Mandates, limits and preferences:</b> 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.</li> </ul> <p>Further entity specific key metrics and influencers of risk, with associated limits, should be contained in each entity's risk appetite statements.</p>
	<b>Authorisation / Delegation of Insurance Risk Activity</b>	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.
	<b>Policies for managing Insurance Risk</b>	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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.8 Insurance risk management (continued)

##### Insurance Risk Management Methodology (continued)

Risk Management Step	Element	Description and purpose of element
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.

#### 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

## Notes to the consolidated financial statements

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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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.8 Insurance risk management (continued)

##### Underwriting risk

The underwriting process involves underwriting risks on an individual basis in order to apply terms commensurate with the risk. The process is automated for lower risk cases, but experienced underwriters manually assess cases that present increased risk whilst following established underwriting guidelines. The outcome of the underwriting process can be to accept cases at standard terms, accept with increased premiums, accept with specific conditions or events excluded, to decline or to defer the application.

The product development process is managed under the Market Conduct Risk Policy and Product Risk Standard. The design of new or amendments to existing products are informed through various types of research, including customer, competitor and market research, with further engagement and collaboration with functional and risk subject matter experts. Prototypes are developed in some instances to test the usability of the solution with customers and to inform further design changes. The proposed design is then presented as new, major or minor amendments at the Product Risk Committee, for approval in principle. A subsequent risk assessment process is followed whereby the relevant risk and functional areas review the product proposal and provide their approval and/or in some instances raise pre- or post-launch conditions. All new products and product amendments will be presented at the Product Risk Committee for final sanction (new products and major amendments) or noting (minor amendments). The ongoing relevance and appropriateness of the products are formally considered at least every one to three years (depending on the risk rating of the product) whilst various forums and committees manage the products and product performance on a regular basis.

Pricing (including re-pricing) is conducted under the requirements of the Insurance Underwriting Policy and Insurance Model Risk Standard. Various reviews and approvals are required before implementing and operationalising new premiums, including independent review by the Head of the Actuarial Function. Reviews are conducted to ensure the premiums remain appropriate and result in new business profit margin and claim ratios which are in line with hurdle rates as approved by the Life Insurance Financial and Actuarial Management Committee. The hurdle rates aim to balance the interests of shareholders and policyholders whilst having regard to the risk associated by product line.

The experience related to all risks underwritten are reviewed regularly to determine whether underwriting guidelines and rules need to be adjusted and/or risk parameters extended. The business relies on annual experience investigations, ongoing studies and analysis of surplus investigations to set pricing and valuation parameters. The non-economic pricing and reserving assumptions (i.e. mortality, morbidity, persistency and expense assumptions) are reviewed to determine changes in trends that are likely to continue in the future.

Effective claims management processes ensure that all valid claims are honoured in line with policy documentation and appropriate allowances made in setting premiums or valuing liabilities. Proactive fraud detection capabilities continue to be developed and improved to minimise fraudulent claim pay-outs.

##### 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 concentrated losses.

Reinsurer credit risk is managed by transacting solely within mandated levels as defined in the counterparty credit risk mandates. Mandates prescribe the maximum exposure to the relevant credit rating buckets per entity, give consideration to country-specific mandatory cession requirements, and are governed and approved by the Insurance Risk Committee. The counterparty exposure is monitored against these mandates to take corrective actions should the creditworthiness of a counterparty deteriorate or if the relative nature of the exposure changes materially.

Standard and Poor's rating <sup>1</sup>	Description	2022		2021	
		Number of reinsurers	Total premiums ceded Rm	Number of reinsurers	Total premiums ceded Rm
AA- and above	Very Strong	7	86	7	62
A-	Strong	21	83	25	72
BBB+	Good	6	20	2	3
Unrated	N/A	-	-	-	0
<b>Total</b>		<b>34</b>	<b>189</b>	<b>16</b>	<b>137</b>

<sup>1</sup> Long Term Financial Strength International Scale Local Currency Ratings.



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.8 Insurance risk management (continued)

##### Reinsurance and reinsurer credit risk (continued)

The total premiums received in relation to the above risk amounted to **R5.0 billion** (2021: R4.1 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 2022, the reinsurance assets were unimpaired (2021: unimpaired).

##### Reserving risk

Reserving risk arises from weaknesses in the actuarial processes of quantifying reserves, for example inappropriate assumptions, methodology, data or approximations.

##### Assumption risk

Assumption risk is the risk that the assumptions used in the most recent valuation are not appropriate. Best estimate assumptions are derived from annual investigations into the demographic experience of the business and economic assumptions are based on observable, actual, consistent economic indicators. Margins are added to best estimate assumptions to allow for variability in the assumptions. These margins include compulsory margins prescribed by the Standard of Actuarial Practice 104 (SAP 104) issued by the Actuarial Society of South Africa (ASSA), or local regulation where applicable. Further, judgement is applied by the first line actuarial team in instances where it is deemed that past experience may not be a fair reflection of future experience or to defer the release of profits in line with policy design. The Head of the Actuarial Function will assess the reasonability of such judgement. Earnings volatility associated with assumption risk is somewhat reduced as a result of accounting policy decisions made.

The risk discount rate used to discount future profits includes a margin over assumed investment returns to reflect any risks associated with the emergence of future shareholder cash flows that are not allowed for elsewhere in the valuation. The government bond yield curve is used to determine the risk-free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk free yield curve.

The results of the sensitivities disclosed in the following table indicate that assumptions regarding future mortality and morbidity experience have a significant impact on the quantum of the actuarial liability. Future developments in mortality and morbidity experience, whether positive or negative, will impact profits in future years. The business is also sensitive to expense assumptions.

Sensitivity analysis (South African entities only)	2022 Potential effect recorded in (profit) or loss	2021
	Rm	Rm
Sensitivity analysis		
Mortality and morbidity +10%	435	351
Lapse rate +10% <sup>1</sup>	(39)	(18)
Renewal and termination expenses +10%	128	107
Expense inflation +1%	126	85
Investment return -1% <sup>1</sup>	21	7

##### Mortality risk

The life business is exposed to mortality risk if an inappropriate allowance has been made for mortality in the pricing and valuation bases. The premiums may then be insufficient to meet claims as they fall due.

##### Pandemic Risk

The life insurance business is exposed to Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS) risk if an insufficient allowance has been made in the pricing and valuation bases. To manage risk for the business that is medically underwritten, HIV tests are performed as part of the normal underwriting process.

A COVID-19 pandemic provision was held at 31 December 2021 to meet the expected short-term experience related to the COVID-19 pandemic and comprised a mortality component and a lapse component. This provision was utilized over 2022 and was nil at YE2022 (2021: R408m).

At YE2022 a mortality uncertainty loading was included in the long-term mortality assumptions to allow for higher rates of future mortality due to direct and indirect impacts of the pandemic, as well as to include an allowance for future pandemics. This has an impact of R134 million at YE2022 (2021: R0m) on reserves.

A long-term mortality uncertainty loading has also been raised for ALB, ALZ, ALAK and GAM (Life) on a similar basis to Absa Life.

##### 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.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.8 Insurance risk management (continued)

##### Expense risk

Expense risk refers to the risk of variations in the expenses incurred relative to those allowed for in pricing and reserving bases in servicing insurance obligations, including the risk from the growth in expenses over and above that of inflation. An allowance for future maintenance and claim expenses, inflated at the assumed expense inflation rate, is included in liability calculations based on the current level of maintenance and claim expenses per policy. The risk of understating and pricing insufficiently for this risk is managed by:

- Conducting annual expense investigations based on the most recent operating expenditure incurred;
- Monitoring costs monthly to ensure they remain within anticipated levels and identifying trends at an early stage; and
- Basing the assumed future inflation rate on observable economic indicators and experience.

Where actual business volumes are lower than those that inform expenses assumptions in pricing and reserving exercises, further expense risk may be introduced.

##### Retrenchment risk

The life business is exposed to retrenchment risk if an inappropriate allowance has been made for retrenchment inception rates in the pricing and valuation bases.

##### Concentration risk

The risk of several claims arising simultaneously ('concentration risk') on individual lives is small, while the retained exposure per life is relatively low. The table below shows the value of benefits insured by benefit band before and after reinsurance for individual insurance business (excluding cell captive business).

Benefit band per life assured  (RSA entities only) (R'000)	2022					2021				
	Total benefits assured					Total benefits assured				
	Number of policies	Gross of reinsurance		Net of reinsurance		Number of policies	Gross of reinsurance		Net of reinsurance	
		Rm	%	Rm	%		Rm	%	Rm	%
0 – 250	5 098 259	153 158	54	148 555	65	4 299 307	128 712	51	122 800	62
250 – 500	57 908	22 692	8	19 503	9	62 920	26 559	10	22 226	11
500+	68 655	105 846	38	58 353	26	66 984	98 952	39	54 142	27
	5 224 822	281 696	100	226 411	100	4 429 211	254 223	100	199 168	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 cashflow 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

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.8 Insurance risk management (continued)

##### Non-life insurance risks

Non-life insurance underwriting activities are undertaken by Absa Insurance Company Limited (AIC), Absa Insurance Risk Management Services Limited (AIRMS), Global Alliance Seguros (Mozambique) (GAM) and First Assurance Kenya (FAK).

The table that follows summarises the main risk exposures per non-life insurance product line and entity.

Product lines	Description	AIC	AIRMS	GAM (Non-Life)	FAK	Main risk exposures
Personal lines	Protects families or individuals against financial losses. This includes Motor and Home cover as well as personal liability cover.	✓	×	✓	✓	Underwriting; Concentration; Reinsurer default
Commercial lines	A subset of property and liability type insurance that covers businesses, rather than property belonging to an individual.	✓	✓	✓	✓	Underwriting; Concentration; Reinsurer default
Specialist lines	Two types of products: unusual or non-traditional insurance and higher risk accounts.	×	✓	✓	✓	Underwriting; Investment; Reinsurer default

##### Underwriting risk

Management monitors loss ratios on a regular basis and identifies areas of the business where claims experience is not in line with expectations, where this is found corrective action is taken. The non-life business adopts an agile pricing methodology, enabling quick pricing and product changes to occur as and when the need arises. In addition, reviews of policy conditions are carried out, when necessary, to determine if any changes are needed. Volumes of business and strike rates are monitored for increases in volumes out of line with expectations, this occurs across the portfolio as well as for any specific initiatives. Actions are then derived from this monitoring. There are extensive measures in place to control claims, which include assessing claims, checking total potential claims against the sum insured and procurement management on service providers required for repair of damaged insured items. Artificial intelligence aids the business in improving processes (improving cost to serve and reduced turnaround times) and minimising fraudulent behaviour.

Non-life insurance underwriting risk is managed in line with the Insurance Underwriting policy by means of underwriting authority mandates and with oversight by an Underwriting Review Forum, as and when required. A subset of the Underwriting Review Forum is the Pricing Forum, which has representation from Risk, Business, Analytics and Actuarial. This forum ensures that all pricing model monitoring occurs timeously and rigorously, and the actions that follow are commensurate with the risk. This forum monitors lapses, cancellations, new business rates, strike rates, renewal rates, marketing spend on sales initiatives, fraud prevention, lead generation and quality as well as the risk profile of the business (as measured by expected claim frequency and expected claim severity).

##### Reinsurance and reinsurance credit risk

The impact of large individual non-life insurance claims is limited through the purchase of reinsurance that reduces the exposure to large claims. The South African entities have a comprehensive reinsurance programme in place, which includes the following key elements:

- Automatic surplus reinsurance cover which provides protection against significant property related claims. By covering against excessive losses, surplus treaty reinsurance provides security to the company's equity and solvency coverage when unusual or major events occur.
- Further large loss cover is purchased in the form of risk excess-of-loss cover to protect our net retention.
- Facultative reinsurance cover is bought when a risk exceeds the set underwriting limits.
- Catastrophe Cover is bought to protect the net retention (after surplus reinsurance) following a catastrophe event. The treaty covers various perils (including Hail and Earthquake), protection is bought in line with the output from catastrophe models that analyse risks at a location level. The Catastrophe Cover purchased covers losses of up to R3.7bn (2021: R3.2bn); the cover has been increased year-on-year to reflect business growth and manage the solvency position of the company.

The ARO entities also have comprehensive reinsurance programmes in place. The programmes consist of proportional and non-proportional covers to protect against income statement volatility as well as balance sheet protection.

Reinsurance risk is managed through oversight from the Reinsurance Forum which includes representation from business and relevant subject matter experts. All structural changes to the reinsurance programme (e.g. change in treaty type, attachment points or cover limits) are formally approved by the Reinsurance Forum, Executive Committee as well as the Non-Life Financial Risk Committee.

The credit risk in respect of reinsurance partners is managed by ensuring the entities only transact with reinsurers with good credit ratings and within limits that are approved on an annual basis. The creditworthiness of reinsurers is regularly monitored. To qualify as a reinsurance partner, reinsurers must be assigned a minimum 'A-' rating (international scale, long-term) by the Standard & Poor's (or equivalent) rating agency. An agreement with a reinsurer with a lower credit rating can qualify provided sufficient reasoning and approval has been obtained from the Insurance Risk Committee. Consideration is also given to approved versus non-approved regulatory status of reinsurers in relevant territories.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

60. Risk management (continued)

60.8 Insurance risk management (continued)

Reinsurance and reinsurance credit risk (continued)

Standard and Poor's rating <sup>1</sup>	Description	Number of reinsurers	2022 Total premiums ceded Rm	Number of reinsurers	2021 Total premiums ceded Rm
AA- and above	Very Strong	6	77	7	62
A-	Strong	20	99	25	72
BBB+	Good	2	14	2	3
Unrated	N/A	-	-	-	-
<b>Total</b>		<b>28</b>	<b>190</b>	<b>34</b>	<b>137</b>

<sup>1</sup> Long Term Financial Strength International Scale Local Currency Ratings.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 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 gross provision for AIC at the reporting date amounted to **R338m** (2021: R334m)

A stochastic reserving model is applied to calculate the Incurred But Not Reported ("IBNR"<sup>1</sup>) claim provision for the majority of the business. The IBNR claim provision is calculated using well-known actuarial techniques such as basic Chain Ladder and the Bornhuetter-Ferguson Method. Where detailed data is not available, the provision is calculated by referencing the experience to date and prior year investigations. The IBNR provision at the reporting date amounted to **R118m** (2021: R101m).

The IBNR provision is determined by taking the following factors, per reserving cohort, into account: actual and expected claims experience; actual and expected reporting patterns; premium volumes and claim process changes. These factors affect the sensitivity of the IBNR and are taken into account in setting the level of reserves required. These calculations, together with changes in the underlying risk profile of the business, impact the final balances. Margins are added to the best estimate assumptions in order to allow for uncertainty. The margins for the active South African entities are calculated using the Bootstrap method. The margin is equal to the difference between the 75th percentile and the best estimate reserve. This margin protects Absa from volatility in claims experience.

The impact of climate change and the associated increase in extreme weather events pose a risk to the insurability of some geographical areas. The KwaZulu-Natal (KZN) floods in April 2022 were the largest natural catastrophe loss in the South African non-life industry's history. AIC's net exposure to this event amounted approximately R69m.

The Unearned Premium Reserve ("UPR") is determined by the 365<sup>th</sup> method and is held to cover claims and expenses related to the unexpired risk on the book. An Additional Unexpired Risk Reserve is raised if there is a risk of the UPR being insufficient to cover future claims and expense outflows. This is often determined by considering the past and expected combined ratios on the book. An expected combined ratio greater than 100% would often point to raising the Additional Unexpired Risk Reserve ("AURR").

### Claims development tables

The presentation of the claims development tables is based on the actual date of the event that caused the claim (incident year basis). The claims development tables represent the development of the actual claims paid net of salvages and recoveries.

#### Payment development

##### Non-life insurance claims – gross (AIC only)

Rm		Total actual claims cost		Claims paid in respect of			
		2022		2021	2020	2019	2018 and prior
<b>Reporting year</b>							
	2022	<b>1 849</b>	<b>1 523</b>	312	6	4	4
	2021	<b>1 464</b>	-	1 165	283	8	4
	2020	<b>1 382</b>	-	-	1 002	267	14
	2019	<b>1 443</b>	-	-	-	1 186	257
	2018	<b>1 192</b>	-	-	-	-	1 192
Cumulative payments to date		<b>7 330</b>	<b>1 523</b>	1 477	1 291	1 465	1 471

	2022	-	-	0	0	0	0
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#### Reporting development

##### Non-life insurance claims provision – gross (AIC only)

Rm		Total claims provision		Accident year during which claims occurred			
		2022		2021	2020	2019	2018 and prior
<b>Reporting year</b>							
	2022	<b>456</b>	<b>410</b>	26	9	6	5
	2021	<b>429</b>	-	388	18	10	13
	2020	<b>409</b>	-	-	348	37	25
	2019	<b>443</b>	-	-	-	261	182
	2018 and prior	<b>1 877</b>	-	-	-	-	1 877

Prior period figures were updated to include Flexisave business (previously excluded because this business was not modelled).

\*The above table considers the AIC business only

Prior period figures were updated to include the Flexisave business (previously excluded because this business was not modelled).

<sup>1</sup> It should be noted that this reserve includes the incurred but not enough reported reserve.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

60. Risk management (continued)

60.8 Insurance risk management (continued)

### Cash-back reserves

These reserves allow for the cash back bonus provided to Absa Activate and indirect policyholders. Absa indirect policyholders receive the cashback after a specified number of claim-free months. The cash back percentages of total premiums collected are: 10% after 36 months, 15% after the following 12 months and 20% for every 12 months thereafter. Absa Activate policyholders receive a cashback every four weeks, with the amount of the cashback being dependent on a driving score. The driving score is based on a number of underlying metrics that is influenced by the driving behaviour of the policyholder. The cash-back reserve provision at the reporting date amounted to **R54.4m** (2021: R47.8m).

### Assumption risk

Assumptions are required in order to set premium rates and to assess the eventual cost of liabilities. Absa continually monitors its experience relative to that assumed when setting premiums or valuing liabilities to reduce potential losses because of assumption risk.

### Concentration risk (unaudited)

The main source of concentration risk is exposure to personal property, personal lines and commercial insurance business. The table below shows the geographical exposure based on the sum assured in each region.

	2022		2021	
	Rm	%	Rm	%
South Africa				
Pretoria	115 914	15.2	118 560	14.6
Johannesburg	112 602	14.8	109 863	13.5
East Rand	102 068	13.4	92 299	11.3
Cape Town	87 459	11.5	123 694	15.2
Others	344 723	45.2	370 231	45.4
	<b>762 766</b>	<b>100</b>	<b>814 647</b>	<b>100</b>

The maximum expected loss for a one in 250-year event is a loss of R2.5bn (2021: R2.4bn). Catastrophe cover is purchased to cover losses up to R3.7bn (2021: R3.2bn).

Insurance risks applicable to both life and non-life insurance

### Insurance-related investment risks

Investment risk relates to the variability in the value of life and non-life shareholder assets and of assets backing policyholder liabilities. Interest rate/equity risk relates to the change in investment value of assets due to a change in market interest rates/equity performance. Foreign exchange risk is the risk that a change in the exchange rate could affect the financial results of the insurance entity. Investment risk is mitigated through diversified asset allocations and investment mandates.

For entities outside of South Africa, the shareholder funds are invested in property, money market type instruments and government bonds.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 60. Risk management (continued)

#### 60.8 Insurance risk management (continued)

Insurance risks applicable to both life and non-life insurance

##### Insurance-related investment risks

Investment risk relates to the variability in the value of life and non-life shareholder assets and of assets backing policyholder liabilities. Interest rate/equity risk relates to the change in investment value of assets due to a change in market interest rates/equity performance. Foreign exchange risk is the risk that a change in the exchange rate could affect the financial results of the insurance entity. Investment risk is mitigated through diversified asset allocations and investment mandates.

For entities outside of South Africa, the shareholder funds are invested in property, money market type instruments and government bonds.

The 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. Excess liquid assets are tracked for all insurance entities, against appetite set based on normal and stressed conditions.

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, corporate bonds and equities.

##### Capital management for insurance entities

##### Regulatory capital

SAM is a risk-based regulatory regime established for the prudential regulation of South African insurers. The Solvency Capital Requirement (SCR) under SAM is determined using prescribed South African Prudential Standards Financial Soundness Standards for Insurers (FSI) methodology which is calibrated to correspond to the value-at-risk of an insurer's basic own funds at a confidence level of 99.5% over a one-year period (1-in-200 year event). The in-country solo capital requirements for non-South African insurance entities are based on relevant local regulatory requirements.

The AFS insurance group SCR is aggregated using SAM Deduction and Aggregation approach and is based on the Financial Soundness Standards for Insurance Groups (FSG). For aggregation into the insurance group, all solo insurance entities, including non-South African insurance entities, must apply the FSI methodology.

Current target capital levels and dividend policies for South African entities are set with reference to the SAM regulatory reporting regime.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

Solvency position (unaudited)

The table below shows the regulatory capital position for the solo insurance entities as at 31 December 2022. The regulatory capital cover of South African entities takes into account foreseeable dividends.

Entity	Country	Type	Solo in-country regulatory capital cover 31 December 2022	Solo in-country regulatory capital cover 31 December 2021
Absa Life	South Africa	Life Insurance	1.42	1.40
AIC	South Africa	Non-life Insurance	1.44	1.48
AIRMS	South Africa	Non-life Insurance	3.16	7.36
ALB	Botswana	Life Insurance	2.96	2.78
ALZ	Zambia	Life Insurance	1.90	1.89
ALAK	Kenya	Life Insurance	3.29	3.27
FAK	Kenya	Non-life Insurance	1.19	1.44
GAM	Mozambique	Composite insurance	3.76	3.93

The audited SAM solvency position for AFS as an insurance group as at 31 December 2022 will be submitted to the regulator by 30 April 2023. AFS is solvent as at 31 December 2022, with an unaudited capital cover of 1.26 (31 December 2021: 1.23).



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 61. Going concern

The Directors assess the Group's future performance and financial position on an ongoing basis and have no reason to believe that the Group will not be a going concern in the reporting period ahead. For this reason, these consolidated financial statements are prepared on a going concern basis.

### 62. Events after the reporting period

The Group's ordinary shares were listed for trade on the A2X exchange with effect from 2 February 2023. The Group's primary listing on the JSE Limited and its issued share capital was unaffected by the secondary listing on A2X.

During 2022, Ghana requested assistance from the International Monetary Fund ("IMF"), to address the ongoing economic crisis. In December, a staff-level agreement was reached on an IMF programme at restoring macroeconomic stability and debt sustainability while preserving financial stability. As a result, wide ranging structural and fiscal reforms were initiated to restore fiscal stability and debt sustainability.

As part of the reforms, the Domestic Debt Exchange Programme ("DDEP") was announced on 5 December 2022. The programme involved an invitation to exchange certain domestic notes and bonds, for new bonds of the Republic of Ghana. During 2023 certain entities within the Group accepted the invitation to exchange the eligible bonds held.

The new bonds received will be accounted for in the 2023 financial year end. However, information relating to the DDEP and related economic reforms have been considered in determining the calculation of impairments and fair values of exposures facing the government of Ghana for the 2022 financial year end as it gave evidence of conditions which existed at the reporting date. The economic environment in Ghana continues to be closely monitored and assessed.

In February 2023, the international Financial Action Task Force (FATF) announced its decision to place South Africa, among other countries, on its 'grey list' as the country has not yet implemented all the actions recommended by FATF to combat money laundering, terrorist financing and similar threats adequately. The grey-listing action may raise the cost of transactions as foreign financial institutions will, at least in some instances, apply additional controls to transactions that involve South African entities and individuals. The Group already complies with rigorous international anti-financial crime standards and regulation, as required in order to access global financial markets. It is therefore unlikely that the grey-listing action will have any material direct impact on the Group in the short term.

In line with the disposal of the Group's/Bank's investment management business, NewFunds (RF) Pty Ltd retired as the manager of the NewFunds Collective Investment Scheme in Securities, effective from 01 March 2023.

The directors are not aware of any other events, other than the aforementioned (as defined per IAS10 Events after the Reporting Period) after the reporting date of 31 December 2022 and the date of authorisation of these annual consolidated and separate financial statements.

### 63. Directors' and prescribed officers' remuneration

The Group's Remuneration Committee's (RemCo) mandate includes ensuring that reward practices are aligned with shareholder interests, both in the performance of our employees and the values they uphold. The Group strives to promote reward practices that foster sustainable high performance and accordingly, the Group rewards both short and longer term performance. All elements of remuneration are benchmarked against the market, as well as local and international best practice.

The RemCo reviews executive director and prescribed officer performance against a balanced scorecard of objectives, which ensures rigorous focus on business imperatives including, importantly, financial performance. The outcomes of this are a primary input to variable remuneration decisions. Risk management is carefully considered.

The Group's remuneration approach complies with the regulatory and statutory provisions relating to remuneration governance, in all the countries where the Group operates and in accordance with relevant requirements in Africa and other relevant jurisdictions in which we conduct business operations.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 63. Directors' and prescribed officers' remuneration (continued)

#### Combined tables for 2022 total remuneration

	Arrie Rautenbach <sup>7</sup>		Jason Quinn	
	2022	2021	2022	2021
	R	R	R	R
Executive directors				
Awarded remuneration				
Salary	8 689 014	6 444 479	6 098 485	5 418 952
Medical aid	167 556	161 892	123 804	119 604
Retirement benefits	185 596	158 651	462 660	411 749
Other employee benefits	232 918	494 316	67 380	59 008
Total fixed remuneration	9 275 084	7 259 338	6 752 329	6 009 313
Non-deferred cash award <sup>1</sup>	9 750 000	6 750 000	8 000 000	9 000 000
Deferred share award <sup>2</sup>	8 750 000	5 750 000	7 000 000	8 000 000
Total short-term incentive <sup>3</sup>	18 500 000	12 500 000	15 000 000	17 000 000
Face value of long-term incentive award (on-target award) <sup>4</sup>	17 000 000	17 000 000	13 000 000	12 500 000
Other payments <sup>5</sup>	—	2 007 617	—	—
Total awarded remuneration <sup>6</sup>	44 775 084	38 766 955	34 752 329	35 509 313

<sup>1</sup> This is the portion of the short-term incentive award not subject to deferral, paid in cash in March 2022 and March 2023 in respect of prior year performance.

<sup>2</sup> This is the portion of the short-term incentive award that is subject to deferral into Absa Group shares on 50% of the portion that exceeds R1m. Deferred awards were granted in April 2022 for the 2021 short-term incentive award, and will be granted in April 2023 for 2022 performance.

<sup>3</sup> Short-term incentives are not defined as incentives that are settled in the next 12 months after the reporting period, but rather represent the category of performance-based awards (comprising a cash payment and a deferred award) per the Group's remuneration policy, to which no future performance targets apply. The only conditions attached to deferred short-term incentives relate to the continued service requirements over the vesting period (three years).

<sup>4</sup> 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. This is the 'on-target' value of the award.

<sup>5</sup> 'Other payments' reflect all payments made to Daniel Mminele on termination of employment (see note 8) and, for other executive directors and prescribed officers, the encashment of leave as a consequence of changes to our leave policy. For Peter Matlare, the payment was in respect of accrued leave to the date of his passing, excluding any death benefit due from Group benefit funds.

<sup>6</sup> Total awarded remuneration for 2022 includes the fixed remuneration paid during 2022, the total short-term incentive in respect of prior year performance (consisting of a cash award paid in March 2023 and a deferred share award granted in April 2023), and the face value of the long-term incentive to be granted in April 2023. Amounts disclosed in 2021 follow the same principle.

<sup>7</sup> Arrie Rautenbach was appointed as Group Chief Executive and executive director on 29 March 2022, and was the Chief Executive: Retail and Business Banking and a prescribed officer prior to that. His total awarded remuneration for 2022 is disclosed in full in the executive director disclosures, for ease of reference. His 2021 total awarded remuneration was included in the prescribed officer table in the 2021 disclosures, and is included in this table for ease of comparison.

<sup>8</sup> Daniel Mminele stepped down as an executive director on 20 April 2021 and ceased being an employee on 30 April 2021. All remuneration paid to him in 2021 was included in the 2021 disclosures. This included separation payments, contractual notice payments and leave payments which are shown as 'Other payments'.

<sup>9</sup> In light of the passing of Peter Matlare on 7 March 2021, his 2021 fixed remuneration was pro-rated for time in service.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

Daniel Mminele <sup>a</sup>		Peter Matlare <sup>a</sup>		Total	
2022 R	2021 R	2022 R	2021 R	2022 R	2021 R
—	2 922 288	—	1 617 039	14 787 499	16 402 758
—	—	—	55 632	291 360	337 128
—	51 466	—	89 621	648 256	711 487
—	26 247	—	7 726	300 298	587 297
—	3 000 001	—	1 770 018	16 027 413	18 038 670
—	—	—	—	17 750 000	15 750 000
—	—	—	—	15 750 000	13 750 000
—	—	—	—	33 500 000	29 500 000
—	—	—	—	30 000 000	29 500 000
—	30 466 273	—	893 316	—	33 367 206
—	33 466 274	—	2 663 334	79 527 413	110 405 876

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 63. Directors' and prescribed officers' remuneration (continued)

#### Combined tables for 2022 total remuneration

Prescribed officers Awarded remuneration	Charles Russon		Punki Modise <sup>7</sup>	
	2022 R	2021 R	2022 R	2021 R
Salary	5 763 388	5 585 822	1 624 045	1 866 091
Medical aid	209 508	202 428	108 194	156 811
Retirement benefits	192 301	162 055	137 037	159 877
Other employee benefits	62 132	59 008	181 193	210 403
Total fixed remuneration	6 227 329	6 009 313	2 050 469	2 393 182
Non-deferred cash award <sup>1</sup>	7 500 000	6 750 000	3 500 000	5 500 000
Deferred share award <sup>2</sup>	6 500 000	5 750 000	2 500 000	4 500 000
Total short-term incentive <sup>3</sup>	14 000 000	12 500 000	6 000 000	10 000 000
Face value of long-term incentive award (on-target award) <sup>4</sup>	11 000 000	10 000 000	8 000 000	10 000 000
Other payments <sup>5</sup>	—	—	—	816 546
Total awarded remuneration <sup>6</sup>	31 227 329	28 509 313	16 050 469	23 209 728

<sup>1</sup> This is the portion of the short-term incentive award not subject to deferral, paid in cash in March 2022 and March 2023 in respect of prior year performance.

<sup>2</sup> This is the portion of the short-term incentive award that is subject to deferral into Absa Group shares on 50% of the portion that exceeds R1m. Deferred awards were granted in April 2022 for the 2021 short-term incentive award, and will be granted in April 2023 for 2022 performance.

<sup>3</sup> Short-term incentives are not defined as incentives that are settled in the next 12 months after the reporting period, but rather represent the category of performance-based awards (comprising a cash payment and a deferred award) per the Group's remuneration policy, to which no future performance targets apply. The only conditions attached to deferred short-term incentives relate to the continued service requirements over the vesting period (three years).

<sup>4</sup> 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. This is the 'on-target' value of the award.

<sup>5</sup> 'Other payments' reflect the encashment of leave as a consequence of changes to our leave policy. See note 9 regarding Saviour Chibiya's 'Other payments'.

<sup>6</sup> Total awarded remuneration for 2022 includes the fixed remuneration paid during 2022, the total short-term incentive in respect of prior year performance (consisting of a cash award paid in March 2023 and a deferred share award granted in April 2023), and the face value of the long-term incentive to be granted in April 2023. Amounts disclosed in 2021 follow the same principle. See notes 7 and 8 regarding the proration of fixed remuneration for individuals who were not in their roles for the full year.

<sup>7</sup> Punki Modise was appointed as the Interim Financial Director and executive director on 23 April 2021 until 28 March 2022. She was subsequently appointed as Interim Chief Executive: Retail and Business Banking and prescribed officer from 29 March 2022 until 30 June 2022. Her remuneration disclosures for 2022 and the comparative 2021 disclosures are all set out in this table for ease of reference and comparison. Her fixed remuneration is pro-rated for the period served as an executive director and a prescribed officer during each year, with the short-term incentive and long-term incentive shown at full value.

<sup>8</sup> As a result of the Board-approved changes to the Group operating model, four new prescribed officers were appointed on 1 July 2022. Their fixed remuneration has been pro-rated from appointment date, with short-term incentives and long-term incentives shown at full value.

<sup>9</sup> Saviour Chibiya's expatriate benefits have been included under 'Other payments'.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

Faisal Mkhize <sup>8</sup>		Cowyk Fox <sup>8</sup>		Geoffrey Lee <sup>8</sup>		Saviour Chibiya <sup>8,9</sup>		Total	
2022 R	2021 R	2022 R	2021 R	2022 R	2021 R	2022 R	2021 R	2022 R	2021 R
2 543 235	—	2 478 656	—	2 652 901	—	2 040 976	—	17 103 201	7 451 913
55 710	—	104 754	—	94 266	—	116 879	—	689 311	359 239
196 991	—	99 769	—	107 639	—	—	—	733 737	321 932
79 064	—	293 380	—	19 664	—	258 000	—	893 433	269 411
2 875 000	—	2 976 559	—	2 874 470	—	2 415 855	—	19 419 682	8 402 495
4 000 000	—	4 000 000	—	4 000 000	—	4 000 000	—	27 000 000	12 250 000
3 000 000	—	3 000 000	—	3 000 000	—	3 000 000	—	21 000 000	10 250 000
7 000 000	—	7 000 000	—	7 000 000	—	7 000 000	—	48 000 000	22 500 000
8 500 000	—	8 500 000	—	8 500 000	—	8 500 000	—	53 000 000	20 000 000
—	—	—	—	—	—	481 291	—	481 291	816 546
18 375 000	—	18 476 559	—	18 374 470	—	18 397 146	—	120 900 973	51 719 041



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 63. Directors' and prescribed officers' remuneration (continued)

#### Outstanding share-based long-term incentives

The table below outlines share-based and long-term incentive awards (awarded in respect of performance in a prior period).

	2022			
	Number of shares under award at 1 January 2022	Number of shares/cash awarded during 2022	Share price on award R	Number of shares/cash released during 2022
<b>Executive directors</b>				
Arrie Rautenbach <sup>1</sup>				
Share value plan 2019 – 2021	10 878	—	—	10 878
Share incentive plan deferral 2020 – 2023	39 821	—	—	19 910
Share incentive plan deferral 2021 – 2024	37 664	—	—	12 555
Long-term incentive award 2019 <sup>2</sup>	88 780	—	—	6 131
Share incentive plan performance 2020 <sup>3</sup>	130 321	—	—	—
Share incentive plan performance 2021 <sup>3</sup>	80 430	—	—	—
Share incentive plan deferral 2022 – 2025	—	31 972	179.84	—
Share incentive plan performance 2022 <sup>4</sup>	—	94 528	179.84	—
<b>Total</b>	<b>387 894</b>	<b>126 500</b>		<b>49 474</b>
<b>Jason Quinn</b>				
Share value plan 2019 – 2021	5 676	—	—	5 676
Share incentive plan deferral 2020 – 2023	41 631	—	—	20 815
Share incentive plan deferral 2021 – 2024	37 664	—	—	12 555
Long-term incentive award 2019 <sup>2</sup>	86 615	—	—	5 981
Share incentive plan performance 2020 <sup>3</sup>	130 321	—	—	—
Share incentive plan performance 2021 <sup>3</sup>	78 468	—	—	—
Share incentive plan deferral 2022 – 2025	—	44 483	179.84	—
Share incentive plan performance 2022 <sup>4</sup>	—	69 506	179.84	—
<b>Total</b>	<b>380 375</b>	<b>113 989</b>		<b>45 027</b>

<sup>1</sup> Arrie Rautenbach's outstanding share-based long-term awards include awards received as a prescribed officer since 9 April 2018 and before his appointment as CEO and an executive director on 29 March 2022.

<sup>2</sup> The number of shares that vested was based on the measurement of the predetermined performance conditions linked to the performance awards.

<sup>3</sup> For all executive directors, the awards will vest over a five-year period.

<sup>4</sup> For all executive directors, the 2022 Share Incentive Plan Performance award will vest over a three-year period.

<sup>5</sup> The fair value of the awards is calculated based on the number of shares multiplied by the closing share price on 31 December 2022 (R193.90). For the 2020, 2021 and 2022 Share Incentive Plan Performance awards, the fair value is calculated prior to the application of Group performance conditions, which will be tested at the end of the relevant performance period to determine the vesting outcome. Dividend equivalents may apply at the time of vesting on the number of shares that vest.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

2022						
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 2022	Number of shares under award/option at 31 December 2022	Last scheduled vesting date	Fair value of unvested awards at 31 December 2022 <sup>s</sup> R
185.93	2 022 547	353 639	—	—	2022/03/18	—
191.00	3 802 810	371 113	—	19 911	2023/04/01	3 860 743
191.00	2 398 005	51 570	—	25 109	2024/04/01	4 868 635
185.93	1 139 937	199 317	70 387	12 262	2024/03/18	2 377 602
—	—	—	—	130 321	2025/04/01	25 269 242
—	—	—	—	80 430	2026/04/01	15 595 377
—	—	—	—	31 972	2025/04/01	6 199 371
—	—	—	—	94 528	2025/04/01	18 328 979
	9 363 299	975 639	70 387	394 533		76 499 949
185.93	1 055 339	184 628	—	—	2022/03/18	—
191.00	3 975 665	387 921	—	20 816	2023/04/01	4 036 222
191.00	2 398 005	51 570	—	25 109	2024/04/01	4 868 635
185.93	1 112 047	194 483	68 670	11 964	2024/03/18	2 319 820
—	—	—	—	130 321	2025/04/01	25 269 242
—	—	—	—	78 468	2026/04/01	15 214 945
—	—	—	—	44 483	2025/04/01	8 625 254
—	—	—	—	69 506	2025/04/01	13 477 213
	8 541 056	818 602	68 670	380 667		73 811 331

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for the reporting period ended 31 December

### 63. Directors' and prescribed officers' remuneration (continued)

#### Outstanding share-based long-term incentives (continued)

	2022			
	Number of shares under award at 1 January 2022	Number of shares/cash awarded during 2022	Share price on award R	Number of shares/cash released during 2022
<b>Prescribed officers</b>				
<b>Charles Russon</b>				
Share value plan 2019 – 2021	4 020	—	—	4 020
Share incentive plan deferral 2020 – 2023	30 221	—	—	15 114
Share incentive plan deferral 2021 – 2024	31 387	—	—	10 462
Long-term incentive award 2019 <sup>1</sup>	60 630	—	—	4 187
Share incentive plan performance 2020 <sup>2</sup>	39 310	—	—	—
Share incentive plan performance 2021 <sup>2</sup>	34 927	—	—	—
Share incentive plan deferral 2022 – 2025	—	31 972	179.84	—
Share incentive plan performance 2022 <sup>3</sup>	—	55 604	179.84	—
<b>Total</b>	<b>280 561</b>	<b>87 576</b>		<b>33 783</b>
<b>Punki Modise<sup>4</sup></b>				
Share value plan 2019 – 2021	871	—	—	871
Share incentive plan deferral 2020 – 2023	6 661	—	—	3 330
Share incentive plan deferral 2021 – 2024	300	—	—	327
Long-term incentive award 2019 <sup>1</sup>	24 915	—	—	5 162
Share incentive plan performance 2020	32 680	—	—	—
Share incentive plan performance 2021	25 109	—	—	—
Share incentive plan deferral 2022 – 2025	—	23 022	179.84	—
Share incentive plan performance 2022 <sup>3</sup>	—	55 604	179.84	—
<b>Total</b>	<b>91 116</b>	<b>80 626</b>		<b>9 690</b>
<b>Faisal Mkhize<sup>5</sup></b>				
Share value plan 2019 – 2021	743	—	—	743
Share incentive plan deferral 2020 – 2023	10 660	—	—	4 430
Share incentive plan deferral 2021 – 2024	3 128	—	—	1 046
Long-term incentive award 2019 <sup>1</sup>	25 911	—	—	5 368
Share incentive plan performance 2020	33 433	—	—	—
Share incentive plan performance 2021	26 679	—	—	—
Share incentive plan deferral 2022 – 2025	—	8 340	179.84	—
Share incentive plan performance 2022	—	22 241	179.84	—
Share incentive plan performance 2022	—	24 536	183.40	—
<b>Total</b>	<b>102 626</b>	<b>55 117</b>		<b>12 587</b>
<b>Lowyk Fox<sup>6</sup></b>				
Share value plan 2019 – 2021	1 892	—	—	1 892
Share incentive plan deferral 2020 – 2023	14 090	—	—	6 049
Share incentive plan deferral 2021 – 2024	3 923	—	—	1 308
Long-term incentive award 2019 <sup>1</sup>	19 333	—	—	4 134
Share incentive plan performance 2020	40 400	—	—	—
Share incentive plan performance 2021	29 817	—	—	—
Share incentive plan deferral 2022 – 2025	—	9 033	179.84	—
Share incentive plan performance 2022	—	22 241	179.84	—
Share incentive plan performance 2022	—	24 536	183.40	—
<b>Total</b>	<b>108 083</b>	<b>55 812</b>		<b>13 383</b>
<b>Geoffrey Lee<sup>7</sup></b>				
Share value plan 2019 – 2021	1 135	—	—	1 135
Share incentive plan deferral 2020 – 2023	11 946	—	—	5 973
Share incentive plan deferral 2021 – 2024	3 923	—	—	1 308
Long-term incentive award 2019 <sup>1</sup>	25 911	—	—	5 368
Share incentive plan performance 2020	33 433	—	—	—
Share incentive plan performance 2021	26 679	—	—	—
Share incentive plan deferral 2022 – 2025	—	9 033	179.84	—
Share incentive plan performance 2022	—	22 241	179.84	—
Share incentive plan performance 2022	—	24 536	183.40	—
<b>Total</b>	<b>104 889</b>	<b>56 507</b>		<b>13 784</b>
<b>Saviour Chibiya<sup>8</sup></b>				
Share value plan 2019 – 2021	1 093	—	—	1 093
Share incentive plan deferral 2020 – 2023	8 326	—	—	4 163
Share incentive plan deferral 2021 – 2024	4 315	—	—	1 438
Long-term incentive award 2019 <sup>1</sup>	22 387	—	—	4 638
Share incentive plan notional performance 2020	24 173	—	—	—
Share incentive plan notional performance 2021	30 602	—	—	—
Share incentive plan notional deferral 2022 – 2025	—	11 120	179.84	—
Share incentive plan notional performance 2022	—	33 362	179.84	—
<b>Total</b>	<b>90 898</b>	<b>44 482</b>		<b>11 332</b>

<sup>1</sup> The number of shares that vested was based on the measurement of the predetermined performance conditions linked to the performance awards.

<sup>2</sup> Charles Russon's 2020 and 2021 Share Plan Incentive Performance awards will vest over a five-year period.

<sup>3</sup> Charles Russon's 2022 Share Incentive Plan Performance award will vest over a three-year period.

<sup>4</sup> Punki Modise ceased to be an executive director on 29 March 2022, after which she became a prescribed officer until 30 June 2022. Punki's outstanding share-based long-term awards include awards received prior to becoming an executive director on 23 April 2021. Punki Modise's 2019 Long Term Incentive award vested based on the measurement of the predetermined performance conditions over a three-year period. The 2020 and 2021 Share Plan Incentive Performance awards vest over a three-year period as they were made prior to her becoming an executive director and a prescribed officer. The 2022 Share Plan Incentive Performance award will also vest over a three-year period as it was made subsequent to her executive directorship coming to an end.

<sup>5</sup> Faisal Mkhize's, Lowyk Fox's and Geoffrey Lee's outstanding share-based long-term awards include awards received prior to becoming prescribed officers on 1 July 2022. The 2020 and 2021 Share Plan Incentive Performance awards will vest over a three-year period as they were made prior to them becoming prescribed officers.

<sup>6</sup> Saviour Chibiya's outstanding notional share-based long-term awards include awards received prior to becoming a prescribed officer on 1 July 2022. The 2019 Phantom Long Term Incentive award vested based on the measurement of the predetermined performance conditions over a three-year period as they were made prior to him becoming a prescribed officer.

<sup>7</sup> The fair value of the awards is calculated based on the number of shares multiplied by the closing share price on 31 December 2022 (R193.90). For the 2020, 2021 and 2022 Share Incentive Plan Performance awards, the fair value is calculated prior to the application of Group performance conditions, which will be tested at the end of the relevant performance period to determine the vesting outcome. Dividend equivalents may apply at the time of vesting on the number of shares that vest.



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for the reporting period ended 31 December

2022						
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 2022	Number of shares under award/option at 31 December 2022	Last scheduled vesting date	Fair value of unvested awards at 31 December 2022 <sup>a</sup> R
185.93	747 439	130 709	—	—	2022/03/18	—
191.00	2 886 774	281 725	—	15 113	2023/04/01	2 930 411
191.00	1 998 242	42 975	—	20 925	2024/04/01	4 057 358
185.93	778 489	136 101	48 069	8 374	2024/03/18	1 623 719
—	—	—	—	99 370	2025/04/01	19 267 843
—	—	—	—	54 927	2026/04/01	10 650 345
—	—	—	—	31 972	2025/04/01	6 199 371
—	—	—	—	55 604	2025/04/01	10 781 616
6 410 944	591 510	48 069	286 285	55 510 663		
185.93	161 945	28 261	—	—	2022/03/18	—
191.00	636 030	62 075	—	3 331	2023/04/01	645 881
191.00	62 457	1 337	—	653	2024/04/01	126 617
178.10	919 352	149 960	19 753	—	2022/09/02	—
—	—	—	—	32 580	2023/04/01	6 317 262
—	—	—	—	25 109	2024/04/01	4 868 635
—	—	—	—	25 022	2025/04/01	4 851 766
—	—	—	—	55 604	2025/04/01	10 781 616
1 779 784	241 633	19 753	142 299	27 591 777		
185.93	138 146	23 985	—	—	2022/03/18	—
191.00	1 037 130	101 230	—	5 430	2023/04/01	1 052 877
191.00	199 786	4 202	—	2 092	2024/04/01	405 639
178.10	956 041	155 838	20 543	—	2022/09/02	—
—	—	—	—	35 295	2023/04/01	6 843 701
—	—	—	—	26 679	2024/04/01	5 173 058
—	—	—	—	8 340	2025/04/01	1 617 126
—	—	—	—	22 241	2025/04/01	4 312 530
—	—	—	—	24 536	2025/09/01	4 757 530
2 331 103	285 255	20 543	124 613	24 162 461		
185.93	351 780	61 543	—	—	2022/03/18	—
191.00	1 155 359	112 690	—	6 049	2023/04/01	1 172 901
191.00	249 828	5 348	—	2 615	2024/04/01	507 049
185.93	768 635	134 427	15 819	—	2022/03/18	—
—	—	—	—	40 400	2023/04/01	7 833 560
—	—	—	—	29 817	2024/04/01	5 781 516
—	—	—	—	9 035	2025/04/01	1 751 887
—	—	—	—	22 241	2025/04/01	4 312 530
—	—	—	—	24 536	2025/09/01	4 757 530
2 525 602	314 008	15 819	134 693	26 116 973		
185.93	211 031	36 814	—	—	2022/03/18	—
191.00	1 140 843	111 353	—	5 973	2023/04/01	1 158 165
191.00	249 828	5 348	—	2 615	2024/04/01	507 049
178.10	956 041	155 837	20 543	—	2022/09/02	—
—	—	—	—	35 295	2023/04/01	6 843 701
—	—	—	—	26 679	2024/04/01	5 173 058
—	—	—	—	9 730	2025/04/01	1 886 647
—	—	—	—	22 241	2025/04/01	4 312 530
—	—	—	—	24 536	2025/09/01	4 757 530
2 557 743	309 353	20 543	127 069	24 638 680		
184.65	201 822	35 268	—	—	2022/03/18	—
191.00	795 133	77 546	—	4 163	2023/04/01	807 206
191.00	274 658	5 921	—	2 877	2024/04/01	557 850
178.10	826 028	134 644	17 749	—	2022/09/02	—
—	—	—	—	24 175	2023/04/01	4 687 333
—	—	—	—	30 602	2024/04/01	5 933 728
—	—	—	—	11 120	2025/04/01	2 156 168
—	—	—	—	33 362	2025/04/01	6 468 892
2 097 641	253 379	17 749	106 299	20 611 377		

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 63. Directors' and prescribed officers' remuneration (continued)

#### Outstanding share-based long-term incentives (continued)

The table below outlines share-based and long-term incentive awards (awarded in respect of performance in a prior period).

	2021			
	Number of shares under award at 1 January 2021	Number of shares/cash awarded during 2021	Share price on award R	Number of shares/cash released during 2021
<b>Executive directors</b>				
Daniel Mminele <sup>1</sup>				
Share incentive plan deferral 2021 – 2024	—	39 234	127.44	—
Share incentive plan performance 2020	162 902	—	—	—
Share incentive plan performance 2021	—	117 702	127.44	—
<b>Total</b>	<b>162 902</b>	<b>156 936</b>		<b>—</b>
Peter Matlare <sup>2</sup>				
Share value plan 2018 – 2020	10 144	—	—	10 144
Share value plan 2019 – 2021	21 190	—	—	21 190
Share incentive plan deferral 2020	59 731	—	—	59 731
Long-term incentive award 2019 <sup>3</sup>	84 449	—	—	16 045
<b>Total</b>	<b>175 514</b>	<b>—</b>		<b>107 110</b>
Jason Quinn				
Share value plan 2018 – 2020 <sup>4</sup>	4 057	—	—	4 057
Share value plan 2019 – 2021	11 352	—	—	5 676
Share incentive plan deferral 2020 – 2023	62 446	—	—	20 815
Share incentive plan deferral 2021 – 2024	—	37 664	127.44	—
Long-term incentive award 2019 <sup>4</sup>	86 615	—	—	—
Share incentive plan performance 2020 <sup>4</sup>	130 321	—	—	—
Share incentive plan performance 2021 <sup>4</sup>	—	78 468	127.44	—
<b>Total</b>	<b>294 791</b>	<b>116 132</b>		<b>30 548</b>
Punki Modise <sup>5</sup>				
Share value plan 2018 – 2020 <sup>4</sup>	609	—	—	609
Share value plan 2019 – 2021	1 741	—	—	870
Share incentive plan deferral 2020 – 2023	9 991	—	—	3 330
Share incentive plan deferral 2021 – 2024	—	980	127.44	—
Long-term incentive award 2019	24 915	—	—	—
Share incentive plan performance 2020	32 580	—	—	—
Share incentive plan performance 2021	—	25 109	127.44	—
<b>Total</b>	<b>69 836</b>	<b>26 089</b>		<b>4 809</b>

<sup>1</sup> Daniel Mminele ceased to be an Executive Director on 15 April 2021 and subsequently terminated his service with Absa Group on 30 April 2021. All his awards were forfeited on termination of service date.

<sup>2</sup> Peter Matlare passed away on 7 March 2021. In terms of the scheme rules all the awards were accelerated to vest on the date of death.

<sup>3</sup> The number of shares to vest was based on the measurement of the predetermined performance conditions linked to the Performance awards.

<sup>4</sup> For all executive directors, the award will vest over a five-year period.

<sup>5</sup> Punki Modise's outstanding share-based long-term awards include awards received prior to becoming an executive director on 23 April 2021. Punki Modise's Long Term Incentive award 2019, Share Plan Incentive Performance award 2020 and Share Plans Incentive Award 2021 vest over a three year period since the awards were made prior to her becoming an executive director.

<sup>6</sup> The scheduled vesting date for the 1 March 2021 share value plan vesting moved to 18 March 2021, due to the original vesting dates falling within a prohibited/closed period.

<sup>7</sup> Fair value of the awards the number of shares multiplied by the closing share price on 31 December 2021 (R152.55). For the 2019 long-term incentive and the 2020 and 2021 share incentive plan performance award, the fair value is calculated before the application of Group performance conditions, which will be tested at the end of the relevant performance period to determine the vesting outcome. The financial performance conditions for these awards are at material risk given the impact of Covid-19. Dividend equivalents may apply at the time of vesting on the number of shares that vest.

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Market price on release date R	Value of release (pre-tax) R	2021		Number of shares under award/option at 31 December 2021	Last scheduled vesting date	Fair value of unvested awards at 31 December 2021 <sup>1/7</sup> R
		Value of dividend released (pre-tax) R	Number of shares/options lapsed/(forfeited) in 2021			
—	—	—	39 234	—	2024/04/01	—
—	—	—	162 902	—	2025/04/01	—
—	—	—	117 702	—	2026/04/01	—
	—	—	319 838	—		—
129.61	1 314 764	299 140	—	—	2021/03/07	—
129.61	2 746 436	412 160	—	—	2021/03/07	—
129.61	7 741 735	575 857	—	—	2021/03/07	—
129.61	2 079 592	312 101	68 404	—	2021/03/07	—
	13 882 527	1 599 258	68 404	—		—
126.98	515 158	117 203	—	—	2021/03/18	—
126.98	720 738	108 187	—	5 676	2022/03/18	865 874
124.17	2 584 599	192 339	—	41 631	2023/04/01	6 350 809
—	—	—	—	37 664	2024/04/01	5 745 643
—	—	—	—	86 615	2024/03/18	13 213 118
—	—	—	—	130 321	2025/04/01	19 880 469
—	—	—	—	78 468	2026/04/01	11 970 293
	3 820 495	417 729	—	380 375		58 026 206
126.98	77 331	17 523	—	—	2021/03/18	—
126.98	110 473	16 507	—	871	2022/03/18	132 871
124.17	413 486	30 670	—	6 661	2023/04/01	1 016 136
—	—	—	—	980	2024/04/01	149 499
—	—	—	—	24 915	2022/09/02	3 800 783
—	—	—	—	32 580	2023/04/01	4 970 079
—	—	—	—	25 109	2024/04/01	3 830 378
	1 779 784	241 633	—	91 116		13 899 746

## Notes to the consolidated financial statements

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### 63. Directors' and prescribed officers' remuneration (continued)

#### Outstanding share-based long-term incentives (continued)

	2021			
	Number of shares under award at 1 January 2021	Number of shares/cash awarded during 2021	Share price on award R	Number of shares/cash released during 2021
<b>Prescribed officers</b>				
<b>Arrie Rautenbach</b>				
Share value plan 2018 – 2020 <sup>1,2</sup>	9 130	—	—	9 130
Share value plan 2019 – 2021	21 758	—	—	10 880
Share incentive plan deferral 2020 – 2023	59 731	—	—	19 910
Share incentive plan deferral 2021 – 2024	—	37 664	127.44	—
Long-term incentive award 2019 <sup>3</sup>	88 780	—	—	—
Share incentive plan performance 2020 <sup>4</sup>	130 321	—	—	—
Share incentive plan performance 2021 <sup>5</sup>	—	80 430	127.44	—
<b>Total</b>	<b>309 720</b>	<b>118 094</b>		<b>39 920</b>
<b>Charles Russon</b>				
Share value plan 2018 – 2020 <sup>4,5</sup>	8 114	—	—	8 114
Share value plan 2019 – 2021	8 041	—	—	4 021
Share incentive plan deferral 2020 – 2023	45 341	—	—	15 114
Share incentive plan deferral 2021 – 2024	—	31 387	127.44	—
Long-term incentive award 2019 <sup>3</sup>	60 630	—	—	—
Share incentive plan performance 2020 <sup>4</sup>	99 370	—	—	—
Share incentive plan performance 2021 <sup>5</sup>	—	54 927	127.44	—
<b>Total</b>	<b>221 496</b>	<b>86 314</b>		<b>27 249</b>

<sup>1</sup> Arrie Rautenbach's outstanding share-based long-term awards include awards received prior to becoming a prescribed officer on 19 April 2018.

<sup>2</sup> The scheduled vesting date for the 1 March 2021 share value plan vesting moved to 18 March 2021, due to the original vesting dates falling within a prohibited/closed period.

<sup>3</sup> For all prescribed officers, the award will now vest over three years.

<sup>4</sup> Charles Russon's outstanding share-based long-term awards include awards received prior to becoming a prescribed officer on 5 November 2018.

<sup>5</sup> Fair value of the awards the number of shares multiplied by the closing share price on 31 December 2021 (R152.55). For the 2019 long-term incentive and the 2020 and 2021 share incentive plan performance award, the fair value is calculated before the application of Group performance conditions, which will be tested at the end of the relevant performance period to determine the vesting outcome. The financial performance conditions for these awards are at material risk given the impact of Covid-19. Dividend equivalents may apply at the time of vesting on the number of shares that vest.



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Market price on release date	Value of release (pre-tax)	2021		Number of shares under award/option at 31 December 2021	Last scheduled vesting date	Fair value of unvested awards at 31 December 2021 <sup>12</sup>
		Value of dividend released (pre-tax)	Number of shares/options lapsed/(forfeited) in 2021			
R	R	R				R
126.98	1 159 327	263 864	—	—	2021/03/18	—
126.98	1 381 542	207 231	—	10 878	2022/03/18	1 659 439
124.17	2 472 225	183 896	—	39 821	2023/04/01	6 074 694
—	—	—	—	37 664	2024/04/01	5 745 643
—	—	—	—	88 780	2024/03/18	13 543 389
—	—	—	—	130 321	2025/04/01	19 880 469
—	—	—	—	80 430	2026/04/01	12 269 597
	5 013 094	654 991	—	387 894		59 173 231
126.98	1 030 316	234 405	—	—	2021/03/18	—
126.98	510 587	76 569	—	4 020	2022/03/18	613 251
124.17	1 876 705	139 567	—	30 227	2023/04/01	4 611 129
—	—	—	—	31 387	2024/04/01	4 788 087
—	—	—	—	60 630	2024/03/18	9 249 107
—	—	—	—	99 370	2025/04/01	15 158 894
—	—	—	—	54 927	2026/04/01	8 379 114
	3 417 608	450 541	—	280 561		42 799 582

## Notes to the consolidated financial statements

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### 63. Directors' and prescribed officers' remuneration (continued)

#### Outstanding cash-based long-term awards

	2022				
	Value under award at 1 January 2022 R	Maximum potential value at 1 January 2022 R	Value awarded in the year R	Value released in the year R	Value forfeited in the year R
<b>Executive directors</b>					
Jason Quinn					
Cash value plan 2019 – 2021	983 000	1 277 900	—	983 000	—
<b>Total</b>	<b>983 000</b>	<b>1 277 900</b>	<b>—</b>	<b>983 000</b>	<b>—</b>
<b>Prescribed officers</b>					
Charles Russon					
Cash value plan 2019 – 2021	696 334	905 234	—	696 334	—
<b>Total</b>	<b>696 334</b>	<b>905 234</b>	<b>—</b>	<b>696 334</b>	<b>—</b>
Punki Modise <sup>1</sup>					
Cash value plan 2019 – 2021	150 726	195 944	—	150 726	—
<b>Total</b>	<b>150 726</b>	<b>195 944</b>	<b>—</b>	<b>150 726</b>	<b>—</b>
Faisal Mkhize <sup>2</sup>					
Cash value plan 2019 – 2021	128 800	167 440	—	128 800	—
Cash value plan (MRT) 2021	1 400 000	1 400 000	—	1 400 000	—
<b>Total</b>	<b>1 528 800</b>	<b>1 567 440</b>	<b>—</b>	<b>1 528 800</b>	<b>—</b>
Cowyk Fox <sup>2</sup>					
Cash value plan 2019 – 2021	327 666	425 966	—	327 666	—
Cash value plan (MRT) 2021	1 500 000	1 500 000	—	1 500 000	—
<b>Total</b>	<b>1 827 666</b>	<b>1 925 966</b>	<b>—</b>	<b>1 827 666</b>	<b>—</b>
Geoffrey Lee <sup>2</sup>					
Cash value plan 2019 – 2021	196 600	255 580	—	196 600	—
Cash value plan (MRT) 2021	1 500 000	1 500 000	—	1 500 000	—
<b>Total</b>	<b>1 696 600</b>	<b>1 755 580</b>	<b>—</b>	<b>1 696 600</b>	<b>—</b>
Saviour Chibiya <sup>3</sup>					
Cash value plan 2019 – 2021	189 419	246 245	—	189 419	—
Cash value plan (MRT) 2021	1 550 000	1 550 000	—	1 550 000	—
<b>Total</b>	<b>1 739 419</b>	<b>1 796 245</b>	<b>—</b>	<b>1 739 419</b>	<b>—</b>

<sup>1</sup> Punki Modise's outstanding cash-based long-term awards include awards received prior to becoming an executive director for the period 23 April 2021 to 29 March 2022.

<sup>2</sup> Faisal Mkhize's, Cowyk Fox's and Geoffrey Lee's outstanding cash-based long-term awards include awards received prior to becoming prescribed officers on 1 July 2022.

<sup>3</sup> Saviour Chibiya's outstanding cash-based long-term awards include awards received prior to becoming a prescribed officer on 1 July 2022.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

2022				Value under award at 31 December 2022 R	Maximum potential value at 31 December 2022 R	Last scheduled vesting date
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			
—	—	294 900	—			2022/03/18
—	—	294 900	—			
—	—	208 900	—			2022/03/18
—	—	208 900	—			
—	—	45 218	—			2022/03/18
—	—	45 218	—			
—	—	38 640	—			2022/03/18
—	—	—	—			2022/04/01
—	—	38 640	—			
—	—	98 300	—			2022/03/18
—	—	—	—			2022/04/01
—	—	98 300	—			
—	—	58 980	—			2022/03/18
—	—	—	—			2022/04/01
—	—	58 980	—			
—	—	56 826	—			2022/03/18
—	—	—	—			2022/04/01
—	—	56 826	—			

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 63. Directors' and prescribed officers' remuneration (continued)

#### Outstanding cash-based long-term awards (continued)

	2021				
	Value under award at 1 January 2021 R	Maximum potential value at 1 January 2021 R	Value awarded in the year R	Value released in the year R	Value forfeited in the year R
<b>Executive directors</b>					
Jason Quinn					
Cash value plan 2018 – 2020	800 000	993 333	—	800 000	—
Cash value plan 2019 – 2021	1 966 000	2 260 900	—	983 000	—
<b>Total</b>	<b>2 766 000</b>	<b>3 254 233</b>	<b>—</b>	<b>1 783 000</b>	<b>—</b>
<b>Punki Modise<sup>1</sup></b>					
Cash value plan 2018 – 2020	120 000	156 000	—	120 000	—
Cash value plan 2019 – 2021	301 453	346 671	—	150 727	—
<b>Total</b>	<b>421 453</b>	<b>502 671</b>	<b>—</b>	<b>270 727</b>	<b>—</b>
<b>Prescribed officers</b>					
Charles Russon					
Cash value plan 2019 – 2021	1 392 667	1 601 567	—	696 333	—
<b>Total</b>	<b>1 392 667</b>	<b>1 601 567</b>	<b>—</b>	<b>696 333</b>	<b>—</b>

<sup>1</sup> Punki Modise's outstanding cash-based long-term awards include awards received prior to becoming an executive director on 23 April 2021.



## Notes to the consolidated financial statements

for the reporting period ended 31 December

Converted to equity R	Service credit awarded in the year R	Service credit released in the year R	2021		Value under award at 31 December 2021 R	Maximum potential value at 31 December 2021 R	Last scheduled vesting date
			Service credit	lapsed/(forfeited) in the year R			
—	—	193 333	—	—	—	—	2021/03/01
—	—	—	—	—	983 000	1 277 900	2022/03/18
—	—	193 333	—	—	983 000	1 277 900	
—	—	36 000	—	—	—	—	2021/03/01
—	—	—	—	—	150 726	195 944	2022/03/18
—	—	36 000	—	—	150 726	195 944	
—	—	—	—	—	696 334	905 234	2022/03/18
—	—	—	—	—	696 334	905 234	

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 63. Directors' and prescribed officers' remuneration (continued)

#### Group Chairman and non-executive directors' fees

Directors	Group Board R	Group Board committees and sub-committees R	Subsidiary boards, committees and trusts			2022 Total <sup>13</sup> R	2021 Total <sup>13</sup> R
			Absa Bank R	Absa Financial Services R	Other R		
Alex Darko <sup>1</sup>	730 993	1 357 896	103 300	—	—	2 192 189	2 255 669
Dhanasagree (Daisy) Naidoo <sup>2</sup>	705 762	898 793	—	1 278 750	—	2 883 305	2 549 847
Francis Okomo-Okello <sup>1,3</sup>	730 993	678 142	103 300	—	89 558	1 601 993	1 971 912
Fulvio Tonelli <sup>4</sup>	730 993	1 033 028	—	—	551 043	2 315 064	1 976 831
Ihron Rensburg <sup>5</sup>	730 993	496 256	—	—	76 543	1 303 792	1 550 923
John Cummins <sup>6</sup>	730 993	647 626	—	—	—	1 378 619	159 671
Mark Merson <sup>1,6</sup>	74 633	107 653	8 608	—	807 217	998 111	3 407 614
Nonhlanhla Mjoli-Mncube <sup>1,7</sup>	870 993	662 250	94 692	—	—	1 627 935	1 365 207
René van Wyk <sup>1,8</sup>	730 993	1 901 584	94 692	—	—	2 727 269	1 816 203
Rose Keanly <sup>1,9</sup>	730 993	1 236 177	94 692	676 100	—	2 737 962	2 362 253
Sello Moloko <sup>10,12</sup>	5 239 575	345 083	25 825	—	—	5 610 483	126 974
Swithin Munyantwali	730 993	566 482	—	—	—	1 297 475	1 435 581
Tasneem Abdool-Samad <sup>1</sup>	730 993	1 776 650	103 300	815 450	—	3 426 393	3 495 595
Wendy Lucas-Bull (Chairman) <sup>11</sup>	1 679 125	—	—	—	—	1 679 125	6 627 100
<b>Total</b>	<b>15 149 025</b>	<b>11 707 620</b>	<b>628 409</b>	<b>2 770 300</b>	<b>1 524 361</b>	<b>31 779 715</b>	<b>31 101 380</b>

<sup>1</sup> The Group Audit and Compliance Committee (GACC), Group Risk and Capital Management Committee (GRCMC), Remuneration Committee (RemCo) and Social, Sustainability and Ethics Committee (SSEC) 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.

<sup>2</sup> Daisy Naidoo resigned from the AFS Board on 28 November 2022.

<sup>3</sup> Francis Okomo-Okello and Ihron Rensburg were trustees of the Absa Foundation Trust and paid for attendances until 31 October 2022. The Absa Africa Foundation Advisory Board was established in Q3 of 2022 as a sub-committee of the SSEC. Francis Okomo-Okello was appointed as a member and Chairman and Ihron Rensburg as a member of the Absa Africa Foundation Advisory Board (reported under Other).

<sup>4</sup> Fulvio Tonelli is a director on Absa Bank Kenya PLC board and member of their Audit and Risk Committee as well as their Credit Risk Committee (reported under Other).

<sup>5</sup> John Cummins joined the Information Technology Committee (ITC) on 1 July 2022.

<sup>6</sup> Mark Merson resigned from the Group and Bank boards on 31 January 2022, but remained as Chairman of the Absa Securities United Kingdom Limited, a subsidiary of Absa Group Limited (reported under Other).

<sup>7</sup> Nhlanihla Mjoli-Mncube was appointed as the Lead Independent Director (LID) and joined the Bank Board and DAC on 8 February 2022; and was appointed as Chairman of the Board Finance Committee (BFC) and member of the Group Credit Risk Committee (GCRC) on 1 July 2022. The LID fees are included under the Group fee.

<sup>8</sup> René van Wyk was appointed as Chairman of the GRCMC and GCRC, and joined the Bank Board and DAC on 1 February 2022; and stepped down from the BFC Chairmanship on 1 July 2022 (remained a member).

<sup>9</sup> Rose Keanly was appointed as Chairman of RemCo and joined the Bank Board and DAC, and stepped down from GRCMC on 8 February 2022.

<sup>10</sup> Sello Moloko was appointed as Chairman of the Group and Bank boards on 1 April 2022.

<sup>11</sup> Wendy Lucas-Bull retired from the Group and Bank boards effective 31 March 2022.

<sup>12</sup> The fee applicable to Sello Moloko, the Group Chairman, covers chairmanship of the Absa Group and Absa Bank boards as well as membership of any board committees (from 1 April 2022); and prior to that, separate fees were paid for membership of the boards and relevant board committees.

<sup>13</sup> The fees indicated above are exclusive of VAT. Where applicable VAT has been levied by the non-executive directors and such fees plus VAT were paid to the non-executive directors concerned (subject to the issue of a valid tax invoice).

## Annexure A: Embedded value report for Life Insurance entities (unaudited)

### Scope of the embedded value report

This report deals with the embedded value of the life insurance entities (including Absa Life Limited, Absa Life Botswana Proprietary Limited, Absa Life Zambia Limited, Global Alliance Seguros S.A., Absa Life Assurance Kenya, Woolworths Financial Services and Instant Life), including the value of new business written during the current reporting period in respect of these entities.

The embedded value as at 31 December 2022 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 licenses 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	
	2022	2021
	Rm	Rm
Free surplus	599	193
Required capital	1 268	862
Covered business adjusted net worth (ANW)	1 867	1 055
Present value of in-force business (PVIF)	4 795	4 550
Cost of required capital (CoC)	(376)	(262)
<b>Total embedded value (EV)</b>	<b>6 286</b>	<b>5 343</b>
Value of new business (before CoC)	690	631
CoC	(47)	(35)
<b>Value of new business (VNB)</b>	<b>643</b>	<b>596</b>
Present value of future premiums (gross of reinsurance premiums)	6 130	8 503
Value of new business as a percentage of the present value of future premiums		
All business (%)	10.5	7.0
Excluding investment business (%)	15.0	13.0

## 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):

	2022 Absa Life Limited %	2021 Absa Life Limited %
Risk-free rate of return		
1-year term	8.09	5.45
5-year term	9.59	8.30
10-year term	11.86	10.71
20-year term	12.98	12.31
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):

	2022				2021			
	Absa Life Botswana Proprietary Limited	Absa Life Zambia Limited	Global Alliance Seguros S.A	Absa Life Assurance Kenya Limited	Absa Life Botswana Proprietary Limited	Absa Life Zambia Limited	Global Alliance Seguros S.A	Absa Life Kenya Limited
Risk-free rate of return	5.9	16.7	12.5	14.2	5.2	20.1	11.3	13.6
Cash return	6.8	14.7	10.5	12.2	3.2	18.1	9.3	n/a
Overall investment return	8.3	15.5	11.5	14.2	4.7	18.9	10.3	13.7
Risk discount rate	12.2	20.1	15.9	17.6	8.6	23.5	14.7	17.1
Expense inflation	7.9	7.8	7.8	7.8	3.8	10.6	6.3	6.5

## Annexure A: Embedded value report for Life Insurance entities (unaudited)

### 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.

Percentage change	Group							
	2022							
	Risk discount rate	Interest rates	Equity capital values	Equity returns	Mortality/morbidity	Maintenance expenses	Lapse/surrender	Initial expenses
	+1%	-1%	x 0.9	+1%	x 0.95	x 0.9	x 0.9	x 0.9
ANW	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N/A
PVIF	(2.6)	3.0	(0.4)	0.1	7.4	3.7	4.2	N/A
CoC	7.8	5.0	0.0	0.0	8.7	0.0	5.3	N/A
EV	(2.3)	2.0	(0.3)	0.1	5.2	2.8	2.9	N/A
VNB	(3.5)	5.8	0.0	0.0	5.8	3.7	10.9	2.8

Percentage change	2021							
	Risk discount rate	Interest rates	Equity capital values	Equity returns	Mortality/morbidity	Maintenance expenses	Lapse/surrender	Initial expenses
	+1%	-1%	x 0.9	+1%	x 0.95	x 0.9	x 0.9	x 0.9
	+1%	-1%	x 0.9	+1%	x 0.95	x 0.9	x 0.9	x 0.9
ANW	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n/a
PVIF	(3.4)	3.4	(0.4)	0.1	7.0	3.5	4.2	n/a
CoC	7.7	5.3	0.0	0.0	8.3	0.0	5.3	n/a
EV	(3.2)	2.8	(0.3)	0.1	5.7	3.0	3.4	n/a
VNB	(3.6)	5.5	(0.3)	(0.1)	6.7	4.0	9.2	2.6

The development of the embedded value of Absa Life Limited (South Africa) can be analysed as follows:

	Group	
	2022 Rm	2021 Rm
Embedded value at the end of the reporting period	5 073	4 287
Dividends accrued or paid	450	182
Embedded value at the beginning of the reporting period	(4 287)	(4 540)
<b>Embedded value earnings</b>	<b>1 236</b>	<b>(71)</b>
Components of embedded value earnings:		
Value of new business at point of sale <sup>1</sup>	522	473
Expected return on covered business (unwinding)	355	293
Expected profit transfer	(36)	(46)
Operating experience variances <sup>2</sup>	338	(560)
Operating assumption and model changes	(99)	(135)
Covid-19 provision	0	(185)
Change in share-based payment (SBP) reserve	1	(9)
Expected return on ANW	45	26
<b>Embedded value operating return</b>	<b>1 126</b>	<b>(166)</b>
Investment return variances on in-force covered business	2	38
Investment return variances on ANW	64	22
Effect of economic assumption changes	45	35
<b>Embedded value earnings</b>	<b>1 237</b>	<b>(71)</b>
<b>Return on embedded value (%)</b>	<b>28.8</b>	<b>(2)</b>

### 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.

<sup>1</sup> The 2022 increase is mainly due to higher new business margins as well as increased volumes from higher margin products.

<sup>2</sup> The favourable 2022 experience is primarily due to lower COVID-19 claims than allowed for in the YE21 COVID-19 provisions.

<sup>3</sup> The FY21 impact was due to strengthened short term COVID-19 mortality and lapse provisions. The FY22 impact is nil as there are no short term provisions being held at YE 2022. A long-term mortality uncertainty loading has been established which is included under 'Operating assumption and modelling changes'.

# Company financial statements

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# Company statement of financial position

as at 31 December

			Company	
			Restated	
		December	December	1 January
	Note	2022	2021	2021
		Rm	Rm	
<b>Assets</b>				
Loans and advances	2	2 191	1 733	646
Investment securities	3	15 532	14 595	6 101
Other assets	4	28	26	26
Current tax assets		38	20	83
Deferred tax assets	5	1	1	17
Non-current assets held for sale	6	-	70	-
Subsidiaries <sup>1</sup>	7	75 712	73 872	76 055
<b>Total assets</b>		<b>93 502</b>	<b>90 317</b>	<b>82 928</b>
<b>Liabilities</b>				
Other liabilities	8	329	244	242
Borrowed funds	9	28 682	26 757	20 576
<b>Total liabilities</b>		<b>29 011</b>	<b>27 001</b>	<b>20 818</b>
<b>Equity</b>				
<b>Capital and reserves</b>				
Attributable to ordinary equity holders of the Company:				
Ordinary share capital	10	1 696	1 696	1 696
Ordinary share premium <sup>1</sup>	10	23 572	23 633	23 600
Retained earnings		30 791	30 329	29 385
Other reserves <sup>1</sup>		929	654	425
		<b>56 988</b>	<b>56 312</b>	<b>55 106</b>
Additional Tier 1 capital	11	7 503	7 004	7 004
<b>Total equity</b>		<b>64 491</b>	<b>63 316</b>	<b>62 110</b>
<b>Total equity and liabilities</b>		<b>93 502</b>	<b>90 317</b>	<b>82 928</b>

<sup>1</sup>These numbers have been restated, refer to restatement note 1.1

# Company statement of comprehensive income

for the reporting period ended 31 December

		Company	Restated
	Note	2022 Rm	2021 Rm
Interest and similar income <sup>1</sup>		1 861	2 348
Interest expense and similar charges <sup>1</sup>		(1 777)	(2 296)
Non-interest income		10 705	4 281
Gains and losses from investment activities	12	10 094	3 579
Other operating income	13	611	702
<b>Total income</b>		<b>10 789</b>	<b>4 333</b>
Credit impairment charges		(30)	(22)
<b>Operating income before operating expenditure</b>		<b>10 759</b>	<b>4 311</b>
Operating expenses		(26)	(55)
Operating expenses	14	(26)	(35)
Other impairments	15	-	(20)
<b>Operating profit before income tax</b>		<b>10 733</b>	<b>4 256</b>
Taxation expense	16	(125)	(99)
<b>Profit for the reporting period</b>		<b>10 608</b>	<b>4 157</b>
<b>Profit attributable to:</b>			
Ordinary equity holders		9 999	3 572
Additional Tier 1 capital		609	585
		<b>10 608</b>	<b>4 157</b>

	Note	Company 2022 Rm	2021 Rm
<b>Profit for the reporting period</b>		<b>10 608</b>	<b>4 157</b>
<b>Other comprehensive income</b>			
<b>Items that are or may be subsequently reclassified to profit or loss</b>		<b>(21)</b>	<b>(6)</b>
Movement in cash flow hedging reserve		(21)	(6)
Fair value losses		(21)	(6)
<b>Total comprehensive income for the reporting period</b>		<b>10 587</b>	<b>4 151</b>
<b>Total comprehensive income attributable to:</b>			
Ordinary equity holders		9 978	3 566
Additional Tier 1 capital		609	585
		<b>10 587</b>	<b>4 151</b>

<sup>1</sup> Interest in similar income/interest expense and similar charges, which were previously disclosed on a net basis. To enhance disclosure this has now be presented separately.



# Company statement of changes in equity

for the reporting period ended 31 December

	Company									
	2022									
	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	Cash flow hedging reserve Rm	Share-based payment reserve Rm	Total equity attributable to ordinary equity holders Rm	Additional Tier 1 capital Rm	Total equity Rm
<b>Restated balance at the beginning of the reporting period</b>	<b>847 750</b>	<b>1 696</b>	<b>23 633</b>	<b>30 329</b>	<b>654</b>	<b>44</b>	<b>610</b>	<b>56 312</b>	<b>7 004</b>	<b>63 316</b>
Total comprehensive income	-	-	-	9 999	(21)	(21)	-	9 978	609	10 587
Profit for the period	-	-	-	9 999	-	-	-	9 999	609	10 608
Other comprehensive income	-	-	-	-	(21)	(21)	-	(21)	-	(21)
Dividends paid during the reporting period	-	-	-	(9 537)	-	-	-	(9 537)	-	(9 537)
Distributions paid during the reporting period	-	-	-	-	-	-	-	-	(609)	(609)
Movement in Additional Tier 1 Capital <sup>1</sup>	-	-	-	-	-	-	-	-	499	499
Purchase of Group shares in respect of equity-settled share-based payment arrangements	-	-	(61)	-	-	-	-	(61)	-	(61)
Movement in share-based payment reserve	-	-	-	-	296	-	296	296	-	296
Value of employee services	-	-	-	-	296	-	296	296	-	296
<b>Balance at the end of the reporting period</b>	<b>847 750</b>	<b>1 696</b>	<b>23 572</b>	<b>30 791</b>	<b>929</b>	<b>23</b>	<b>906</b>	<b>56 988</b>	<b>7 503</b>	<b>64 491</b>
Note	10	10	10						11	

<sup>1</sup> Movement in Additional Tier 1 Capital includes an issuance of **R1 999m** and an expiry of **R1 500m**.

# Company statement of changes in equity

for the reporting period ended 31 December

2021

	Number of ordinary shares '000	Share capital Rm	Share premium <sup>1</sup> Rm	Retained earnings Rm	Total other reserves <sup>1</sup> Rm	Cash flow hedging reserve Rm	Share- based payment reserve Rm	Total equity attributable to ordinary equity holders Rm	Additional Tier 1 capital Rm	Total equity Rm
<b>Balance at the end of the previous reporting period</b>	847 750	1 696	23 786	29 385	50	50	-	54 917	7 004	61 921
Impact of share-based payment restatement			(186)		375		375	189		189
<b>Restated balance at the beginning of the reporting period</b>	847 750	1 696	23 600	29 385	425	50	375	55 106	7 004	62 110
Total comprehensive income	-	-	-	3 572	(6)	(6)	-	3 566	585	4 151
Profit for the period	-	-	-	3 572	-	-	-	3 572	585	4 157
Other comprehensive income	-	-	-	-	(6)	(6)	-	(6)	-	(6)
Dividends paid during the reporting period	-	-	-	(2 628)	-	-	-	(2 628)	-	(2 628)
Distributions paid during the reporting period	-	-	-	-	-	-	-	-	(585)	(585)
Purchase of Group shares in respect of equity-settled share-based payment arrangements	-	-	33	-	-	-	-	33	-	33
Movement in share-based payment	-	-	-	-	235	-	235	235	-	235
Value of employee services	-	-	-	-	235	-	235	235	-	235
<b>Restated balance at the end of the reporting period</b>	847 750	1 696	23 633	30 329	654	44	610	56 312	7 004	63 316
Note	10	10	10						11	

(1) These numbers have restated, refer to reporting accounting policies note 1.1

## Company statement of cash flows

for the reporting period ended 31 December

	Note	Company	
		2022 Rm	Restated 2021 Rm
<b>Cash flow from operating activities</b>			
Profit before tax		10 733	4 256
Accrued interest income <sup>(1)</sup>		-	( 64)
Accrued interest expense <sup>(1)</sup>		109	-
Foreign exchange movements on borrowed funds		1 054	1 960
Other impairments	15	-	20
Cash flow from operating activities before changes in operating assets and liabilities		11 896	6 172
Net increase in other assets		-	-
Net increase in other liabilities		110	4
Income taxes paid		( 142)	( 20)
<b>Net cash generated from operating activities</b>		<b>11 864</b>	<b>6 156</b>
<b>Cash flow from investing activities</b>			
Purchase of equity investments in subsidiaries		( 77)	-
Proceeds from the sale of equity investments in subsidiaries		-	217
Investment securities <sup>(2)</sup>		( 958)	(8 501)
Debt instruments issued to subsidiaries		(1 139)	-
Proceeds from debt instruments in subsidiaries		111	2 121
Additional Tier 1 Capital to subsidiaries		(1 999)	-
Redemption of Additional Tier Capital to subsidiaries		1 499	-
<b>Net cash utilised in investing activities</b>		<b>(2 563)</b>	<b>(6 163)</b>
<b>Cash flow from financing activities</b>			
Dividends paid		(9 537)	(2 628)
Issuance of Additional Tier 1 Capital		1 999	-
Expiry of Additional Tier Capital		(1 499)	-
Proceeds from borrowed funds		3 034	6 940
Repayment of borrowed funds		(2 204)	(2 655)
Distributions paid to Tier 1 capital holders		(609)	(585)
<b>Net cash utilised in financing activities</b>		<b>(8 816)</b>	<b>1 072</b>
Net increase in cash and cash equivalents		485	1 064
Cash and cash equivalents at the beginning of the reporting period		1 710	645
<b>Cash and cash equivalents at the end of the reporting period</b>	2	<b>2 195</b>	<b>1 710</b>

1. Included as part of operating activities is interest income of R1 861m and interest expense R1 736m (2021: R12m net interest expense) which was paid in cash.

<sup>(1)</sup> In the prior period, movements relating to interest (R64m) and foreign exchange differences (R1 960m) relating to Borrowed Funds were erroneously included as part of other liabilities. These have been corrected retrospectively. This error had no impact on the net cash generated from operating activities or any other line items in the financial statements.

<sup>(2)</sup> These numbers have been restated, refer to note 1.1

# 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 Correction of prior period error

#### Share based payments

In terms of the current Absa Group Limited share scheme, the Company grants share awards directly to the employees of its subsidiary entities (employer companies). In terms of IFRS 2, where Absa Group Limited is the issuing and settling entity for the group share scheme, the employer companies (i.e. subsidiaries receiving the services) are required to account for the transaction as an equity-settled award as the employer companies do not have an obligation to settle the award directly with the employee. In order to account for its obligation, the Company is required to recognise an increase to investment in subsidiaries (i.e., an increase in the carrying value of the investment) together with an increase to the share based payment reserve in equity. Since the award is settled in Absa Group Limited shares, the Company accounts for the award as an equity-settled award.

On the back of the share scheme, the Company has entered into recharge arrangements with the employer companies to recoup the cash required to purchase shares in the market to settle the awards. The shares are warehoused in a Trust until vesting after which the Trust settles the awards on behalf of the Company. These recharge arrangements do not impact the nature of the share-based payment transaction, and therefore do not affect the classification as equity-settled. The Company accounts for the intergroup recharges as a return of capital which reduces the Company's investment in the respective subsidiary.

Upon review of the Company financial statements, it was noted that the above accounting for the grant and settlement of share awards had erroneously not been affected by the Company, since the start of the scheme in 2015. The impact of the error is shown below. The error had no impact on the statement of comprehensive income or statement of cash flows.

31 December 2021

	As previously reported	Correction of error	Restated balance
	Rm	Rm	Rm
<b>Assets</b>			
Subsidiaries	73 415	457	73 872
<b>Equity</b>			
Share premium	(23 786)	153	(23 633)
Other reserves	(44)	(610)	(654)

1 January 2021

	As previously reported	Correction of error	Restated balance
	Rm	Rm	Rm
<b>Assets</b>			
Subsidiaries	75 866	189	76 055
<b>Equity</b>			
Share premium	(23 786)	186	(23 600)
Other reserves	(50)	(375)	(425)

# Notes to the Company financial statements

for the reporting period ended 31 December

## Statement of Cash flows

In order to appropriately align the classification of cash flows within the Statement cash flows, as well as improve the consistency of classifications, the cash flows associated with the Company's purchase and redemption of Investment securities was reallocated from operating activities to investing activities. The impact of the error is shown below. The error had no impact on the statement of financial position, statement of comprehensive income or statement of changes in equity.

	31 December 2021		
	As previously reported	Correction of error	Restated balance
	Rm	Rm	Rm
Net increase in investment securities	(8 501)	8 501	-
Net cash (utilised in)/from operating activities	(2 346)	8 501	6 155
Decrease in investment securities	0	(8 501)	(8 501)
Net cash generated from/(utilised in) investment activities	(2 338)	(8 501)	(6 163)

## Notes to the Company financial statements

for the reporting period ended 31 December

	Company 2022 Rm	2021 Rm
<b>2. Loans and advances</b>		
Gross loans and advances to banks	2 195	1 733
Expected credit losses	(4)	-
	<b>2 191</b>	<b>1 733</b>

The aforementioned loans are at variable rates.

The gross loans and advances balance fully comprise of cash and cash equivalents.

	Company 2022 Rm	2021 Rm
<b>3. Investment securities</b>		
Debt securities	15 532	14 595
	<b>15 532</b>	<b>14 595</b>

	Company 2022 Rm	2021 Rm
<b>4. Other assets</b>		
Accounts receivable <sup>1</sup>	1	1
Prepayments <sup>1</sup>	27	25
	<b>28</b>	<b>26</b>

<sup>1</sup>Accounts receivable and prepayments, which were previously disclosed as a single line item, have been disclosed separately due to their distinct nature.

# Notes to the Company financial statements

for the reporting period ended 31 December

	Company 2022 Rm	2021 Rm
<b>5. Deferred tax</b>		
5.1 Reconciliation of net deferred tax (liability)/asset		
<b>Balance at the beginning of the reporting period</b>	<b>1</b>	17
Charge to profit or loss (refer to note 16)	(0)	(16)
<b>Balance at the end of the year</b>	<b>1</b>	1
5.2 Deferred tax (liability)/asset		
Tax effects of temporary differences between tax and book value for:		
Exchange differences - unrealised	1	1
<b>Net deferred tax (liability)/asset</b>	<b>1</b>	1

	Company 2022 Rm	2021 Rm
<b>6. Non-current assets held for sale</b>		
Non-current assets held for sale		
Balance at the beginning of the reporting period	70	-
Disposals	(70)	-
Transfer of subsidiaries	-	70
<b>Balance at the end of the reporting period</b>	<b>-</b>	70

During 2022 the Company disposed of an investment to the value of R70m. Please refer to note 6 of the Group financial statements for further details.

During 2021, a total of R70m was reclassified into the non-current assets held for sale category relating to the sale of subsidiaries, targeted for conclusion in 2022. Please refer to note 6 of the Group financial statements for further details.

	Company 2022 Rm	2021 Rm
<b>7. Subsidiaries</b>		
Equity investments <sup>1</sup>	62 446	61 565
Debt instruments	13 266	12 307
	<b>75 712</b>	73 872

Refer to note 48.2 of the Group's financial statements for a list of significant subsidiaries. The loans to subsidiaries are measured at amortised cost, classified in stage 1 DG1-9 and are unsecured. The related ECL of **R49m** (2021: R22m) was raised in the current year.

Equity investments are measured at cost with the exception of investments in subsidiaries that are measured at amortised cost.

	Company 2022 Rm	2021 Rm
<b>8. Other liabilities</b>		
Unclaimed dividends	289	244
Other	40	-
	<b>329</b>	244

<sup>1</sup>Equity instruments have been restated, refer to correction of prior period error note 1.1.

# Notes to the Company financial statements

for the reporting period ended 31 December

			Company	
			2022	2021
			Rm	Rm
<b>9. Borrowed funds</b>				
<b>Subordinated callable notes issued by Absa Group Limited</b>				
<b>Interest rate</b>	<b>Final maturity date</b>	<b>Note</b>		
11.81%	3 September 2027	i	-	737
Three-month JIBAR + 2.13%	17 May 2030	ii	2 676	2 676
Three-month JIBAR + 2.40%	11 April 2029	iii	1 580	1 580
Three-month JIBAR + 2.45%	29 November 2028	iv	1 500	1 500
Three-month JIBAR + 3.60%	3 September 2027	v	-	30
Three-month JIBAR + 3.78%	17 March 2027	vi	-	642
Three-month JIBAR + 3.85%	25 May 2027	vii	-	500
Three-month JIBAR + 3.85%	14 August 2029	viii	390	390
Three-month JIBAR + 3.15%	30 September 2027	ix	-	295
Three-month JIBAR + 3.45%	29 September 2029	x	1 014	1 014
Three-month JIBAR + 2.10%	16 September 2032	xi	1 916	-
<b>Foreign currency denominated notes</b>				
USD 6.25%	25 April 2028	xii	4 952	4 952
USD 6.375%	n/a	xiii	6 866	6 866
<b>Other</b>				
Accrued interest			163	140
Foreign exchange movements			3 429	2 523
			<b>24 486</b>	<b>23 845</b>
<b>Non-subordinated debt extended by Absa Group Limited</b>				
Three-month JIBAR + 1.20%	11 September 2025	xiv.	58	58
Three-month JIBAR + 1.20%	30 January 2025	xv.	301	301
Three-month JIBAR + 1.225%	29 January 2024	xvi.	197	197
Three-month JIBAR + 1.225%	19 July 2023	xvii.	88	88
Three-month SOFR + 2.11%	26 March 2025	xviii.	758	758
Three-month SOFR + 1.37%	22 November 2026	xix.	149	149
Three-month LIBOR + 1.1%	27 January 2026	xx.	456	456
Three-month LIBOR + 1.52%	16 October 2024	xxi.	371	371
Three-month SOFR + 1.80%	18 March 2025	xxii.	339	339
Three-month SOFR + 1.46%	25 February 2026	xxiii.	74	74
Three-month SOFR + 1.99%	21 December 2027	xxiv.	847	-
Three-month SOFR + 1.75%	29 December 2025	xxv.	271	-
<b>Other</b>				
Accrued interest			55	37
Foreign exchange movements			232	84
			<b>4 196</b>	<b>2 912</b>
			<b>28 682</b>	<b>26 757</b>

			Company	
			2022	2021
			Rm	Rm
<b>9.1 Reconciliation of borrowed funds</b>				
Opening Balance			26 757	20 576
<b>Changes arising from cash movements:</b>			(906)	2 057
Borrowed fund issuances			3 034	6 940
Borrowed fund redemptions			(2 204)	(2 655)
Interest paid			(1 736)	(2 228)
<b>Changes arising from non-cash movements:</b>			2 831	4 124
Interest accrued but not paid			1 777	2 164
Foreign exchange movements			1 054	1 960
Closing Balance			<b>28 682</b>	<b>26 757</b>



# Notes to the Company financial statements

for the reporting period ended 31 December

## 9. Borrowed funds (continued)

- i. The 11.81% fixed rate notes were redeemed in full on 3 September 2022.
- ii. The three-month JIBAR plus 2.13% floating rate notes may be redeemed in full at the option of Absa Group Limited on 17 May 2025. Interest is paid quarterly in arrears on 17 February, 17 May, 17 August and 17 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 17 May 2025. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.
- iii. 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.
- iv. 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.
- v. The three-month JIBAR plus 3.60% floating rate notes were redeemed in full on 3 September 2022.
- vi. The three-month JIBAR plus 3.78% floating rate notes were redeemed in full on 17 March 2022.
- vii. The three-month JIBAR plus 3.85% floating rate notes were redeemed in full on 25 May 2022.
- viii. 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.
- ix. The three-month JIBAR plus 3.15% floating rate notes were redeemed in full on 30 September 2022.
- x. 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.
- xi. The three-month JIBAR plus 2.10% floating rate with a nominal amount of R1.9bn may be redeemed in full at the option of Absa Group Limited on 16 September 2027. The interest is paid quarterly on 16 March, 16 June, 16 September and 16 December each year until the maturity date, with the first interest determination date being 12 September 2022. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.
- xii. 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.
- xiii. The 6.375% fixed rate reset unsecured and perpetual notes with a nominal amount of USD 500m have no fixed redemption date. The notes qualify as additional Tier 1 capital for the Group. The Group is obliged to pay interest on each Interest Payment Date unless: (a) it elects not to pay the relevant interest amount on such Interest Payment Date in whole or in part and for any reason; (b) it is in breach of either (i) the Capital Regulations or (ii) the Solvency Condition on the business day prior to such Interest Payment Date or would be in breach of the Capital Regulations or the Solvency Condition if the relevant interest amount were paid on such Interest Payment Date; or (c) at any time the Prudential Authority imposes a mandatory prohibition on the payment by the Issuer of such interest amount. The interest is payable semi-annually in arrears on 27 May and 27 November each year, commencing on 27 November 2021. The reset dates are every 5 years. The interest rate is 6.375% from the issue date to (but excluding) the first reset date, 27 November 2026. Thereafter, the interest rate will be reset to an interest applicable to the relevant reset period. The terms of the Additional Tier 1 capital notes include a regulatory requirement which provides for the write off, in whole or in part, in the case of a disqualifying event. In addition, interest payments are mandatorily payable if, for any reason, the instrument no longer meets the criteria of AT1 Capital in terms of Regulation 38(11).
- xiv. The three-month JIBAR plus 1.20% floating rate notes should be redeemed in full by Absa Group Limited on 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.
- xv. The three-month JIBAR plus 1.20% floating rate notes should be redeemed in full by Absa Group Limited on 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.
- xvi. The three-month JIBAR plus 1.225% floating rate notes should be redeemed in full by Absa Group Limited on 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.
- xvii. 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.

## Notes to the Company financial statements

for the reporting period ended 31 December

### 9. Borrowed funds (continued)

- xviii. The three-month SOFR plus 2.11% floating rate notes should be redeemed in full by Absa Group Limited on 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. The interest rate was amended from LIBOR plus 1.85% to SOFR plus 2.11% effective 26 December 2022.
- xix. The three-month SOFR plus 1.37% floating rate notes should be redeemed in full by Absa Group Limited on 22 November 2026. Interest is paid quarterly in arrears. The borrower will repay the loan together with any accrued, but unpaid interest and all other amounts accrued under this agreement by way of a single repayment, on the repayment date. In the prior year the maturity date and the interest rate were erroneously disclosed as 30 March 2026 instead of 22 November 2026 and the interest rate as LIBOR plus 0.92% instead of SOFR plus 1.37%. This had no impact in the calculation of the interest it was solely a disclosure error.
- xx. The three-month LIBOR plus 1.1% floating rate notes should be redeemed in full by Absa Group Limited on 27 January 2026. Interest is paid quarterly in arrears on 27 April, 27 July, 27 October and 27 January. The borrower will repay the loan together with any accrued, but unpaid interest and all other amounts accrued under this agreement by way of a single repayment, on the repayment date. In the prior year the interest rate was erroneously as LIBOR plus 0.89% instead of LIBOR plus 1.1%. This had no impact in the calculation of the interest it was solely a disclosure error. The interest rate will be amended from LIBOR to SOFR from 27 January 2023.
- xxi. 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 paid quarterly in arrears on the 16 January, 16 April, 16 July and 16 October. Absa Group Limited may redeem a portion (being a minimum of R10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice. The interest rate will be amended from LIBOR to SOFR from 18 January 2023.
- xxii. The three-month SOFR plus 1.80% floating rate notes should be redeemed in full by Absa Group Limited on 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. The interest rate was amended from LIBOR plus 1.54% to SOFR plus 1.80% effective 18 December 2022.
- xxiii. The three-month SOFR plus 1.46% floating rate notes should be redeemed by Absa Group Limited on 25 February 2026. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August and 25 November. Absa Group Limited may redeem a portion (being a minimum of \$10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice. The interest rate was amended from LIBOR plus 1.20% to SOFR plus 1.46% effective 25 November 2022.
- xxiv. The three-month SOFR plus 1.99% floating rate notes should be redeemed by Absa Group Limited on 21 December 2027. Interest is paid quarterly in arrears. The borrower will repay the loan together with any accrued, but unpaid interest and all other amounts accrued under this agreement by way of a single repayment, on the repayment date.
- xxv. The three-month SOFR plus 1.75% floating rate notes should be redeemed by Absa Group Limited on 29 December 2025. Interest is paid quarterly in arrears. The borrower will repay the loan together with any accrued, but unpaid interest and all other amounts accrued under this agreement by way of a single repayment, on the repayment date.

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

Notes xii to xiii is listed on the London Stock Exchange.

Note xiv to xxv 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	
	2022	2021
	Rm	Rm
<b>10. Share capital and premium</b>		
<b>Ordinary share capital</b>		
<b>Authorised</b>		
<b>891 774 054</b> (2021: 891 774 054) ordinary shares of R2.00 each	<b>1 784</b>	1 784
<b>Issued</b>		
<b>847 750 679</b> (2021: 847 750 679) ordinary shares of R2.00 each	<b>1 696</b>	1 696
<b>Total issued capital</b>		
Share capital	<b>1 696</b>	1 696
Share premium <sup>1</sup>	<b>23 572</b>	23 633
	<b>25 268</b>	25 329

Ordinary shares when issued entitles the holders to distribution of profit and the right to vote on any matter to be decided by a vote of holders of the ordinary shares of the Group.

## Authorised shares

There were no changes to the authorised share capital during the current reporting period.

## Unissued shares

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

## Shares issued

There were no shares issued during the current and prior reporting periods.

<sup>1</sup>This number has been restated, refer to 1.1

# Notes to the Company financial statements

for the reporting period ended 31 December

		Company	
		2022	2021
		Rm	Rm
<b>11. Other equity: Additional Tier 1 capital</b>			
<b>Subordinated callable notes issued by Absa Group Limited</b>			
<b>Interest rate</b>	<b>Date of issue</b>		
Three month JIBAR + 5.65%	11 September 2017	-	1 500
Three month JIBAR + 4.75%	9 October 2018	1 241	1 241
Three month JIBAR + 4.50%	28 May 2019	1 678	1 678
Three month JIBAR + 4.25%	5 December 2019	1 376	1 376
Three month JIBAR + 4.55%	26 October 2020	1 209	1 209
Three month JIBAR + 3.58%	15 November 2022	1 999	-
		<b>7 503</b>	<b>7 004</b>

The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Group Limited (the issuer) on 10 October 2023, 28 November 2024, 5 June 2025, 27 October 2025 and 16 November 2027 subject to regulatory approval. AT1's that were issued on 11 September 2017 were redeemed on 12 September 2022. These instruments include a write-off provision which is required under Basel III. This provision is triggered by the Prudential Authority and shall be instituted at the earlier of (i) a decision that a write-off, without which the Issuer would become non-viable, is necessary; or (ii) a decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable. In addition, the Additional Tier 1 Notes do not have a contractual obligation to pay interest. Accordingly, the instruments are classified as equity instruments.

		Company	
		2022	2021
		Rm	Rm
<b>12. Gains and losses from investment activities</b>			
Dividends received from subsidiaries		10 094	3 579

		Company	
		2022	2021
		Rm	Rm
<b>13. Other operating income</b>			
Foreign exchange differences		2	116
Dividends received		609	586
		<b>611</b>	<b>702</b>

		Company	
		2022	2021
		Rm	Rm
<b>14. Operating expenses</b>			
Administrative and other expenses		26	35

		Company	
		2022	2021
		Rm	Rm
<b>15. Other impairments</b>			
Equity investment in subsidiaries		-	20

# Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2022	2021
	Rm	Rm
<b>16. Taxation expense</b>		
<b>Current</b>		
Current tax	34	38
Current tax - previous reporting period	(32)	(26)
Foreign tax	123	71
	125	83
<b>Deferred (refer to note 5)</b>	0	16
Other	0	-
Exchange differences	0	16
	-	99
<b>Reconciliation between operating profit before income tax and the taxation expense</b>		
Operating profit before income tax	10 733	4 256
Tax calculated at a tax rate of 28%	3 006	1 192
Expenses not deductible for tax purposes	24	12
Dividend Income	(3 001)	(1 158)
Other income not subject to tax	-	13
Items of a capital nature	5	(5)
South African current taxation prior year	(32)	(26)
Foreign tax	123	71
	125	99

## 17. Headline earnings and Earnings per share

The Company is no longer presenting the Headline earnings and Earnings per share as this is not required by the IFRS

# Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2022	2021
	Rm	Rm
<b>18. Dividends per share</b>		
Dividends declared to ordinary equity holders		
Interim dividend ( <b>15 August 2022: 650 cents per share (cps)</b> ) (2021: 310 cps)	5 510	2 628
Final dividend ( <b>13 March 2023: 650 cps</b> ) (14 March 2022: 475 cps)	5 510	4 027
	<b>11 020</b>	<b>6 655</b>
Distributions declared and paid to Additional Tier 1 capital note holders		
Distribution		
<b>10 January 2022: 21 024.73 Rands per note (rpn);</b> 11 January 2021: 20 214.47 Rands per note (rpn)	26	25
<b>27 January 2022: 20 751.67 rpn;</b> 27 January 2021: 20 085.45 rpn	26	24
<b>28 February 2022: 20 860.19 rpn;</b> 26 February 2021: 19 268.38 rpn	35	32
<b>07 March 2022: 20 236.90 rpn;</b> 05 March 2021: 18 786.19 rpn	28	26
<b>14 March 2022: 23 747.26 rpn;</b> 12 March 2021: 22 301.37 rpn	36	33
<b>11 April 2022: 21 525.81 rpn;</b> 12 April 2021: 20 922.52 rpn	27	26
<b>28 April 2022: 21 087.07 rpn;</b> 28 April 2021: 20 423.89 rpn	26	25
<b>30 May 2022: 21 732.79 rpn;</b> 28 May 2021: 20 299.23 rpn	36	34
<b>06 June 2022: 21 109.51 rpn;</b> 07 June 2021: 20 326.60 rpn	29	28
<b>13 June 2022: 24 744.52 rpn;</b> 14 June 2021: 23 971.29 rpn	37	36
<b>11 July 2022: 22 769.95 rpn;</b> 12 July 2021: 20 984.85 rpn	28	26
<b>27 July 2022: 22 068.49 rpn;</b> 27 July 2021: 20 280.82 rpn <sup>1</sup>	27	25
<b>29 August 2022: 23 415.67 rpn;</b> 30 August 2021: 21 074.03 rpn	39	36
<b>05 September 2022: 22 792.38 rpn;</b> 06 September 2021: 19 778.16 rpn	31	27
<b>12 September 2022: 26 345.12 rpn;</b> 13 September 2021: 23 268.58 rpn	40	35
<b>10 October 2022: 24 515.15 rpn;</b> 11 October 2021: 21 047.18 rpn	30	26
<b>27 October 2022: 25 878.67 rpn;</b> 27 October 2021: 20 751.67 rpn	31	25
<b>28 November 2022: 25 574.74;</b> 29 November 2021: 20 361.56 rpn	43	34
<b>05 December 2022: 24 993.84 rpn;</b> 06 December 2021: 19 738.27 rpn	34	27
13 December 2021: 23 248.63 rpn	-	35
	<b>609</b>	<b>585</b>
Dividends paid to ordinary equity holders		
Final dividend ( <b>22 April 2022: 475 cps</b> ) ( 2021: 0 cents)	4 027	-
Interim dividend ( <b>19 September 2022: 650 cps</b> ) (20 September 2021: 310 cps)	5 510	2 628
	<b>9 537</b>	<b>2 628</b>

<sup>1</sup> In December 2021, the Bank inadvertently disclosed an incorrect 'distributions declared' date. This has been corrected to 27 July 2021.

# Notes to the Company financial statements

for the reporting period ended 31 December

	Company 2022 Rm	2021 Rm
<b>19. Related Parties</b>		
Refer to note 48 of the Group's financial statements for the full disclosure of related-party transactions. In addition to this disclosure the following related party transactions and balances exist for the Company.		
<b>19.1 Balances and transactions with subsidiaries</b>		
Debit amounts are shown as positive, credit amounts are shown as negative.		
<b>Balances</b>		
Loans and advances to banks	2 191	1 733
Investment securities	15 532	14 595
Loan to subsidiaries	13 266	12 848
Borrowed funds	(4 196)	(2 912)
<b>Transactions</b>		
Net interest income	(1 836)	(2 343)
Operating income	609	585
Dividends received	(10 094)	(3 579)

## 20. Risk Management

In order to gain an understanding of the risk management framework applied by the Company please refer to note 60 of the Group's financial statements.

	Company 2022 Gross maximum exposure- Stage 1 Rm	2021 Gross maximum exposure- Stage 1 Rm
<b>Credit risk</b>		
<b>Maximum exposure to credit risk</b>		
Loans and advances	2 191	1 733
Investment securities	15 532	14 595
Other assets	28	26
Subsidiaries <sup>1</sup>	13 315	12 329
	<b>31 066</b>	<b>28 683</b>

<sup>1</sup>These numbers have been restated, refer to note 1.1

# Notes to the Company financial statements

for the reporting period ended 31 December

## 20. Risk Management (continued)

Treasury Risk

Liquidity Risk

Analysis of liquidity risk:

Discounted maturity	Company 2022					
	Carrying amount (excluding impairment losses on amortised cost instruments)				Impairment Losses	Total
	On demand	Within 1 year	From 1 year to 5 years	More than 5 years		
	Rm	Rm	Rm	Rm	Rm	Rm
<b>Assets</b>						
Investment securities	203	6 858	8 471	-	-	15 532
Loans and advances	2 195	-	-	-	-	2 195
Other financial assets	1	-	-	-	-	1
Subsidiaries	117	1 676	11 190	332	(49)	13 266
Financial assets	2 516	8 534	19 661	332	(49)	30 994
Non-financial assets						62 508
<b>Total assets</b>						93 502
<b>Liabilities</b>						
Other financial liabilities	298	30	-	-	-	328
Borrowed funds	4 190	8 445	16 047	-	-	28 682
Financial liabilities	4 488	8 475	16 047	-	-	29 010
Non-financial liabilities						1
<b>Total liabilities</b>						29 011
<b>Equity</b>						64 491
<b>Total equity and liabilities</b>						93 502
<b>Net liquidity position of financial instruments</b>	(1 972)	59	3 614	332	(49)	1 983

Discounted maturity	Company 2021					Total
	Gross carrying amount				Impairment Losses	
	On demand	Within 1 year	From 1 year to 5 years	More than 5 years		
	Rm	Rm	Rm	Rm	Rm	Rm
<b>Assets</b>						
Investment securities	203	-	-	14 392	-	14 595
Loans and advances	1 733	-	-	-	-	1 733
Other financial assets	1	-	-	-	-	1
Subsidiaries <sup>1</sup>	751	1 562	10 557	457	(22)	13 305
Financial assets	2 688	1 562	10 557	14 849	(22)	29 634
Non-financial assets						60 683
<b>Total assets</b>						90 317
<b>Liabilities</b>						
Other financial liabilities	242	2	-	-	-	244
Borrowed funds	-	2 380	24 289	88	-	26 757
Financial liabilities	242	2 382	24 289	88	-	27 001
Non-financial liabilities						-
<b>Total liabilities</b>						27 001
<b>Equity</b>						63 316
<b>Total equity and liabilities</b>						90 317
<b>Net liquidity position of financial instruments</b>	2 446	(820)	(13 732)	14 761	(22)	2 633

<sup>1</sup>This number has been restated, refer to 1.1



# Notes to the Company financial statements

for the reporting period ended 31 December

## 20. Risk Management (continued)

Treasury risk (continued)

Liquidity risk (continued)

Undiscounted maturity (statement of financial position value with impact of future interest)	Company					
	2022					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
<b>Liabilities</b>						
<b>On-statement of financial position</b>						
Other financial liabilities	298	30	-	-	1	329
Borrowed funds	4 190	8 706	20 337	-	(361)	28 682
<b>Total liabilities</b>	<b>4 488</b>	<b>8 736</b>	<b>20 337</b>	<b>-</b>	<b>(360)</b>	<b>29 011</b>

Undiscounted maturity (statement of financial position value with impact of future interest)	2021					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
<b>Liabilities</b>						
<b>On-statement of financial position</b>						
Other financial liabilities	242	2	-	-	-	244
Borrowed funds	-	2 417	28 983	193	(4 836)	26 757
<b>Total liabilities</b>	<b>242</b>	<b>2 419</b>	<b>28 983</b>	<b>193</b>	<b>(4 836)</b>	<b>27 001</b>

### Interest rate risk in the banking book

Impact on earnings

	Company			
	2022			
	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 (%)	(5)	(2)	2	5
With respect to investment securities balance (Rm)	207	205	201	199

### Interest rate risk in the banking book

Impact on earnings

	2021			
	Change in market risk			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	4	2	(2)	(4)
Percentage of the Company's net interest income (%)	(7)	(4)	4	7
With respect to investment securities balance (Rm)	207	205	201	199

## Notes to the Company financial statements

for the reporting period ended 31 December

### 21. Fair value disclosures

#### 21.1 Assets and liabilities not held at fair value

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

	Company				
	2022				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Investment securities	15 532	15 532	-	15 532	-
Loans and advances	2 191	2 191	-	2 191	-
Subsidiaries	13 266	13 266	-	13 266	-
Other assets	1	1	-	1	-
<b>Total financial assets (not held at fair value)</b>	<b>30 990</b>	<b>30 990</b>	<b>-</b>	<b>30 990</b>	<b>-</b>
<b>Financial liabilities</b>					
Other liabilities	329	328	39	289	-
Borrowed funds	28 682	28 682	-	28 682	-
<b>Total financial liabilities (not held at fair value)</b>	<b>29 011</b>	<b>29 010</b>	<b>39</b>	<b>28 971</b>	<b>-</b>

	2021				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
<b>Financial assets</b>					
Investment securities	14 595	14 595	-	14 595	-
Loans and advances	1 733	1 733	-	1 733	-
Subsidiaries <sup>1</sup>	12 307	12 307	-	12 307	-
Other assets	1	1	-	1	-
<b>Total financial assets (not held at fair value)</b>	<b>28 636</b>	<b>28 636</b>	<b>-</b>	<b>28 636</b>	<b>-</b>
<b>Financial liabilities</b>					
Other liabilities	244	244	-	244	-
Borrowed funds	26 757	26 757	-	26 757	-
<b>Total financial liabilities (not held at fair value)</b>	<b>27 001</b>	<b>27 001</b>	<b>-</b>	<b>27 001</b>	<b>-</b>

<sup>1</sup> This number has been restated, refer to 1.1.

# Notes to the Company financial statements

for the reporting period ended 31 December

## 21.2 Assets and liabilities held at fair value

The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

	Company			
	2022			Total
	Quoted prices for Level 1 Rm	Valuations with reference to observable prices Level 2 Rm	Valuation Reference to unobservable prices Level 3 Rm	
<b>Non-recurring fair value measurements</b>				
Non-current assets held for sale	-	-	-	-

	2021			
	Quoted prices for Level 1 Rm	Valuations with reference to observable prices Level 2 Rm	Reference to unobservable prices Level 3 Rm	Total Rm
<b>Non-recurring fair value measurements</b>				
Non-current assets held for sale	-	-	70	70

Refer to note 1.2 of the Group's financial statements for valuation methodology and valuation techniques of fair value and the fair value of non-fair value items.

## 22. 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 21m** (2021: R 6m) have been recognised in other comprehensive income.

Refer to note 56.8 of the Group's financial statements for IBOR disclosures in which the Company's borrowings are subject to.

## 23. Going concern

The Directors assess the Company's future performance and financial position on an ongoing basis and have no reason to believe that the Company will not be a going concern in the reporting period ahead. For this reason, these separate financial statements are prepared on a going concern basis.

## 24. Events after the reporting period

In February 2023, the international Financial Action Task Force (FATF) announced its decision to place South Africa, among other countries, on its 'grey list' as the country has not yet implemented all the actions recommended by FATF to combat money laundering, terrorist financing and similar threats adequately. The grey-listing action may raise the cost of transactions as foreign financial institutions will, at least in some instances, apply additional controls to transactions that involve South African entities and individuals. The Company already complies with rigorous international anti-financial crime standards and regulation, as required in order to access global financial markets. It is therefore unlikely that the grey-listing action will have any material direct impact on the company in the short term.

The directors are not aware of any other events, other than the aforementioned (as defined per IAS10 Events after the Reporting Period) after the reporting date of 31 December 2022 and the date of authorisation of these annual separate financial statements.