Absa Bank Limited

Audited summary consolidated financial results for the reporting period ended 31 December 2020

Contents

1 Profit and dividend announcement
2 Summary consolidated financial results
4 Summary consolidated IFRS salient features
5 Summary consolidated statement of financial position
6 Summary consolidated statement of comprehensive income
8 Summary consolidated statement of changes in equity
12 Summary consolidated statement of cash flows
13 Summary notes to the financial results
52 Summary consolidated normalised financial results
53 Summary consolidated normilised salient features
54 Summary consolidated reconciliation of IFRS to normalised results
56 Contact information

The Board of Directors (the Board) oversees the Absa Bank Limited activities and holds management accountable for adhering to the risk governance framework. To do so, the Board reviews reports prepared by the businesses, risk and others. They exercise sound independent judgement, and probe and challenge recommendations, as well as decisions made by management.

Finance is responsible for establishing a strong control environment over Absa Bank Limited's financial reporting processes and serves as an independent control function advising business management, escalating identified risks and establishing policies or processes to manage risk.

Finance is led by the Group's Financial Director who reports directly to the Chief Executive Officer. The Financial Director has regular and unrestricted access to the Board as well as to the Group Audit and Compliance Committee (GACC).

Together with the GACC, the Board has reviewed and approved the audited summary consolidated financial results including the reporting changes contained in the announcement released on the Stock Exchange News Services (SENS) on 15 March 2021. The GACC and the Board are satisfied that the details disclosed in the SENS result in the fair presentation of the consolidated financial statements and comply, in all material respects, with the relevant provisions of the Companies Act, JSE Listings Requirements, IFRS and interpretations of IFRS, and SAICA's Reporting Guides.

Absa Bank Limited

Audited summary consolidated financial results for the reporting period ended 31 December 2020.

Authorised financial services and registered credit provider (NCRCP7)

Registration number: 1986/004794/06

Incorporated in the Republic of South Africa

JSE share code: ABSP

ISIN: ZAE000079810

(Absa, Absa Bank, the Bank or the Company)

These audited summary consolidated financial results were prepared by Absa Group Financial Control under the direction and supervision of the Financial Director, J P Quinn CA(SA).

The financial information (the audited summary consolidated financial results and the consolidated and separate financial statements for the year ended 31 December 2020) is available for inspection at the Company's registered office on weekdays from 09:00 to 16:00.

The consolidated and separate financial statement and full audit opinion, including any key audit matters, will be available at https://www.absa.africa/absaafrica/investor-relations/annual-reports/ when the Bank's consolidated and separate financial statements are released on or about 15 March 2021.

Profit and dividend announcement

Declaration of final preference share dividend number 30

Absa Bank non-cumulative, non-redeemable preference shares (Absa Bank preference shares)

The Absa Bank preference shares have an effective coupon rate of 70% of Absa Bank's prevailing prime overdraft lending rate (prime rate). Absa Bank's current prime rate is 7%.

Notice is hereby given of the preference dividend number 30, equal to 70% of the average prime rate for 1 September 2020 to 28 February 2021. The dividend is payable on Monday, 19 April 2021, to shareholders of the Absa Bank preference shares recorded in the Register of Members of the Company at the close of business on Friday, 16 April 2021.

The Board of Absa Bank confirm that the Bank will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

Based on the average prime rate, the preference dividend payable for the period 1 September 2020 to 28 February 2021 will be 2 429.86301 cents per Absa Bank preference share.

The dividend will be subject to dividends withholding tax at a rate of 20%. In accordance with paragraphs 11.17(a)(i) to (ix) and 11.17(c) of the JSE Listings Requirements, the following additional information is disclosed:

- The dividend has been declared out of income reserves.
- The local dividend tax rate is twenty per cent (20%).
- The gross local dividend amount is 2 429.86301 cents per preference share for shareholders exempt from the dividend tax.
- The net local dividend for shareholders subject to withholding tax at a rate of 20% amounts to 1 943.89041 cents per preference share.
- Absa Bank currently has 4 944 839 preference shares in issue.
- Absa Bank's income tax reference number is 9575117719.

In compliance with the requirements of Strate, the electronic settlement and custody system used by JSE, the following salient dates for the payment of the dividend are applicable:

Last day to trade cum dividend	Tuesday, 13 April 2021
Shares commence trading ex-dividend	Wednesday, 14 April 2021
Record date	Friday, 16 April 2021
Payment date	Monday, 19 April 2021

Share certificates may not be dematerialised or rematerialised between Wednesday, 14 April 2021 and Friday, 16 April 2021, both dates inclusive. On Monday, 19 April 2020, the dividend will be electronically transferred to the bank accounts of shareholders.

On behalf of the Board

N R Drutman
Company Secretary

Johannesburg
15 March 2021

Absa Bank Limited is a company domiciled in South Africa. Its registered office is 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001.

Profit and dividend announcement

for the reporting period ended 31 December

Overview of results

Absa Bank Limited (the Bank) is a subsidiary of Absa Group Limited (the Group), which is listed on the exchange operated by the JSE Limited. These audited summary consolidated financial results are published to provide information to holders of the Bank's listed non-cumulative, non-redeemable preference shares.

Commentary relating to the Bank's summary consolidated financial results is included in the Group results, as presented to shareholders on 15 March 2021.

Basis of presentation

IFRS financial results

The Bank's audited summary consolidated financial results have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS), interpretations issued by the IFRS Interpretations Committee (IFRS-IC), the South African Institute of Chartered Accountants' Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa.

The presentation and disclosures of the audited summary consolidated financial results comply with IAS 34 *Interim Financial Reporting* (IAS 34).

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. The effects of the Covid-19 pandemic have resulted in significant estimation uncertainty during the year. The accounting policies that are deemed critical to the Bank's results and financial position, in terms of the materiality of the items to which the policies are applied, and which involve a high degree of judgement include the use of assumptions and estimation, impairment of financial assets measured at amortised cost, capitalisation, amortisation and impairment of internally generated intangible assets, fair value measurements, consolidation of structured or sponsored entities, post-retirement benefits, provisions, income taxes, share-based payments and offsetting of financial assets and liabilities.

Further information on changes in estimation uncertainty implemented during the reporting period is further detailed in note 1 to the audited summary consolidated financial results.

In light of the continued anticipated economic impact of Covid-19, the Board has made an assessment of the Bank's ability to continue as a going concern and acknowledged the risk of lower revenue in the medium term. The Board has concluded that there are no material uncertainties that could have cast significant doubt over the Bank's ability to continue as a going concern for at least a year from the date of approval of the annual financial results.

Accounting policies

The accounting policies applied in preparing the audited summary consolidated financial results are the same as those in place for the reporting period ended 31 December 2019 except for:

- Change in accounting policy in the consolidated statement of cash flows (Consolidated statement of cashflows). The Bank has voluntarily amended the basis on which the statement of cash flows is presented, from the direct to the indirect method. The change has not had an impact on the summarised consolidated statement of cashflows. For further details of the impact of the change refer to note 1.19 in the notes to the consolidated financial statements;
- Amendment to IFRS 9 *Financial Instruments* (IFRS 9), IAS 39 *Financial Instruments: Recognition and Measurement (IAS 39)* and IFRS 7 *Financial Instruments Disclosures* (IFRS 7);
- Amendment to IFRS 3 *Business Combinations* (IFRS 3).

Auditor's report

Ernst & Young Inc. (EY), the Bank's independent auditor, has audited the annual consolidated and separate financial statements of Absa Bank Limited from which management prepared the summary consolidated financial results. The auditor has expressed an unqualified audit opinion in the consolidated annual financial statements. The audit report, including any key audit matters, is available on the following link: https://www.absa.africa/absaafrica/investor-relations/annual-reports/ as part of the consolidated annual financial statements. The summary consolidated financial results comprise the summary consolidated statement of financial position as at 31 December 2020, the summary consolidated statements of comprehensive income, the summary consolidated statement of changes in equity and the summary consolidated statement of cash flows for the year ended, and selected explanatory notes.

The summary consolidated financial results (page 5 to 51) excluding the section marked as 'unaudited' in Note 1, for the year ended 31 December 2020 have been audited by EY, who have expressed an unqualified opinion. A copy of the auditor's report on the summary consolidated financial results and the independent reporting accountant's report on the normalised financial results is available for inspection at the Bank's registered office.

Profit and dividend announcement

for the reporting period ended 31 December

Events after the reporting period

The Board is not aware of any other events (as defined per IAS 10 *Events after the Reporting Period*) after the reporting date of 31 December 2020 up until the date of authorisation of these audited summary consolidated financial results.

On behalf of the Board

W E Lucas-Bull
Chairman

D Mminele
Group Chief Executive

J P Quinn
Financial Director

Johannesburg
15 March 2021

Summary consolidated IFRS salient features

for the reporting period ended 31 December

	Note	2020	2019
Statement of comprehensive income (Rm)			
Income		**53 687**	52 757
Operating expenses		**33 202**	35 116
Profit attributable to ordinary equity holders		**1 176**	7 098
Headline earnings[1]	7	**1 402**	7 320
Statement of financial position			
Gross loans and advances to customers (Rm)		**845 114**	816 445
Total assets (Rm)		**1 286 275**	1 159 825
Deposits due to customers (Rm)		**794 887**	677 809
Loans to deposits and debt securities ratio (%)		**90.0**	95.1
Average loans to deposits and debt securities ratio (%)		**85.4**	86.5
Financial performance (%)			
Return on equity (RoE)		**1.7**	9.3
Return on average assets (RoA)		**0.1**	0.64
Return on risk-weighted assets (RoRWA)		**0.23**	1.34
Stage 3 loans ratio on gross loans and advances		**6.18**	4.47
Operating performance (%)			
Net interest margin on average interest-bearing assets		**3.25**	3.53
Credit loss ratio on gross loans and advances to customers and banks[2]		**1.7**	0.72
Non-interest as a percentage of total income		**38.2**	39.8
Cost-to-income ratio		**61.8**	66.6
Jaws		**(7)**	—
Effective tax rate		**26.6**	24.0
Share statistics (million)			
Number of ordinary shares in issue		**448.3**	448.3
Weighted average number of ordinary shares in issue		**448.3**	448.3
Diluted weighted average number of ordinary shares in issue		**448.3**	448.3
Share statistics (cents)			
Basic earnings per ordinary share (EPS)		**262.3**	1 583.3
Diluted basic earnings per ordinary share (DEPS)		**262.3**	1 583.3
Headline earnings per ordinary shares (HEPS)		**312.5**	1 632.6
Diluted headline earnings per ordinary share (DHEPS)		**312.5**	1 632.6
Dividend per ordinary share relating to income for the reporting period		**—**	446.1
Dividend cover times (times)		**—**	3.7
Net asset value (NAV) per ordinary share		**18 458**	18 000
Tangible NAV per ordinary share		**16 311**	16 065
Capital adequacy (%)			
Absa Bank Limited		**15.6**	16.7
Common Equity Tier 1 (%)			
Absa Bank Limited		**10.6**	11.9

[1] After allowing for **R307m** (2019: R352m) profit attributable to preference equity holders and **R589m** (2019: R435m) profit attributable to additional Tier 1 capital holders.

[2] This ratio has been restated in order to correctly reflect the IFRS credit loss ratio on gross loans and advances to customers and banks for the period ended 31 December 2019.

Summary consolidated statement of financial position

as at 31 December

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

Summary consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	2020 Rm	2019 Rm
Net interest income		33 184	31 772
Interest and similar income		73 886	81 652
Effective interest income		72 113	79 871
Other interest income		1 773	1 781
Interest expense and similar charges		(40 702)	(49 880)
Non-interest income	5	20 503	20 985
Net fee and commission income		17 690	19 060
Fee and commission income		19 486	20 661
Fee and commission expense		(1 796)	(1 601)
Gains and losses from banking and trading activities		2 284	1 485
Gains and losses from investment activities		3	3
Other operating income		526	437
Total income		53 687	52 757
Impairment losses	1	(15 829)	(6 032)
Operating income before operating expenses		37 858	46 725
Operating expenses		(33 202)	(35 116)
Other expenses		(1 798)	(1 456)
Other impairments	6	(437)	(318)
Indirect taxation		(1 361)	(1 138)
Share of post-tax results of associates and joint ventures		(36)	221
Operating profit before income tax		2 822	10 374
Taxation expense		(750)	(2 488)
Profit for the reporting period		2 072	7 886
Profit attributable to:			
Ordinary equity holders		1 176	7 098
Non-controlling interest – ordinary shares		0	1
Preference equity holders		307	352
Additional Tier 1 capital		589	435
		2 072	7 886
Earnings per share:			
Basic earnings per share (cents)		262.3	1 583.3
Diluted earnings per share (cents)		262.3	1 583.3

Summary consolidated statement of comprehensive income

for the reporting period ended 31 December

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

Summary consolidated statement of changes in equity

for the reporting period ended 31 December

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

All movements are reflected net of taxation.

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

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

2020

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

Summary consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares[1] '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Additional Tier 1 capital Rm
Balance at the end of the previous reporting period	448 301	304	36 879	1	4 643	2 741
Impact of adopting new accounting standards at 1 January 2019						
IFRS 16	—	—	—	—	—	—
Adjusted balance at the beginning of the reporting period	448 301	304	36 879	1	4 643	2 741
Total comprehensive income	—	—	—	—	352	435
Profit for the period	—	—	—	—	352	435
Other comprehensive income	—	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	(352)	—
Transactions with non-controlling interest holders	—	—	—	—	—	—
Distributions paid during the reporting period	—	—	—	—	—	(435)
Issuance of additional Tier 1 capital	—	—	—	—	—	3 054
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—	—
Value of employee services	—	—	—	—	—	—
Deferred tax	—	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—	—
Balance at the end of the reporting period	448 301	304	36 879	1	4 643	5 795

All movements are reflected net of taxation.

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

2019

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

Summary consolidated statement of cash flows

for the reporting period ended 31 December

	Note	2020 Rm	Restated 2019[1] Rm
Cash generated from other operating activities		**2 315**	5 435
Income taxes paid		**(258)**	(3 326)
Net cash generated from other operating activities		**2 573**	8 761
Net cash utilised in investing activities		**(41)**	(5 213)
Purchase of property and equipment		**(1 048)**	(2 624)
Purchase of intangible assets		**(2 774)**	(2 881)
Proceeds from sale of non-current assets held for sale		**3 601**	50
Net cash generated from other investing activities		**180**	242
Net cash generated from/(utilised) financing activities		**(3 337)**	(334)
Issue of additional Tier 1 capital		**1 209**	3 054
Proceeds from borrowed funds		**2 676**	1 580
Repayment of borrowed funds		**(3 733)**	(500)
Dividends paid		**(2 307)**	(2 841)
Net cash utilised in other financing activities		**(1 182)**	(1 627)
Net decrease in cash and cash equivalents		**(1 063)**	(112)
Cash and cash equivalents at the beginning of the reporting period	1	**9 846**	9 958
Cash and cash equivalents at the end of the reporting period	2	**8 783**	9 846

Notes to the summary consolidated statement of cash flows

1. Cash and cash equivalents at the beginning of the reporting period

	2020 Rm	Restated 2019 Rm
Cash, cash balances and balances with central banks[2]	**8 898**	9 570
Loans and advances to banks[3]	**948**	388
	9 846	9 958

2. Cash and cash equivalents at the end of the reporting period

	2020 Rm	Restated 2019 Rm
Cash, cash balances and balances with central banks[2]	**8 352**	8 898
Loans and advances to banks[3]	**431**	948
	8 783	9 846

[1] For further details refer to note 1.19 in the notes to the consolidated financial statements.

[2] Includes coins and bank notes.

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

Summary notes to the consolidated financial results

for the reporting period ended 31 December

1. Impact of Covid-19

As outlined in the profit and dividend announcement on page 10, the Covid-19 pandemic continues to affect global economic developments and has resulted in significant changes to government policies and actions, economic and financial market conditions as well as consumer behaviour. This in turn has had a material impact on the risks to which the Bank is exposed to and the output of financial models, most specifically those used to determine credit risk exposures. The high degree of uncertainty resulting from this has forced the Bank to reassess assumptions, and existing methods of estimation and judgements used in the preparation of these financial results. Furthermore, the temporary payment relief provided to eligible customers as part of the Bank's response created added complexity and there is a risk that actual loss experienced may differ from those suggested by the judgements and assumptions used.

The Bank's response to the Covid-19 pandemic included payment relief to customers, fee waivers, insurance premium relief and the expansion of credit life cover. The most substantial impact on the Bank relates to credit risk. IFRS 9 requires expected credit loss (ECL) allowances to be recognised based on a stage allocation methodology:

- Stage 1 ECL allowance reflects the total losses associated with defaults that are expected to occur within 12 months of the reporting date. Exposures must be moved to stage 2 when a significant increase in credit risk has been observed.
- Stage 2 and stage 3 exposures carry an ECL allowance that is based on the losses expected to occur over the lifetime of the exposure.

The ECL allowance estimation must include an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. IFRS 9 models use the following three parameters in ECL allowance calculations: probability of default (PD), loss given defaults (LGD) and exposure at default (EAD). Significant judgement and estimates are applied when quantifying the ECL allowance on loans and advances, and even more so now as credit models are not calibrated for events such as the Covid-19 crisis. Given the deteriorating macroeconomic environment, specific increases in PDs and LGDs were made in seeking to appropriately capture the Covid-19 environment.

As multiple outbreaks continue to progress and evolve, it is challenging to predict the full extent and duration of their business and economic impact. Management adjustments were therefore required, in addition to the model outputs, to provide a more appropriate assessment of risk for the financial year ended 31 December 2020. These additional management adjustments have required greater governance across the Bank and were robustly challenged and reviewed by the Group Credit Impairment Committee. A revised approach to the estimation of PDs, identification of significant increase in credit risk (stage 2 impairment), forward looking scenarios and the impact on estimated ECL allowances was employed.

This section provides information on the approach taken in estimating ECL allowance. Readers are referred to the Risk management section of the Booklet for all other risk disclosures.

Summary notes to the consolidated financial results

for the reporting period ended 31 December

1. Impact of Covid-19 (continued)

Payment relief measures

The table below provides information on the relief provided to customers which impacted the estimation of expected credit losses.

Covid-19 customer payment relief

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

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

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

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

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

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

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

Government guaranteed loan scheme

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

1. Impact of Covid-19 (continued)

Macroeconomic scenarios

As indicated above, ECL estimation must reflect an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. While economic activity across South Africa has started to recover due to the easing of lockdown restrictions, economic concerns remain due to higher levels of unemployment and the risk of a possible resurgence of the virus. Such risks have been incorporated in the scenarios used to calculate the Bank's ECL charge at 31 December 2020.

The Bank considers several factors in the development of its macroeconomic scenarios including economic growth/contraction and expected recovery, expected inflation, sector specific impacts, business confidence, property prices, household spending, exchange rate fluctuations, unemployment rates, key fiscal responses initiated by governments and regulatory actions.

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

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

The following table shows the key forecast assumptions for the three economic scenarios for South Africa as at 31 December 2020:

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

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

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

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

Base scenario as at 31 December 2020

South Africa

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

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

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

Upside scenario as at 31 December 2020

South Africa

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

Summary notes to the consolidated financial results

for the reporting period ended 31 December

1. Impact of Covid-19 (continued)

Macroeconomic scenarios (continued)

Downside scenario as at 31 December 2020

South Africa

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

Estimation of probability of default, loss given default and significant increase in credit risk

As the Bank's ECL modelling methodology does not automatically consider the atypical complexity of the current economic environment, management applied these macroeconomic scenarios in conjunction with the following considerations, to determine the appropriate management adjustment when recognising ECL losses for the reporting period.

Probability of default (PDs) and loss given defaults (LGDs)	PD's and LGD's were adjusted for current and forward-looking information, either on an individual client or portfolio basis. The management adjustment was further updated by applying a scaling factor, where applicable, to the modelled PD's and LGD's. The scaling factor was in turn tested against various qualitative factors including impacted industry exposures. Appropriate sense checks were performed on the quantitative outcomes. These PD and LGD scaling factors are continuously being reassessed as the impacts of Covid-19 pandemic become known and the level of customer distress becomes evident within the models.
Significant increase in credit risk (SICR) events	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. A request for payment relief was not considered the sole indicator that a SICR event had occurred. All available information was considered, including whether a client is experiencing a short-term liquidity constraint, the respective industry and the anticipated arears in a Covid-19 environment when determining whether a SICR event occurred. This methodology was tested against international guidelines and those issued by the Prudential Authority at the South African Reserve Bank to ensure that the Bank's approach was appropriate. Once an exposure has exited payment relief, all facts and circumstances are considered to determine the appropriate impairment stage.

Impairment losses pre- and post-management adjustments

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

	December		June (unaudited)		December
	2020		2020		2019
	Macroeconomic variables management adjustment Rm	Total Impairment losses including management adjustments Rm	Macroeconomic variables management adjustment Rm	Total Impairment losses including management adjustments Rm	Total Impairment losses including management adjustments Rm
RBB South Africa	**3 368**	**13 876**	3 367	9 506	5 682
Home Loans	**950**	**2 189**	950	1 750	182
Vehicle and Asset Finance	**926**	**3 062**	926	2 129	1 099
Everyday Banking	**1 021**	**6 582**	1 023	4 280	4 082
Card	**472**	**3 128**	475	2 070	1 965
Personal Loans	**466**	**2 893**	466	1 867	1 610
Transactional and Deposits	**83**	**561**	82	343	507
Relationship Banking	**471**	**2 042**	468	1 348	322
RBB Other	**—**	**1**	—	(1)	(3)
CIB South Africa	**776**	**1 951**	776	1 657	367
Head Office, Treasury and other operations in South Africa	**—**	**2**	—	(1)	(17)
Total	**4 144**	**15 829**	4 143	11 162	6 032

1. Impact of Covid-19 (continued)

Sensitivity of expected credit losses

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

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

In addition, the impact on expected credit losses were analysed should 5% of the gross carrying of the Bank's loans and advances to customers in stage 1 experience a SICR and move to stage 2 as at 31 December 2020. The ECL changes below include the effect on undrawn committed facilities and guarantees which are reflected as 'provisions' in the statement of financial position. This impact has been presented below:

	Stage 2	
	Increase in gross carrying amount (Rm)	Increase in expected credit loss (Rm)
RBB	21 564	1 952
CIB	12 768	24

Single name impairments

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

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

Summary notes to the consolidated financial results

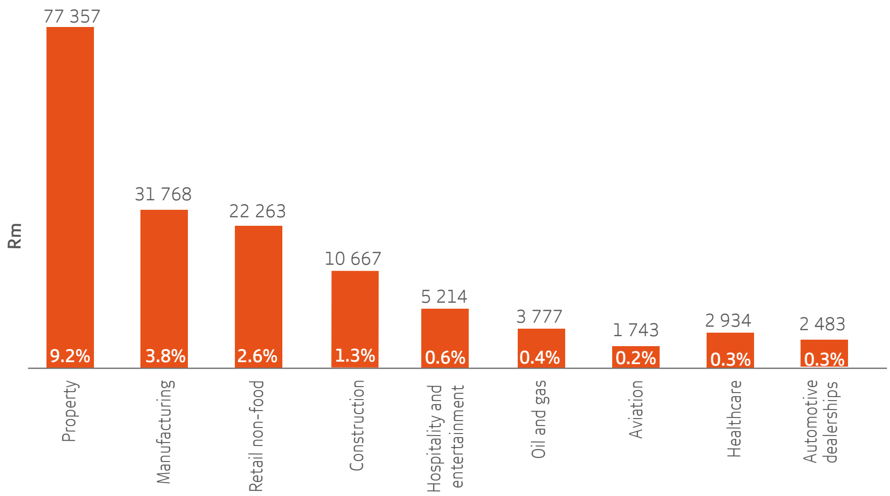
for the reporting period ended 31 December

1. Impact of Covid-19 (continued)

Wholesale lending in key Covid-19 impacted industries

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

Concentration risk exposures (% of total loans)



Other estimates and judgements

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

Impairment of internally generated intangible assets, property and equipment and goodwill	The far-reaching effects of the pandemic indicate that the Bank's internally generated intangible assets, property and equipment, and goodwill may potentially be impaired, and the Bank therefore carried out impairment tests on these assets. The recoverable amount of each asset is the higher of the asset's fair value less costs to sell and its value in use or the value in use of the cash generating unit to which it belongs. The Bank uses approved projected cash flow forecasts for the period up until the end of 2023, with a terminal value thereafter. The long-term growth rate assumptions used in the impairment calculations were revised from 0.0% - 10.0% as at 31 December 2019 to **0.0% - 8.1%** at 31 December 2020. The discount rates used have been adjusted from 12.9% - 22.5% as at 31 December 2019 to **10.7% - 30%** at 31 December 2020. A sensitivity analysis was performed on the assumptions and even if the estimated discount rate and/or growth rate was changed by 100 and 200 basis points respectively, no additional impairment loss would be recognised. At 31 December 2020, the Bank recognised impairment losses on internally generated intangible assets, property and equipment and goodwill of **R409m** (2019: R318m).
Post-retirement benefits	While the Absa Pension Fund meets the definition of a defined benefit pension plan, the majority of the Bank's employees are part of the defined contribution portion of the fund, and as a result the Bank's actuarial risk exposure is limited. Defined benefit pension plan valuations are determined using actuarial assumptions and due to the long-term nature of these plans, such estimates are subject to significant uncertainty. These include: inflation **5.2%** (2019: 5.2%) and future salary increases 6.2% (2019: 6.2%). Furthermore, IAS 19 limits the recognition of any pension fund surpluses depending on the fund's statutory rules. Although the statutory valuation of the Absa Pension Fund continues to indicate that the value of pension fund assets exceeds the actuarially determined liability, the valuation indicated negative returns attributable to the employer. The above resulted in adjustments to the amounts recognised at 31 December 2020. The negative returns attributable to the employer for the Absa Pension Fund resulted in a decrease in other comprehensive income (after tax) of **R104m** (2019: R24m decrease).
Hedge accounting	Cash flow hedges are used by the Bank to protect against the potential cash flow variability arising from the Bank exposure to interest rate and foreign currency risk. The Bank's structural interest rate hedge in South Africa represents its most significant cash flow hedge. An assessment of the Bank's hedge accounting position and the applied risk management strategy showed no significant changes to the way the Bank manages its risk. At 31 December 2020, the Bank recognised a net increase (after tax) of **R3 997m** (2019: R913m) in other comprehensive income relating to its cash flow hedging activities following a reduction in the benchmark interest rates. The net increase is after a release of **R3 488m** (2019: R 806m) into the statement of comprehensive income. Furthermore, there has been minimal impact of Covid-19 effects on hedge ineffectiveness recognised during the period ended 31 December 2020.

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

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

- RBB South Africa disposed the Edcon loan book with a carrying amount of **R3 685m**.
- Head Office, Treasury and other operations in South Africa transferred property and equipment with a carrying amount of **R132m** to non-current assets held for sale and a **R17m** impairment was recognised on remaining assets previously classified as held for sale.

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

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

Summary notes to the consolidated financial results

for the reporting period ended 31 December

3. Loans and advances

3.1 ECL analysis by market segment and class of credit exposure

The following table sets out the breakdown of the ECL for loans and advances to customers and undrawn facilities:

	Carrying amount of financial assets measured at fair value through profit or loss Rm	Stage 1 Gross carrying amount Rm	Stage 1 ECL allowance Rm	Stage 1 ECL coverage %
RBB South Africa	—	431 285	4 246	0.98
Home Loans	—	210 737	665	0.32
Vehicle and Asset Finance	—	76 556	934	1.22
Everyday Banking	—	41 379	1 846	4.46
Card	—	24 260	1 074	4.43
Personal Loans	—	14 895	642	4.31
Transactions and Deposits	—	2 224	130	5.85
Relationship Banking	—	102 613	801	0.78
RBB Other	—	—	—	—
CIB South Africa	63 901	195 356	1 318	0.67
Head Office, Treasury and other operations in South Africa	—	298	(137)	—
Loans and advances to customers	—	298	5	1.68
Reclassification to provisions[(1)]	—	—	(142)	—
Loans and advances to customers	63 901	626 939	5 427	0.87
Loans and advances to banks	31 830	32 697	18	0.06
Total loans and advances to customers and banks	95 731	659 636	5 445	0.83

	Carrying amount of financial assets measured at fair value through profit or loss Rm	Stage 1 Gross carrying amount Rm	Stage 1 ECL allowance Rm	Stage 1 ECL coverage %
RBB South Africa	—	443 382	2 977	0.67
Home Loans	—	210 223	293	0.14
Vehicle and Asset Finance	—	73 684	608	0.83
Everyday Banking	—	45 000	1 211	2.69
Card	—	24 493	650	2.65
Personal Loans	—	18 046	467	2.59
Transactions and Deposits	—	2 461	94	3.82
Relationship Banking	—	114 475	865	0.76
RBB Other	—	—	—	—
CIB South Africa	67 656	200 837	503	0.25
Head Office, Treasury and other operations in South Africa	—	310	(229)	—
Loans and advances to customers	—	310	12	3.87
Reclassification to provisions[(1)]	—	—	(241)	—
Loans and advances to customers	67 656	644 529	3 251	0.50
Loans and advances to banks	29 453	15 039	17	0.11
Total loans and advances to customers and banks	97 109	659 568	3 268	0.50

[(1)] This represents the ECL allowance on undrawn facilities which has resulted in the ECL allowance on loans and advances exceeding the carrying amount of the drawn exposure. To the extent that such occurs, a 'provision' is recognised on the Group's statement of financial position.

2020

Stage 2 Gross carrying amount Rm	Stage 2 ECL allowance Rm	Stage 2 ECL coverage %	Stage 3 Gross carrying amount Rm	Stage 3 ECL allowance Rm	Stage 3 ECL coverage %	Net carrying amount Rm
56 868	**5 703**	**10.03**	**50 329**	**21 596**	**42.91**	**506 937**
20 581	552	2.68	23 812	6 234	26.18	247 679
10 605	1 237	11.66	7 716	3 575	46.33	89 131
7 896	2 686	34.02	11 296	8 313	73.59	47 726
3 435	1 552	45.18	5 020	3 979	79.26	26 110
3 300	797	24.15	5 590	3 936	70.41	18 410
1 161	337	29.03	686	398	58.02	3 206
17 786	1 228	6.90	7 452	3 422	45.92	122 400
—	—	—	53	52	98.11	1
40 827	**377**	**0.92**	**6 028**	**1 165**	**19.33**	**303 252**
222	**(248)**	**—**	**—**	**(68)**	**—**	**973**
222	—	—	—	—	—	515
—	(248)	—	—	(68)	—	458
97 917	**5 832**	**5.96**	**56 357**	**22 693**	**40.27**	**811 162**
1 608	**4**	**0.25**	**—**	**—**	**—**	**66 113**
99 525	**5 836**	**5.86**	**56 357**	**22 693**	**40.27**	**877 275**

2019

Stage 2 Gross carrying amount Rm	Stage 2 ECL allowance Rm	Stage 2 ECL coverage %	Stage 3 Gross carrying amount Rm	Stage 3 ECL allowance Rm	Stage 3 ECL coverage %	Net carrying amount Rm
36 802	3 381	9.19	36 741	14 781	40.23	495 786
13 825	235	1.70	18 780	4 909	26.14	237 391
7 996	622	7.78	5 254	1 963	37.36	83 741
6 880	1 998	29.04	7 367	5 337	72.44	50 701
2 886	1 188	41.16	3 717	2 889	77.72	26 369
2 788	489	17.54	3 107	2 128	68.49	20 857
1 206	321	26.62	543	320	58.93	3 475
8 101	526	6.49	5 287	2 520	47.66	123 952
—	—	—	53	52	98.11	1
28 905	316	1.09	1 803	615	34.11	297 767
9	(269)	—	—	(12)	—	829
9	—	—	—	—	—	307
—	(269)	—	—	(12)	—	522
65 716	3 428	5.22	38 544	15 384	39.91	794 382
521	3	0.58	—	—	—	44 993
66 237	3 431	5.18	38 544	15 384	39.91	839 375

Summary notes to the consolidated financial results

for the reporting period ended 31 December

3. Loans and advances (continued)

3.2 Reconciliation of ECL allowance

The following table sets out the breakdown of the ECL for loans and advances to customers and undrawn facilities:

	2020			
	RBB South Africa Rm	CIB South Africa Rm	Head Office, Treasury and other Operations in South Africa Rm	Total expected credit losses %
Loans and advances to customers	31 545	2 860	(453)	33 952
Stage 1	4 246	1 318	(137)	5 427
Stage 2	5 703	377	(248)	5 832
Stage 3	21 596	1 165	(68)	22 693
Undrawn facilities	—	—	458	458
Stage 1	—	—	142	142
Stage 2	—	—	248	248
Stage 3	—	—	68	68
Total ECL allowance on loans and advances to customers and undrawn facilities	31 545	2 860	5	34 410

	2019			
	RBB South Africa Rm	CIB South Africa Rm	Head Office, Treasury and other Operations in South Africa Rm	Total expected credit losses %
Loans and advances to customers	21 137	1 434	(510)	22 061
Stage 1	2 977	503	(229)	3 251
Stage 2	3 380	316	(269)	3 427
Stage 3	14 780	615	(12)	15 383
Undrawn facilities	—	—	522	522
Stage 1	—	—	241	241
Stage 2	—	—	269	269
Stage 3	—	—	12	12
Total ECL allowance on loans and advances to customers and undrawn facilities	21 137	1 434	12	22 583

Summary notes to the consolidated financial results

for the reporting period ended 31 December

3. Loans and advances (continued)

3.2 Reconciliation of ECL allowance (continued)

The following table sets out a reconciliation of the opening and closing ECL for loans and advances to customers, by market segment:

	2020			
Loans and advances to customers at amortised cost and undrawn facilities	RBB South Africa Rm	CIB South Africa Rm	Head Office, Treasury and other Operations in South Africa Rm	Total expected credit losses %
Balances at the beginning of the reporting period	21 137	1 434	12	22 583
Stage 1	2 977	503	12	3 492
Stage 2	3 380	316	—	3 696
Stage 3	14 780	615	—	15 395
Transfers between stages	—	—	—	—
Stage 1 net transfers	505	(18)	—	487
Stage 2 net transfers	(1 435)	94	—	(1 341)
Stage 3 net transfers	930	(76)	—	854
Impairment losses raised and interest in suspense	15 438	1 971	(7)	17 402
Amounts written off	(5 030)	(545)	—	(5 575)
Balance at the end of the reporting period	31 545	2 860	5	34 410
Stage 1	4 246	1 318	5	5 569
Stage 2	5 703	377	—	6 080
Stage 3	21 596	1 165	—	22 761

	2019			
Loans and advances to customers at amortised cost and undrawn facilities	RBB South Africa Rm	CIB South Africa Rm	Head Office, Treasury and other Operations in South Africa Rm	Total expected credit losses %
Balances at the beginning of the reporting period	20 172	2 698	6	22 876
Stage 1	2 682	415	6	3 103
Stage 2	3 255	305	—	3 560
Stage 3	14 235	1 978	—	16 213
Transfers between stages	—	—	—	—
Stage 1 net transfers	820	14	—	834
Stage 2 net transfers	(1 176)	(23)	—	(1 199)
Stage 3 net transfers	356	9	—	365
Impairment losses raised and interest in suspense	7 417	538	6	7 961
Amounts written off	(5 644)	(1 802)	—	(7 446)
Transfer to non-current assets held for sale	(808)	—	—	(808)
Balance at the end of the reporting period	21 137	1 434	12	22 583
Stage 1	2 977	503	12	3 492
Stage 2	3 380	316	—	3 696
Stage 3	14 780	615	—	15 395

Summary notes to the consolidated financial results

for the reporting period ended 31 December

4. Borrowed funds

During the reporting period the significant movements in borrowed funds were as follows: **R2 676m** (2019: R1 580m) of subordinated notes were issued and **R3 733m** (2019: R500m) were redeemed.

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:

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

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

5. Disaggregation of non-interest income (continued)

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

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

Summary notes to the consolidated financial results

for the reporting period ended 31 December

6. Other impairments

	2020 Rm	2019 Rm
Intangible assets[1]	**191**	121
Investments in associates and joint ventures[2]	**11**	—
Non-current assets held for sale[3]	**17**	—
Property and equipment[4]	**218**	197
	437	318

7. Headline earnings

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

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

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

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

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

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

Summary notes to the consolidated financial results

for the reporting period ended 31 December

8. Dividends per share

	2020 Rm	2019 Rm
Dividends declared to ordinary equity holders		
Interim dividend[1] **(2020: 0 cents per share (cps))** (13 August 2019: 446.12851 cps)	—	2 000
Final dividend[1] **(14 March 2021: 0 cps)** (11 March 2020: 446.129 cps)	—	2 000
	—	4 000
Dividends declared to preference equity holders		
Interim dividend **(31 August 2020: 2 741.02740 cps)** (13 August 2019: 3 595.89 cps)	135	178
Final dividend **(14 March 2021: 2 429.86301 cps)** (11 March 2020: 3 469.31507 cps)	120	172
	255	350
Distributions declared to additional Tier 1 capital note holders		
Distribution		
10 January 2020: 29 049.32 Rands per note (rpn); 10 January 2019: 29 981.67 rpn	36	37
28 February 2020: 28 502.36 rpn	47	—
5 March 2020: 27 569.26 rpn	38	—
12 March 2020: 31 039.73 rpn; 12 March 2019: 31 561.64 rpn	47	47
14 April 2020: 30 061.64 rpn; 10 April 2019: 29 342.47 rpn	37	36
28 May 2020: 27 143.01 rpn	46	—
5 June 2020: 27 075.73 rpn	37	—
12 June 2020: 30 392.77 rpn; 12 June 2019: 32 263.01 rpn	46	49
10 July 2020: 24 669.86 rpn; 10 July 2019: 29 688.43 rpn	31	37
28 August 2020: 21 487.67 rpn; 28 August 2019: 29 344.21 rpn	36	49
07 September 2020: 21 138.41 rpn	29	—
14 September 2020: 24 702.68 rpn; 12 September 2019: 32 031.12 rpn	37	48
12 October 2020: 22 212.33 rpn; 10 October 2019: 29 659.28 rpn	28	37
30 November 2020: 20 453.37 rpn; 28 November 2019: 28 525.04 rpn	34	48
07 December 2020: 19 177.32 rpn	26	—
14 December 2020: 22 500.68 rpn; 12 December 2019: 31 059.67 rpn	34	47
	589	435
Dividends paid to ordinary equity holders		
Final dividend **(20 April 2020: 446.129 cps)** (15 April 2019: 111.532 cps)	2 000	500
Interim dividend[1] **(2020: 0 cps)** (16 September 2019: 446.12851 cps)	—	2 000
	2 000	2 500
Dividends paid to preference equity holders		
Final dividend **(20 April 2020: 3 469.31507 cps)** (15 April 2019: 3 518.6986 cps)	172	174
Interim dividend **(21 September 2020: 2 741.02740 cps)** (16 September 2019: 3 595.89 cps)	135	178
	307	352
Distributions paid to additional Tier 1 capital note holders		
Distribution		
10 January 2020: 29 049.32 Rands per note (rpn); 10 January 2019: 29 981.67 rpn	36	37
28 February 2020: 28 502.36 rpn	47	—
5 March 2020: 27 569.26 rpn	38	—
12 March 2020: 31 039.73 rpn; 12 March 2019: 31 561.64 rpn	47	47
14 April 2020: 30 061.64 rpn; 10 April 2019: 29 342.47 rpn	37	36
28 May 2020: 27 143.01 rpn	46	—
5 June 2020: 27 075.73 rpn	37	—
12 June 2020: 30 392.77 rpn; 12 June 2019: 32 263.01 rpn	46	49
10 July 2020: 24 669.86 rpn; 10 July 2019: 29 688.43 rpn	31	37
28 August 2020: 21 487.67 rpn; 28 August 2019: 29 344.21 rpn	36	49
07 September 2020: 21 138.41 rpn	29	—
14 September 2020: 24 702.68 rpn; 12 September 2019: 32 031.12 rpn	37	48
12 October 2020: 22 212.33 rpn; 10 October 2019: 29 659.28 rpn	28	37
30 November 2020: 20 453.37 rpn; 28 November 2019: 28 525.04 rpn	34	48
07 December 2020: 19 177.32 rpn	26	—
14 December 2020: 22 500.68 rpn; 12 December 2019: 31 059.67 rpn	34	47
	589	435

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

Summary notes to the consolidated financial results

for the reporting period ended 31 December

9. Acquisitions and disposals of businesses and other similar transactions

9.1 Acquisitions of businesses during the current reporting period

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

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

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

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

9.3 Acquisitions and disposals of businesses during the previous reporting period

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

10. Related parties

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

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

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

During the current period the Bank made an equity distribution to a fellow subsidiary.

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

11. Contingencies, Commitments and Similar items

	2020 Rm	2019 Rm
Guarantees	**34 327**	33 523
Irrevocable debt facilities/other lending facilities	**144 975**	134 154
Letters of credit	**5 777**	5 303
Other	**—**	1
	185 079	172 981
Authorised capital expenditure		
Contracted but not provided for	**427**	187

Summary notes to the consolidated financial results

for the reporting period ended 31 December

11. Contingencies, Commitments and Similar items (continued)

Guarantees include performance guarantee contracts and financial guarantee contracts.

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

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

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

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

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

Legal proceedings

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

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

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

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

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

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

Regulatory matters

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

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

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

11. Contingencies, Commitments and Similar items (continued)

Income taxes

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

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

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

12. Segment reporting

	2020 Rm	2019 Rm
12.1 Headline earnings by segment		
RBB South Africa	2 891	7 900
CIB South Africa	2 405	2 487
Head Office, Treasury and other operations in South Africa[(1)]	(2 642)	(1 747)
Barclays PLC separation effects[(2)]	(1 252)	(1 320)
Total headline earnings	1 402	7 320
12.2 Total income by segment		
RBB South Africa	42 585	42 889
CIB South Africa	11 744	9 993
Head Office, Treasury and other operations in South Africa[(1)]	(865)	(288)
Barclays PLC separation effects[(2)]	223	163
Total income	53 687	52 757
12.3 Total internal income by segment		
RBB South Africa	(1 501)	(7 907)
CIB South Africa	(6 254)	(7 817)
Head Office, Treasury and other operations in South Africa[(1)]	6 157	16 330
Barclays PLC separation effects[(2)]	67	195
Total internal income	(1 531)	801
12.4 Total assets by segment		
RBB South Africa	915 928	862 086
CIB South Africa[(3)]	806 727	651 056
Head Office, Treasury and other operations in South Africa[(1), (3)]	(441 169)	(357 813)
Barclays PLC separation effects[(2)]	4 789	4 496
Total assets	1 286 275	1 159 825
12.5 Total liabilities by segment		
RBB South Africa	910 095	851 699
CIB South Africa[(3)]	803 607	647 157
Head Office, Treasury and other operations in South Africa[(1), (3)]	(521 180)	(427 520)
Barclays PLC separation effects[(2)]	(646)	(2 836)
Total liabilities	1 191 876	1 068 500

(1) Head Office, Treasury and other operations in South Africa represent reconciling stripe and is not a reporting segment.

(2) 'Barclays separation effect' is the reconciling stripe between IFRS and normalised results and does not represent a reportable segment.

(3) The transfer of other assets from Corporate SA to Investment Bank has increased Corporate SA's excess cash placements with Group Treasury, this has resulted in a restatement of total assets to R357 813m (previously reported as R325 540m) and simultaneously increased Investment Bank's SA's reliance on funding from Group Treasury liabilities to R427 520m (previously reported as R395 260m).

Summary notes to the consolidated financial results

for the reporting period ended 31 December

13. Assets and liabilities not held at fair value

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

	2020		2019	
	Carrying amount Rm	Fair value Rm	Carrying amount Rm	Fair value Rm
Financial assets				
Balances with the South African Reserve Bank (SARB)	25 460	25 460	16 587	16 587
Coins and bank notes	8 352	8 352	8 898	8 898
Cash, cash balances and balances with central banks	33 812	33 812	25 485	25 485
Investment securities	30 005	32 479	7 087	7 064
Loans and advances to banks	34 284	34 284	15 540	15 540
Other assets	12 230	12 230	19 183	19 183
RBB South Africa	506 937	501 887	495 786	497 234
Home Loans	247 679	245 702	237 391	237 391
Vehicle and Asset Finance	89 129	87 739	83 740	84 080
Everyday Banking	47 727	47 010	50 701	51 313
Card	26 110	26 110	26 369	26 778
Personal loans	18 410	17 693	20 857	21 022
Transactions and Deposits	3 207	3 207	3 475	3 513
Relationship Banking	122 402	121 436	123 953	124 449
RBB Other	—	—	1	1
CIB South Africa	239 351	243 718	230 111	230 111
Head Office, Treasury and other operations in South Africa	973	973	829	829
Loans and advances to customers – net of impairment losses	747 261	746 578	726 726	728 174
Loans to Group companies	56 145	56 145	50 460	50 460
Non-current assets held for sale	—	—	3 685	3 685
Total assets (not held at fair value)	913 737	915 528	848 166	849 591
Financial liabilities				
Deposits from banks	58 120	58 414	71 357	71 357
Other liabilities	19 735	19 735	11 701	11 701
Call deposits	75 785	75 785	52 406	52 406
Cheque account deposits	218 140	218 140	159 981	159 981
Credit card deposits	2 033	2 033	1 862	1 862
Fixed deposits	157 604	161 534	157 998	158 421
Foreign currency deposits	30 022	30 022	23 975	23 975
Notice deposits	74 139	74 139	68 997	68 997
Other deposits	936	936	722	722
Savings and transmission deposits	183 852	183 852	156 430	156 430
Deposits due to customers	742 511	746 441	622 371	622 794
Debt securities in issue	119 758	120 455	128 241	130 978
Borrowed funds	20 621	20 762	21 282	21 282
Total liabilities (not held at fair value)	960 745	965 807	854 952	858 112

Summary notes to the consolidated financial results

for the reporting period ended 31 December

14. Assets and liabilities held at fair value

14.1 Fair value measurement and valuation processes

Financial assets and financial liabilities

The Bank has an established control framework with respect to the measurement of fair values. The framework includes a Traded Risk and Valuations Committee and an Independent Valuation Control (IVC) team, which is independent from the front office.

The Traded Risk and Valuations 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 Absa Group Audit and Compliance Committee.

The Traded Risk and Valuations 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 external independent 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 external independent sources to measure the fair value which supports conclusions that valuations are performed in accordance with IFRS and internal valuation policies.

Investment properties

The fair value of investment properties is determined based on the most appropriate methodology applicable to the specific property. Methodologies include the market comparable approach that reflects recent transaction prices for similar properties, discounted cash flows and income capitalisation methodologies. In estimating the fair value of the properties, the highest and best use of the properties is taken into account.

Where possible the fair value of the Bank's investment properties is determined through valuations performed by external independent valuators.

When the Bank's internal valuations are different to that of the external independent valuers, detailed procedures are performed to substantiate the differences, whereby the IVC team verifies the procedures performed by the front office and considers the appropriateness of any differences to external independent valuations.

14.2 Fair value measurements

Valuation inputs

IFRS 13 requires an entity to classify fair values measured and/or disclosed according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined as follows:

Quoted market prices – Level 1

Fair values are classified as Level 1 if they have been determined using observable prices in an active market. Such fair values are determined with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents 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

Fair values are classified as Level 2 if they have been determined using models for which inputs are observable in an active market.

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 (unobservable inputs). An input is deemed significant if it is shown to contribute more than 10% to the fair value of an item. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

The current market and economic conditions arising as a result of the impact of Covid-19 have resulted in increased volatilities of Level 1 fair values, which have been experienced at both a local and global level. The effects thereof have further had a knock-on effect on the valuation inputs used in the determination of the fair value of Level 2 and Level 3 assets and liabilities. The use of non-observable inputs (in the case of Level 2 and Level 3 balances), has resulted in the Bank's re-assessment of the assumptions and judgements applied, which have been updated to take into account uncertainties arising as a result of the global pandemic, through the adjustment of expectations of future cash flows, discount rates, and other significant valuation inputs. Covid-19 did not have an impact on our classifications.

14. Assets and liabilities held at fair value (continued)

14.2 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 by reference to quoted market prices for similar instruments or, in the case of certain mortgage-backed securities, 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 by 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, dependent on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price: earnings comparisons. For each investment, the relevant methodology 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 option pricing models.

Loans and advances

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

Deposits, debt securities in issue and borrowed funds

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

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.

14.3 Fair value adjustments

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

Bid-offer valuation adjustments

For assets and liabilities where the Bank is not a market maker, mid prices are adjusted to bid and offer prices respectively. 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 hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the firm 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, since the bid-offer spread does not represent a transaction cost.

Uncollateralised derivative adjustments

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

Model valuation adjustments

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

Summary notes to the consolidated financial results

for the reporting period ended 31 December

14. Assets and liabilities held at fair value (continued)

14.4 Fair value hierarchy

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

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

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

14. Assets and liabilities held at fair value (continued)

14.5 Measurement of assets and liabilities categorised at Level 2

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

Category of asset/liability	Valuation techniques applied	Significant observable inputs
Loans and advances to banks	Future cash flows are discounted using market-related interest rates, adjusted for credit inputs, over the contractual period of the instruments (that is, discounted cash flow)	Interest rates and/or money market curves, as well as credit spreads
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discounted cash flow models	Underlying price of market instruments and/or interest rates
Derivatives		
Commodity derivatives	Discounted cash flow techniques, option pricing models, 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 market standard credit derivative pricing	Interest rate, recovery rate and; credit spread and/or quanto ratio
Equity derivatives	Discounted cash flow models, option pricing models and/or futures pricing models	Spot price, interest rate, volatility and/or dividend stream
Foreign exchange derivatives	Discounted cash flow techniques and/or option pricing models	Interest rate curves, basis 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 volatilities
Money market assets	Discounted cash flow models	Money market curves and/or interest rates
Loans and advances to customers	Discounted cash flow models	Interest rate curves, money market curves and/or credit spreads
Investment securities	Discounted cash flow models	Underlying price of market traded instruments and/or interest rates
Deposits from banks	Discounted cash flow models	Interest rate curve, money market curves and/or credit spreads
Deposits due to customers	Discounted cash flow models	Interest rate curve, money market curves and/or credit spreads
Debt securities in issue and other liabilities	Discounted cash flow models	Underlying price of market traded instruments, interest rate curves and/or credit spreads

Summary notes to the consolidated financial results

for the reporting period ended 31 December

14. Assets and liabilities held at fair value (continued)

14.6 Reconciliation of Level 3 assets and liabilities

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

	2020				
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	**6 256**	**10 904**	**12 233**	**—**	**29 393**
Net interest income	**—**	**246**	**83**	**—**	**329**
Gains and losses from banking and trading activities	**(1 928)**	**523**	**(348)**	**—**	**(1 753)**
Purchases	**38**	**544**	**68**	**—**	**650**
Sales	**(176)**	**(931)**	**(2 843)**	**—**	**(3 950)**
Movement in other comprehensive income	**—**	**—**	**(165)**	**—**	**(165)**
Transfer to Level 3	**142**	**2 807**	**1 979**	**—**	**4 928**
Transfer out of Level 3	**(1 830)**	**(496)**	**(1 395)**	**—**	**(3 721)**
Closing balance at the end of the reporting period	**2 502**	**13 597**	**9 612**	**—**	**25 711**

	2019				
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	3 449	10 661	9 537	180	23 827
Net interest income	—	439	88	—	527
Gains and losses from banking and trading activities	1 973	(471)	1	—	1 503
Gains and losses from investment activities	—	—	19	—	19
Purchases	1 101	4 602	1 378	—	7 081
Sales	(333)	(1 767)	(273)	(180)	(2 553)
Movement in other comprehensive income	—	—	(109)	—	(109)
Settlements	—	—	(7)	—	(7)
Transfer to Level 3	962	52	2 134	—	3 148
Transfer out of Level 3	(896)	(2 612)	(535)	—	(4 043)
Closing balance at the end of the reporting period	6 256	10 904	12 233	—	29 393

14. Assets and liabilities held at fair value (continued)

14.6 Reconciliation of Level 3 assets and liabilities (continued)

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

	2020			
	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	—	1 131	3 842	4 973
Gains and losses from banking and trading activities	—	(706)	306	(400)
Issues	—	37	704	741
Settlements	—	(263)	(534)	(797)
Transfer out of Level 3	—	(27)	(756)	(783)
Closing balance at the end of the reporting period	—	172	3 562	3 734

	2019			
	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	19	1 454	2 822	4 295
Gains and losses from banking and trading activities	—	276	96	372
Issues	—	36	3 808	3 844
Settlements	—	—	(1 887)	(1 887)
Transfer out of Level 3	(19)	(635)	(997)	(1 651)
Closing balance at the end of the reporting period	—	1 131	3 842	4 973

13.6.1 Significant transfers between levels

During the 2020 and 2019 reporting periods, transfers between levels occurred because of changes in the observability of valuation inputs, in some instances owing to changes in the level of market activity. Transfers have been reflected as if they had taken place at the beginning of the year.

14.7 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:

	2020						
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	1 774	3 192	81	5 047	(104)	(490)	(594)

	2019						
	Trading and hedging portfolio assets Rm	Loans and advances to customers[(1)] Rm	Investment securities[(1)] Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	3 197	871	342	4 410	(520)	163	(357)

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

14. Assets and liabilities held at fair value (continued)

14.8 Sensitivity analysis of valuations using unobservable inputs

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

The following table reflects the reasonable possible variances applied to significant parameters utilised in our valuations.

Significant unobservable parameter	Positive/(negative) variance applied to parameters
Credit spreads	100/(100) bps
Volatilities	10/(10)%
Basis curves	100/(100) bps
Yield curves and repo curves	100/(100) bps
Future earnings and marketability discounts	15/(15)%
Funding spreads	100/(100) bps

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value of the asset or liability by more than 10% of the underlying value of the affected item. This is demonstrated by the following sensitivity analysis which includes a reasonable range of possible outcomes:

		2020	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	**Absa Group Limited/Absa funding**	**344/(394)**	**—/—**
Investment securities	**Risk adjustment yield curves, future earnings and marketability discounts**	**—/—**	**(146)/151**
Loans and advances to customers	**Credit spreads**	**(782)/848**	**—/—**
Trading and hedging portfolio assets	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**(18)/19**	**—/—**
Trading and hedging portfolio liabilities	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**(37)/37**	**—/—**

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

14. Assets and liabilities held at fair value (continued)

14.9 Measurement of assets and liabilities at Level 3

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

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

For assets or liabilities held at amortised cost and disclosed in Levels 2 or 3 of the fair value hierarchy, the discounted cash flow valuation technique is used. Interest rates and money market curves are considered unobservable inputs for items which mature after 5 years. However, if the items mature in less than 5 years, these inputs are 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.

The sensitivity of the fair value measure is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on fair values.

14.10 Unrecognised gains as a result of the use of valuation models using unobservable inputs

The amount that is yet 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 unobservable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

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

14. Assets and liabilities held at fair value (continued)

14.11 Third-party credit enhancements

There were no significant liabilities measured at fair value and issued with inseparable third-party credit enhancements during the current and previous reporting periods.

15. Additional risk management disclosure

The advent of Covid-19 has had a significant impact on the risks that the Bank is exposed to as a result of the financial assets it holds and financial liabilities it issues. The Covid-19 risk management disclosures are aimed at demonstrating the impact that the virus has had on the Bank's credit, liquidity, and market risks, as well as the way in which it manages its capital.

15.1 Credit risk disclosures

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.

In addition to the information provided in Note 1, the following table provides detail regarding the credit quality of financial instruments to which the impairment requirements in IFRS 9 are applicable, in terms of the Bank's default grading DG[1] system. In order to illustrate how credit quality has changed in the current period, comparative information as at 31 December 2019 has been provided.

		Stage 1			Stage 2			Stage 3
Maximum exposure to credit risk	Gross maximum exposure Rm	DG1-9 Rm	DG10-19 Rm	DG20-21 Rm	DG1-9 Rm	DG10-19 Rm	DG20-21 Rm	Default Rm
Balances with the SARB	25 460	25 460	—	—	—	—	—	—
Cash, cash balances and balances with central banks	**25 460**	**25 460**	**—**	**—**	**—**	**—**	**—**	**—**
Government bonds	65 142	65 142	—	—	—	—	—	—
Other	21 038	17 747	1 144	—	792	1 355	—	—
Treasury bills	6 801	6 801	—	—	—	—	—	—
Investment securities	**92 981**	**89 690**	**1 144**	**—**	**792**	**1 355**	**—**	**—**
Loans and advances to banks	**34 305**	**29 096**	**3 600**	**—**	**778**	**768**	**63**	**—**
Accounts receivable	6 740	6 574	165	—	—	1	—	—
Settlement accounts	5 490	4 709	781	—	—	—	—	—
Other assets	**12 230**	**11 283**	**946**	**—**	**—**	**1**	**—**	**—**
RBB South Africa	538 482	32 116	375 957	23 210	4 647	37 340	14 882	50 330
Home Loans	255 130	10 111	191 811	8 815	3 101	10 299	7 180	23 813
Vehicle and Asset Finance	94 877	1 293	65 769	9 494	1 230	5 084	4 291	7 716
Everyday Banking	60 571	3 486	32 990	4 901	110	4 377	3 411	11 296
Card	32 714	3 004	19 201	2 053	52	1 762	1 622	5 020
Personal Loans	23 785	228	12 246	2 421	19	1 690	1 591	5 590
Transactions and Deposits	4 072	254	1 543	427	39	925	198	686
Relationship Banking	127 851	17 226	85 387	—	206	17 580	—	7 452
RBB Other	53	—	—	—	—	—	—	53
CIB South Africa	242 211	120 115	75 238	2	11 749	27 576	1 503	6 028
Head Office, Treasury and other operations in South Africa	520	277	21	—	—	222	—	—
Loans and advances to customers	**781 213**	**152 508**	**451 216**	**23 212**	**16 396**	**65 138**	**16 385**	**56 358**
Loans and advances to group companies	**56 346**	**56 346**	**—**	**—**	**—**	**—**	**—**	**—**
Off-statement of financial position exposure								
Guarantees	34 327	18 984	12 000	63	355	1 897	280	748
Letters of credit	5 777	1 543	1 963	3	253	1 880	87	48
Revocable and irrevocable debt facilities	194 300	87 930	101 201	536	881	3 018	143	591
Total off-statement of financial position exposure	**234 404**	**108 457**	**115 164**	**602**	**1 489**	**6 795**	**510**	**1 387**

[1] Refer to Absa Bank Limited's financial statements for the reporting period ending 31 December 2020 for DG bucket definitions.

Summary notes to the consolidated financial results

for the reporting period ended 31 December

15. Additional risk management disclosure (continued)

15.1 Credit risk disclosures (continued)

Maximum exposure to credit risk	Gross maximum exposure Rm	Stage 1 DG1-9 Rm	Stage 1 DG10-19 Rm	Stage 1 DG20-21 Rm	Stage 2 DG1-9 Rm	Stage 2 DG10-19 Rm	Stage 2 DG20-21 Rm	Stage 3 Default Rm
Balances with the SARB	16 587	16 587	—	—	—	—	—	—
Cash, cash balances and balances with central banks	16 587	16 587	—	—	—	—	—	—
Government bonds	35 153	35 153	—	—	—	—	—	—
Other	20 321	19 999	—	—	322	—	—	—
Treasury bills	16 638	13 541	—	—	3 097	—	—	—
Investment securities	72 112	68 693	—	—	3 419	—	—	—
Loans and advances to banks	15 560	9 380	5 660	—	—	487	33	—
Accounts receivable	6 923	4 407	2 514	—	—	2	—	—
Settlement accounts	12 260	12 233	27	—	—	—	—	—
Other assets	19 183	16 640	2 541	—	—	2	—	—
RBB South Africa	516 926	38 579	384 525	20 278	592	24 472	11 738	36 741
Home Loans	242 828	12 528	190 205	7 490	226	8 367	5 232	18 780
Vehicle and Asset Finance	86 934	2 120	65 455	6 109	4	4 315	3 677	5 254
Everyday Banking	59 248	3 449	34 872	6 679	115	3 936	2 829	7 367
Card	31 097	2 581	19 846	2 066	38	1 629	1 219	3 717
Personal Loans	23 941	571	13 325	4 150	22	1 355	1 411	3 107
Transactions and Deposits	4 210	297	1 701	463	55	952	199	543
Relationship Banking	127 863	20 482	93 993	—	247	7 854	—	5 287
RBB Other	53	—	—	—	—	—	—	53
CIB South Africa	231 545	125 573	75 263	—	8 646	16 055	4 204	1 804
Head Office, Treasury and other operations in South Africa	319	293	17	—	—	9	—	—
Loans and advances to customers	748 790	164 445	459 805	20 278	9 238	40 536	15 942	38 545
Loans and advances to group companies	50 460	50 460	—	—	—	—	—	—
Off-statement of financial position exposure	—							
Guarantees	33 523	21 069	9 080	30	97	2 372	627	248
Letters of credit	5 303	593	1 400	14	258	3 009	29	—
Revocable and irrevocable debt facilities	183 524	34 531	135 365	8 607	732	2 543	710	1 036
Total off-statement of financial position exposure	222 350	56 193	145 845	8 651	1 087	7 924	1 366	1 284

15. Additional risk management disclosure (continued)

15.1 Credit risk disclosures (continued)

The following table provides detail regarding the credit quality of financial instruments to which are classified as fair value through profit and loss in terms of the Bank's default grading (DG)[1] system. In order to illustrate how credit quality has changed during the period since 31 December 2019, comparative information at 31 December 2019 has been provided.

	2020			
Maximum exposure to credit risk	**Gross carrying amount Rm**	**DG1-9 Rm**	**DG10-19 Rm**	**DG20-21 Rm**
Investment securities	**5 407**	**5 283**	**124**	**—**
Government bonds	**15**	**15**	**—**	**—**
Other	**2 648**	**2 524**	**124**	**—**
Treasury bills	**2 744**	**2 744**	**—**	**—**
Loans and advances to banks	**31 830**	**24 396**	**7 434**	**—**
Trading and hedging portfolio assets	**175 175**	**136 698**	**38 250**	**227**
Debt instruments	**57 103**	**47 873**	**9 230**	**—**
Derivative assets	**109 137**	**80 395**	**28 515**	**227**
Money market assets	**8 935**	**8 430**	**505**	**—**
Loans and advances to customers	**63 901**	**29 841**	**34 060**	**—**
Total	**276 313**	**196 218**	**79 868**	**227**

	2019			
Maximum exposure to credit risk	Gross carrying amount Rm	DG1-9 Rm	DG10-19 Rm	DG20-21 Rm
Investment securities	1 443	943	500	—
Government bonds	924	924	—	—
Other	519	19	500	—
Loans and advances to banks	29 453	16 406	13 047	—
Trading and hedging portfolio assets	113 759	100 418	13 292	49
Debt instruments	41 727	41 649	78	—
Derivative assets	60 443	48 315	12 079	49
Money market assets	11 589	10 454	1 135	—
Loans and advances to customers	67 656	33 399	34 026	231
Total	212 311	151 166	60 865	280

[1] Refer to Absa Bank Limited's financial statements for the reporting period ending 31 December 2020 for DG bucket definitions.

This page has been left blank intentionally

15. Additional risk management disclosure (continued)

15.1 Credit risk disclosures (continued)

The following table sets out the analysis of credit risk mitigation and collateral held by the Bank against its credit impaired, and other, financial assets, at 31 December 2020.

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

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

[1] Included in the gross maximum exposure is the off-statement of financial position exposure for revocable and irrevocable debt facilities.

2020

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

Summary notes to the consolidated financial results

for the reporting period ended 31 December

15. Additional risk management disclosure (continued)

15.1 Credit risk disclosures (continued)

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

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

[1] Included in the gross maximum exposure is the off-statement of financial position exposure for revocable and irrevocable debt facilities.

Summary notes to the consolidated financial results

for the reporting period ended 31 December

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

15. Additional risk management disclosure (continued)

15.2 Treasury risk

15.2.1 Liquidity risk

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

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

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

The Bank had a well-diversified deposit base and concentration risk was managed within appropriate guidelines. Sources of funding were managed to maintain a wide diversity of depositor, products, tenor and currencies. The Bank's foreign currency funding position remained robust and flexible, with diversified funding facilities from international banks and appropriate tenors to meet term asset growth.

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.

Summary notes to the consolidated financial results

for the reporting period ended 31 December

15. Additional risk management disclosure (continued)

15.2 Treasury risk (continued)

15.2.1 Liquidity risk (continued)

The discounted maturity table below provides further analysis in terms of the Bank's liquidity position as at 31 December 2020 in order to illustrate the change in the liquidity risk position since 31 December 2019.

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

15. Additional risk management disclosure (continued)

15.2 Treasury risk (continued)

15.2.1 Liquidity risk (continued)

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

15.2.2 Capital management risk

Capital risk is the risk that the Bank 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.

Review of current reporting period

- Capital ratios were lower year-on-year due to lower earnings during the first half of 2020, driven by higher impairments due to the impact of the Covid-19 pandemic. Ratios improved in the second half of 2020, due to improved earnings generation. Capital buffers remained strong, well above minimum regulatory requirements at all times.
- The SARB reduced the minimum capital requirement by removing the Pillar 2A requirement of 100 bps of capital at a total capital requirements level to accommodate the impact of current market conditions on bank capital ratios.
- The Bank issued R2.7bn tier 2 capital instruments in February 2020, which qualified as regulatory capital. This was to replace the R2.5bn tier 2 capital instruments, which were called in February 2020.
- The Bank issued R1.2bn tier 1 capital instruments in October 2020.

Summary notes to the consolidated financial results

for the reporting period ended 31 December

15. Additional risk management disclosure (continued)

15.2 Treasury risk (continued)

14.2.2 Capital management risk (continued)

Capital adequacy ratios

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

14.2.3 Interest rate risk in the banking book (IRRBB)

IRRBB is the risk that the Bank's financial position might be adversely affected by changes in interest rate levels, yield curves and spreads.

The Group Risk and Capital Management Committee continues to evaluate IRRBB on an ongoing basis and take appropriate steps to mitigate the risk. The evaluation and risk mitigation is performed with consideration of the dynamic interest rate environments and balance sheets across the various jurisdictions in which the Bank operates.

Key risk metrics	2020 Rm	2019 Rm
Banking book net interest income (NII) sensitivity for a 2% downward shock in interest rates	**(857)**	(3 171)

Review of current reporting period

- 2020 was a year of significant rate cuts by the South African Reserve Bank in response to the weak macroeconomic environment. In addition, the Bank benefited from significant growth in deposits and High-quality liquid assets (HQLA) which contributed to increased hedging activities.
- These actions all contributed to the improvement in the Bank NII sensitivity since December 2019. In addition, methodology changes to the measurement of risk were implemented that more closely align NII sensitivity to the financial outcome of recent rate cuts.

15.3 Traded market risk

Traded market risk is the risk of the Bank's earnings or capital being adversely impacted by changes in the level or volatility of prices affecting positions in its trading activities across the Bank. This includes but is not limited to changes in interest rates, credit spreads, commodity prices, equity prices and foreign exchange levels.

The Traded Market Risk Committee (TMRC) meets monthly to review, challenge and make recommendations concerning the traded market risk profile, including risk appetite, policies, limits, risk utilisation, valuation risk and the effectiveness of the control environment.

The Trading Risk Committee (TRC) and Market Risk Infrastructure, Data, Governance and Control Committee (MRIDGCC) are subcommittees of the TMRC that provide oversight of specific traded market risks and the traded market risk control environment.

Key risk metrics	2020 Rm	2019 Rm
Average traded market risk – 99% daily value at risk (DVaR)	**62.87**	51.12

Review of current reporting period

- The increase in average DVaR was principally due to an increase in the historic market volatility feeding the internal model, resulting from the Covid-19 pandemic. This was compounded by reduced liquidity creating a challenging environment for the business to exit risk arising through client facilitation.

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

Summary consolidated normalised financial results

for the reporting period ended 31 December

Normalised financial results as a consequence of the Barclays PLC separation

Barclays PLC contributed R12.1 billion in 2017 (approximately $1 billion at the time) towards the three-year separation programme, which comprised mainly IT and brand projects, and which commenced on 6 June 2017.

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

The separation process has had a significant impact on the Group's financial results over the past three years, most notably an increase in the capital base and internally generated intangible assets, together with generated endowment revenues, and amortisation of the aforementioned assets as they are brought into use. The afore-mentioned results show a disconnect between the underlying business performance and the IFRS financial results. Normalised results have therefore been disclosed and will continue to be disclosed while the underlying business performance is materially different from the IFRS financial results.

Refer to page 2 for the IFRS results.

The following presents the items which have been excluded from the normalised results:

- Barclays PLC contribution (including the endowment benefit)
- Hedging linked to separation activities
- Technology and brand separation projects
- Depreciation and amortisation on the aforementioned projects
- Transitional service payments to Barclays PLC
- Employee cost and benefits linked to separation activities
- Separation project execution and support cost.

Basis of presentation

Normalised results

The summary consolidated normalised results have been prepared to illustrate the impact of the separation from Barclays PLC and adjust for the interest income on Barclays PLC's separation contribution, hedging linked to the separating activities, operating expenses (including amortisation of intangible assets) and other expenses (collectively the 'separation'). The Bank will present normalised results for future periods where the financial impact of separation is considered material. Normalisation does not affect divisional disclosures.

Normalised results have been prepared for illustrative purposes only and because of their nature may not fairly present the Bank's financial position, changes in equity, cash flows and results of operations.

The normalised results have not been prepared using the accounting policies of the Bank and do not comply with IFRS. These results are considered to be pro forma financial information and have been presented in accordance with the JSE Limited Listing Requirements which require that pro forma financial information be complied in terms of the JSE Limited Listing Requirements, the SAICA Guide on Pro Forma Financial Information and any relevant guidance issued by the IRBA. The normalised results are the responsibility of the Bank's Board.

The normalised results for the year ended 31 December 2020 should be read together with EY's independent reporting accountants' assurance report thereon, which is available for inspection at the Company's registered office.

Summary consolidated normalised salient features

for the reporting period ended 31 December

	2020[1]	2019
Statement of comprehensive income (Rm)		
Income	**53 464**	52 594
Operating expenses	**31 554**	33 351
Profit attributable to ordinary equity holders	**2 530**	8 418
Headline earnings[2]	**2 654**	8 640
Statement of financial position		
Total assets (Rm)	**1 281 486**	1 155 329
Financial performance (%)		
Return on equity (RoE)	**3.5**	12.2
Return on average assets (RoA)	**0.2**	0.76
Return on risk-weighted assets (RoRWA)	**0.43**	1.55
Operating performance (%)		
Net interest margin on average interest-bearing assets	**3.25**	3.46
Non-interest as a percentage of total income	**38.1**	40.0
Cost-to-income ratio	**59.0**	63.4
Jaws	**(7.0)**	3
Effective tax rate	**23.0**	23.5
Share statistics (million)		
Weighted average number of ordinary shares in issue	**448.3**	448.3
Diluted weighted average number of ordinary shares in issue	**448.3**	448.3
Share statistics (cents)		
Headline earnings per ordinary share (HEPS)	**592.0**	1 927.3
Diluted headline earnings per ordinary share (DHEPS)	**592.0**	1 927.3
Basic earnings per ordinary share (EPS)	**564.4**	1 877.8
Diluted basic earnings per ordinary share (DEPS)	**564.4**	1 877.8
Dividend per ordinary share relating to income for the reporting period	**—**	446.1
Dividend cover times (times)	**—**	4.32
NAV per ordinary share	**17 247**	16 407
Tangible NAV per ordinary share	**15 972**	15 313
Capital adequacy (%)		
Absa Bank Limited	**n/a[3]**	16.2
Common Equity Tier 1 (%)		
Absa Bank Limited	**n/a[3]**	11.4

[1] Please refer to the summary consolidated normalised reconciliation for the period ended 31 December 2020 for further information as presented on pages 54 to 55.

[2] After allowing for **R307m** (31 December 2019: R352m) profit attributable to preference equity holders and **R589m** (31 December 2019: R435m) profit attributable to additional Tier 1 capital holders.

[3] Normalised capital ratios will no longer be presented as the Group's separation from Barclays PLC has been materially completed and the current differences between IFRS and normalised is expected to result in a marginal permanent uplift to the capital position.

Summary consolidated reconciliation of IFRS to normalised results

for the reporting period ended 31 December

	IFRS Bank performance[1]	2020 Barclays separation effects[2]	Normalised Bank performance[3]
Statement of comprehensive income (Rm)			
Net interest income	33 184	(67)	33 117
Non-interest income	20 503	(156)	20 347
Total income	53 687	(223)	53 464
Impairment losses	(15 829)	—	(15 829)
Operating expenses	(33 202)	1 649	(31 553)
Other expenses	(1 798)	200	(1 598)
Share of post-tax results of associates and joint ventures	(36)	—	(36)
Operating profit before income tax	2 822	1 626	4 448
Tax expenses	(750)	(272)	(1 022)
Profit for the reporting period	2 072	1 354	3 426
Profit attributable to:			
Ordinary equity holders	1 176	1 354	2 530
Ordinary shares	—	—	—
Preference shares	307	—	307
Additional Tier 1	589	—	589
	2 072	1 354	3 426
Headline earnings	1 402	1 252	2 654
Operating performance (%)			
Net interest margin on average interest-bearing assets	3.24	n/a	3.25
Credit loss ratio on gross loans and advances to customers and banks	1.74	n/a	1.74
Non-interest income as % of total income	38.2	n/a	38.1
Income growth (%)	1.8	n/a	1.7
Operating expenses growth (%)	(5.4)	n/a	(5.4)
Cost-to-income ratio	61.8	n/a	59.0
Effective tax rate	26.6	n/a	23.0
Statement of financial position (Rm)			
Loans and advances to customers	811 162	—	811 162
Loans and advances to banks	66 113	—	66 113
Investment securities	99 489	—	99 489
Other assets	309 511	(4 789)	304 722
Total assets	1 286 275	(4 789)	1 281 486
Deposits due to customers	794 887	—	794 887
Debt securities in issue	144 159	—	144 159
Other liabilities[4]	252 830	646	253 476
Total liabilities	1 191 876	646	1 192 522
Equity	94 399	(5 435)	88 964
Total equity and liabilities	1 286 275	(4 789)	1 281 486
Key performance ratios (%)			
RoA	0.1	n/a	0.2
RoE	1.7	n/a	3.5
Capital adequacy	15.6	n/a	n/a[5]
Common Equity Tier 1	10.6	n/a	n/a[5]
Share statistics (cents)			
Diluted headline earnings per ordinary share	312.5	n/a	592.0

[1] IFRS Bank performance, presents the IFRS information as extracted from the Bank's summary consolidated financial results for the reporting period ended 31 December 2020.

[2] Barclays separation effects, presents the financial effects of the separation on the summary consolidated financial results of the Bank.

[3] Normalised Bank performance, presents the summary consolidated financial results of the Bank, after adjusting for the consequences of the separation.

[4] This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'.

[5] Normalised capital ratios will no longer be presented as the Group's separation from Barclays PLC has been materially completed and the current differences between IFRS and normalised is expected to result in a marginal permanent uplift of the capital position.

Summary consolidated reconciliation of IFRS to normalised results

for the reporting period ended 31 December

	31 December 2019		
	IFRS Bank performance[1]	Barclays separation effects[2]	Normalised Bank performance[3]
Statement of comprehensive income (Rm)			
Net interest income	31 772	(195)	31 577
Non-interest income	20 985	32	21 017
Total income	52 757	(163)	52 594
Impairment losses	(6 032)	—	(6 032)
Operating expenses	(35 116)	1 765	(33 351)
Other expenses	(1 456)	56	(1 400)
Share of post-tax results of associates and joint ventures	221	—	221
Operating profit before income tax	10 374	1 658	12 032
Tax expenses	(2 488)	(338)	(2 826)
Profit for the reporting period	7 886	1 320	9 206
Profit attributable to:			
Ordinary equity holders	7 098	1 320	8 418
Ordinary shares	1	—	1
Preference shares	352	—	352
Additional Tier 1	435	—	435
	7 886	1 320	9 206
Headline earnings	7 320	1 320	8 640
Operating performance (%)			
Net interest margin on average interest-bearing assets	3.53	n/a	3.53
Credit loss ratio on gross loans and advances to customers and banks[4]	0.72	n/a	0.72
Non-interest income as % of total income	39.8	n/a	40.0
Income growth (%)	1.8	n/a	3
Operating expenses growth (%)	2.3	n/a	6
Cost-to-income ratio	66.6	n/a	63.4
Effective tax rate	24.0	n/a	23.5
Statement of financial position (Rm)			
Loans and advances to customers	794 382	—	794 382
Loans and advances to banks	44 993	—	44 993
Investment securities	75 230	—	75 230
Other assets	245 220	(4 496)	240 724
Total assets	1 159 825	(4 496)	1 155 329
Deposits due to customers	677 809	—	677 809
Debt securities in issue	157 603	—	157 603
Other liabilities[5]	233 088	2 836	235 924
Total liabilities	1 068 500	2 836	1 071 336
Equity	91 325	(7 332)	83 993
Total equity and liabilities	1 159 825	(4 496)	1 155 329
Key performance ratios (%)			
RoA	0.64	n/a	0.76
RoE	9.3	n/a	12.2
Capital adequacy	16.7	n/a	16.2
Common Equity Tier 1	11.9	n/a	11.4
Share statistics (cents)			
Diluted headline earnings per ordinary share	1 632.6	n/a	1 927.3

(1) IFRS Bank performance, presents the IFRS information as extracted from the Bank's summary consolidated financial results for the reporting period ended 31 December 2019.
(2) Barclays separation effects, presents the financial effects of the separation on the summary consolidated financial results of the Bank.
(3) Normalised Bank performance, presents the summary provisional consolidated financial results of the Bank, after adjusting for the consequences of the separation.
(4) This ratio has been restated in order to correctly reflect the normalised credit loss ratio on gross loans and advances to customers and banks for the period ended 31 December 2019.
(5) This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'.

Contact information

Absa Bank Limited

Incorporated in the Republic of South Africa
Registration number: 1986/004794/06
Authorised financial services and registered credit provider (NCRCP7)
JSE share code: ABSP
ISIN: ZAE000079810

Head Investor Relations

Alan Hartdegen
Telephone: +27 11 350 2598

Company Secretary

Nadine Drutman
Telephone: +27 11 350 5347

Head of Financial Control

John Annandale
Telephone: +27 11 350 3946

Auditors

Ernst & Young Inc.
Telephone: +27 11 772 3000
ey.com/ZA/en/Home

Registered office

7th Floor, Absa Towers West
15 Troye Street, Johannesburg, 2001
PO Box 7735, Johannesburg, 2000
Switchboard: +27 11 350 4000
absa.africa

Queries

Please direct investor relations queries to
IR@absa.africa

Please direct media queries to
groupmedia@absa.africa

Please direct other queries regarding the Bank to
groupsec@absa.africa

Transfer secretary

Computershare Investor Services (Pty) Ltd
Telephone: +27 11 370 5000
computershare.com/za/

Sponsors

Absa Bank Limited (Corporate and Investment Bank)
Telephone: +27 11 895 6843
equitysponsor@absa.africa

www.absa.africa