NEDBANK

# RESILIENCE. TRANSITION. REIMAGINE.

# AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER

2020

see money differently

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# ABOUT THIS REPORT

Our consolidated annual financial statements provide a detailed analysis of our statutory accounting records. These financial statements are independently audited as indicated in the independent auditors' report and provide indepth disclosure and transparency on the financial performance of the group.

The notes to the consolidated annual financial statements are classified in the following sections:

### Section A: Accounting policies

This section briefly outlines the basis of preparation and key accounting policy elections applied in the preparation of the group's consolidated annual financial statements.

### Section B: Segmental and performance-related information

This section contains performance-related notes that provide an analysis of the group's consolidated statement of comprehensive income.

### Section C: Core banking assets

This section provides information about the group's core banking assets, including loans and advances, and an analysis of the related impairments charge. Information is also provided on the group's investments in government and other securities, and other short-term securities. The group's cash and cash equivalents and derivative financial instruments are also analysed in this section.

### Section D: Core banking liabilities

Information about the group's core banking liabilities, including long-term debt instruments, can be found in this section. A contractual maturity analysis of financial liabilities is also provided.

### Section E: Investments

This section provides an analysis of the group's investments in investment securities, associate companies and subsidiaries. Related information, such as related-party disclosure, information on structured entities and securitisation vehicles can also be found here.

### Section F: Generic assets

This section provides an analysis of non-core assets such as property and equipment, goodwill and other intangible assets.

### Section G: Other assets

Refer to this section for disclosure on the group's long-term employee benefits, non-current assets and liabilities held for sale and other assets.

### Section H: Financial instruments

Additional disclosure on the group's financial instruments can be found in this section. Refer to this section for the categorisation of financial assets and liabilities, the fair-value hierarchy and other fair-value-related disclosures. The group's disclosure on collateral and offsetting of financial assets and liabilities can also be found in this section.

### Section I: Share-based payments

This section details the group's share-based payments schemes and their effect on the group's financial position.

### Section J: Other liabilities

This section provides an analysis of the group's non-core liabilities, including provisions and other liabilities, contingent liabilities, undrawn facilities and commitments.

### Section K: Risk and balance sheet management

Refer to this section for the group's liquidity gap disclosure and details on the historical value at risk and interest rate risk in the banking book.

### Section L: Cashflow information

This section contains notes to the group's statement of cashflows.

### Section M: Additional information

This section contains additional disclosure that may be relevant to understanding the group's consolidated annual financial statements, such as a foreign currency conversion guide and information on events after the reporting period and directors' emoluments.

# 2020 HIGHLIGHTS

| | **2020** | 2019 |
|---|---|---|
| Headline earnings | **4 275** | 10 382 |
| Headline earnings decrease | **(58,8%)** | (4,6%) |
| NIR/expenses ratio | **68,7%** | 75,0% |
| Return on equity | **6,0%** | 15,1% |
| Common-equity tier 1 ratio | **10,4%** | 11,2% |
| Credit loss ratio (bps) | **163** | 83 |
| Return on assets | **0,39%** | 1,04% |

# FINANCIAL HIGHLIGHTS

## FOR THE YEAR ENDED 31 DECEMBER

| | | 2020 | 2019 |
|---|---|---|---|
| **Headline earnings reconciliation** | | | |
| Profit attributable to ordinary equity holders | Rm | **3 977** | 10 087 |
| Non-trading and capital items | Rm | **298** | 295 |
| Non-trading and capital items | Rm | **417** | 424 |
| Taxation on non-trading and capital earnings items | Rm | **(119)** | (129) |
| **Headline earnings** | Rm | **4 275** | 10 382 |
| **Key ratios** | | | |
| Net interest income to average interest-earning banking assets | % | **3,35** | 3,45 |
| Credit loss ratio - banking advances | % | **1,63** | 0,83 |
| Non-interest revenue to total income | % | **40,9** | 43,3 |
| Cost-to-income ratio | % | **59,4** | 57,8 |
| Total equity attributable to ordinary equity holders | Rm | **73 613** | 72 792 |
| Return on ordinary shareholders' equity | % | **6,0** | 15,1 |
| Average interest-earning banking assets | Rm | **822 229** | 791 995 |
| Total assets | Rm | **1 152 358** | 1 068 310 |
| Return on total assets | % | **0,39** | 1,04 |
| Total risk-weighted assets | Rm | **550 648** | 510 888 |
| Bank capital adequacy ratios (including unappropriated profits): | | | |
| – Common equity tier 1 | % | **10,4** | 11,2 |
| – Tier 1 | % | **12,0** | 12,8 |
| – Total | % | **15,3** | 15,5 |
| **Share statistics** | | | |
| Number of shares in issue: | | | |
| – Ordinary shares | m | **28,1** | 27,9 |
| – Preference shares | m | **358,3** | 358,3 |
| Dividends per preference share: | | | |
| – Declared per share | cents | **65,39729** | 84,46915 |
| Interim | cents | **35,94033** | 42,35729 |
| Final | cents | **29,45696** | 42,11186 |
| – Paid per share | cents | **78,05219** | 84,58901 |
| Preference share traded price: | | | |
| – Closing | cents | **745** | 970 |
| – High | cents | **969** | 980 |
| – Low | cents | **600** | 875 |
| Number of preference shares traded | m | **41,0** | 36,6 |

# TEN-YEAR REVIEW

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| Rm | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Interest and similar income | **68 654** | 79 240 | 72 739 | 71 311 |
| Interest expense and similar charges | **41 146** | 51 888 | 46 774 | 46 111 |
| **Net interest income** | **27 508** | 27 352 | 25 965 | 25 200 |
| Impairments charge on financial instruments | **12 425** | 5 953 | 3 547 | 3 030 |
| **Income from lending activities** | **15 083** | 21 399 | 22 418 | 22 170 |
| Non-interest revenue | **19 026** | 20 905 | 20 884 | 19 907 |
| **Operating income** | **34 109** | 42 304 | 43 302 | 42 077 |
| Total operating expenses | **27 705** | 27 891 | 27 616 | 26 192 |
| Indirect taxation | **1 017** | 961 | 804 | 858 |
| **Profit from operations before non-trading and capital items** | **5 387** | 13 452 | 14 882 | 15 027 |
| Non-trading and capital items | **-417** | -424 | -164 | -210 |
| **Profit from operations** | **4 970** | 13 028 | 14 718 | 14 817 |
| Share of gains/(losses) of associate companies | **115** | 121 | -83 | -96 |
| **Profit before direct taxation** | **5 085** | 13 149 | 14 635 | 14 721 |
| Direct taxation | **1 164** | 3 076 | 3 854 | 3 563 |
| **Profit for the year** | **3 921** | 10 073 | 10 781 | 11 158 |
| **Profit attributable to:** | | | | |
| – Ordinary equity holders | **3 977** | 10 087 | 10 765 | 11 160 |
| – Holders of participating preference shares | **-58** | | | |
| – Non-controlling interest – ordinary shareholders | **2** | -14 | 16 | -2 |
| **Profit for the year** | **3 921** | 10 073 | 10 781 | 11 158 |
| **Headline earnings** | **4 275** | 10 382 | 10 884 | 11 311 |

The group adopted IFRS 16 on 1 January 2019 and prepared the information for the years ended 31 December 2019 and 2020 in accordance with IFRS 16. Information for 2011 to 2018 has been prepared in accordance with IAS 17 and has not been restated. The group adopted IFRS 9 on 1 January 2018 and prepared the information for the years ended 31 December 2018 to 2020 in accordance with IFRS 9. Information for 2011 to 2017 has been prepared in accordance with IAS 39 and has not been restated. On 1 January 2013 the group adopted IFRS 10, IFRS 11 and IFRS 12 and restated 2012 information. The information for 2012 to 2020 was prepared in accordance with IFRS 10, IFRS 11 and IFRS 12. Information for 2011 was not restated for the adoption of IFRS 10, IFRS 11 and IFRS 12.

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| | 69 862 | 55 128 | 50 075 | 44 107 | 42 900 | 41 417 |
| | 45 344 | 32 724 | 28 322 | 23 873 | 24 102 | 24 119 |
| | 24 518 | 22 404 | 21 753 | 20 234 | 18 798 | 17 298 |
| | 4 254 | 4 608 | 4 478 | 5 529 | 5 239 | 5 321 |
| | 20 264 | 17 796 | 17 275 | 14 705 | 13 559 | 11 977 |
| | 19 361 | 17 514 | 16 196 | 15 466 | 14 151 | 12 555 |
| | 39 625 | 35 310 | 33 471 | 30 171 | 27 710 | 24 532 |
| | 25 283 | 23 459 | 22 031 | 20 199 | 18 601 | 16 955 |
| | 810 | 668 | 522 | 480 | 460 | 413 |
| | 13 532 | 11 183 | 10 918 | 9 492 | 8 649 | 7 164 |
| | -289 | -144 | -96 | -55 | -49 | -48 |
| | 13 243 | 11 039 | 10 822 | 9 437 | 8 600 | 7 116 |
| | -20 | -1 | 12 | 28 | | |
| | 13 223 | 11 038 | 10 834 | 9 465 | 8 600 | 7 116 |
| | 3 286 | 2 828 | 2 786 | 2 297 | 2 159 | 1 610 |
| | 9 937 | 8 210 | 8 048 | 7 168 | 6 441 | 5 506 |
| | 9 896 | 8 163 | 7 998 | 7 152 | 6 410 | 5 483 |
| | 41 | 47 | 50 | 16 | 31 | 23 |
| | 9 937 | 8 210 | 8 048 | 7 168 | 6 441 | 5 506 |
| | 10 143 | 8 275 | 8 077 | 7 189 | 6 460 | 5 531 |

## TEN-YEAR REVIEW

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Rm | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| | | (Restated)[1] | (Restated)[1] | |
| **Assets** | | | | |
| Cash and cash equivalents | **8 115** | 8 199 | 7 931 | 8 823 |
| Other short-term securities | **27 082** | 42 395 | 57 844 | 73 472 |
| Derivative financial instruments | **79 933** | 34 923 | 22 412 | 30 698 |
| Government and other securities | **131 380** | 99 709 | 73 487 | 48 749 |
| Loans and advances | **835 568** | 815 063 | 748 428 | 695 744 |
| Other assets | **10 407** | 10 544 | 12 040 | 7 332 |
| Current taxation assets | **75** | 213 | 105 | 75 |
| Investment securities | **8 269** | 9 007 | 6 787 | 5 303 |
| Non-current assets held for sale | **69** | 90 | 305 | 388 |
| Investments in associate companies | **1 037** | 1 229 | 786 | 224 |
| Deferred taxation assets | **346** | 42 | 40 | 37 |
| Investment property | | 56 | | |
| Property and equipment | **9 661** | 10 403 | 8 367 | 7 976 |
| Long-term employee benefit assets | **5 709** | 5 505 | 4 764 | 5 761 |
| Mandatory reserve deposits with central banks | **24 482** | 21 424 | 19 789 | 18 145 |
| Intangible assets | **10 225** | 9 508 | 8 538 | 7 341 |
| **Total assets** | **1 152 358** | 1 068 310 | 971 623 | 910 068 |
| **Equity and liabilities** | | | | |
| Ordinary share capital | **28** | 28 | 28 | 28 |
| Ordinary share premium | **20 073** | 19 182 | 19 182 | 19 182 |
| Reserves | **53 512** | 53 582 | 49 636 | 48 215 |
| **Total equity attributable to ordinary equity holders** | **73 613** | 72 792 | 68 846 | 67 425 |
| Preference share capital and premium | **3 561** | 3 561 | 3 561 | 3 561 |
| Holders of additional tier 1 capital instruments | **7 822** | 6 850 | 3 416 | 2 600 |
| Non-controlling interest attributable to: | | | | |
| - ordinary shareholders | **11** | 9 | 23 | 7 |
| - preference shareholders | **(58)** | 7 | 561 | 561 |
| **Total equity** | **84 949** | 83 219 | 76 407 | 74 154 |
| Derivative financial instruments | **64 649** | 27 621 | 19 761 | 23 561 |
| Amounts owed to depositors | **929 761** | 881 297 | 806 487 | 742 859 |
| Provisions and other liabilities | **12 359** | 13 473 | 10 414 | 14 047 |
| Non-current liabilities held for sale | | | | |
| Current taxation liabilities | **516** | 42 | 272 | 191 |
| Deferred taxation liabilities | **155** | 645 | 224 | 351 |
| Long-term employee benefit liabilities | **2 366** | 2 401 | 2 648 | 3 423 |
| Long-term debt instruments | **57 603** | 59 612 | 55 410 | 51 482 |
| **Total liabilities** | **1 067 409** | 985 091 | 895 216 | 835 914 |
| **Total equity and liabilities** | **1 152 358** | 1 068 310 | 971 623 | 910 068 |

[1] *Refer to note A4: Reclassification. Information for 2011 to 2017 has not been restated for this reclassification.*

The group adopted IFRS 16 on 1 January 2019 and prepared the information for the years ended 31 December 2019 and 2020 in accordance with IFRS 16. Information for 2011 to 2018 has been prepared in accordance with IAS 17 and has not been restated. The group adopted IFRS 9 on 1 January 2018 and prepared the information for the years ended 31 December 2018 to 2020 in accordance with IFRS 9. Information for 2011 to 2017 has been prepared in accordance with IAS 39 and has not been restated. On 1 January 2013 the group adopted IFRS 10, IFRS 11 and IFRS 12 and restated 2012 information. The information for 2012 to 2020 was prepared in accordance with IFRS 10, IFRS 11 and IFRS 12. Information for 2011 was not restated for the adoption of IFRS 10, IFRS 11 and IFRS 12.

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| | 20 241 | 18 151 | 10 757 | 17 467 | 12 587 | 11 514 |
| | 68 218 | 60 078 | 56 322 | 35 004 | 37 575 | 31 715 |
| | 18 044 | 30 948 | 15 644 | 13 811 | 14 660 | 14 314 |
| | 50 687 | 42 733 | 26 828 | 31 279 | 26 194 | 29 991 |
| | 691 925 | 666 807 | 603 329 | 566 047 | 520 116 | 493 107 |
| | 8 164 | 3 925 | 5 393 | 4 204 | 4 528 | 3 989 |
| | 440 | 904 | 236 | 340 | 241 | 629 |
| | 4 258 | 1 648 | 2 369 | 2 932 | 2 832 | 3 549 |
| | 287 | 2 | 16 | 12 | 508 | 8 |
| | 225 | 1 400 | 1 158 | 1 098 | 1 029 | 565 |
| | 266 | 67 | 165 | 69 | 362 | 66 |
| | | | | 87 | 84 | 488 |
| | 8 197 | 8 114 | 7 459 | 6 571 | 6 171 | 6 082 |
| | 5 042 | 4 885 | 4 409 | 2 847 | 1 992 | 2 027 |
| | 18 139 | 16 190 | 14 843 | 13 199 | 12 641 | 11 862 |
| | 5 928 | 4 881 | 4 516 | 4 188 | 3 830 | 3 634 |
| | 900 061 | 860 733 | 753 444 | 699 155 | 645 350 | 613 540 |
| | 28 | 28 | 27 | 27 | 27 | 27 |
| | 19 182 | 18 532 | 17 422 | 17 422 | 17 422 | 14 422 |
| | 42 698 | 37 610 | 34 787 | 30 524 | 26 140 | 24 856 |
| | 61 908 | 56 170 | 52 236 | 47 973 | 43 589 | 39 305 |
| | 3 561 | 3 561 | 3 561 | 3 561 | 3 561 | 3 561 |
| | 2 000 | | | | | |
| | 253 | 223 | 183 | 141 | 136 | 121 |
| | 67 722 | 59 954 | 55 980 | 51 675 | 47 286 | 42 987 |
| | 13 469 | 33 996 | 15 479 | 16 588 | 13 475 | 13 791 |
| | 750 319 | 708 036 | 634 623 | 585 497 | 542 671 | 516 540 |
| | 12 717 | 9 911 | 8 404 | 10 016 | 9 273 | 8 286 |
| | | | | | 36 | |
| | 53 | 87 | 35 | 13 | 67 | 27 |
| | 391 | 763 | 287 | 297 | 367 | 997 |
| | 3 328 | 3 009 | 3 002 | 1 804 | 1 880 | 1 473 |
| | 52 062 | 44 977 | 35 634 | 33 265 | 30 295 | 29 439 |
| | 832 339 | 800 779 | 697 464 | 647 480 | 598 064 | 570 553 |
| | 900 061 | 860 733 | 753 444 | 699 155 | 645 350 | 613 540 |

# CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

**Nedbank Limited Reg No 1951/000009/06.**

**Prepared under the supervision of the Nedbank Group CFO, Mike Davis BCom (Hons), DipAcc, CA(SA), AMP (Insead).**

**Audited in terms of the Companies Act, 71 of 2008 (as amended).**

## RESPONSIBILITY OF OUR DIRECTORS

The directors are responsible for the preparation and fair presentation of the consolidated financial statements of Nedbank Limited (comprising the statements of financial position at 31 December 2020, the statements of comprehensive income, the statements of changes in equity and statements of cashflows for the year then ended) and the notes to the financial statements (including a summary of significant accounting policies and other explanatory notes) in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRS IC), the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act, 71 of 2008 (as amended) and the JSE Listings Requirements. In addition, the directors are responsible for the preparation of the Directors' Report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and there is no reason to believe that the businesses will not be going concerns in the year ahead.

The independent auditors are responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with IFRS.

### APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The consolidated annual financial statements of Nedbank Limited, as identified in the first paragraph, were approved by the Nedbank Group Limited Board of Directors on 16 March 2021 and are signed on its behalf by:

**PM Makwana**
Acting Chairman

**MWT Brown**
Chief Executive

Sandown
16 March 2021

## CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER INTERNAL FINANCIAL CONTROL RESPONSIBILITY STATEMENT

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

a) the annual financial statements set out on pages 25 to 230, fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS;

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

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

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

**MWT Brown**
Chief Executive

**MH Davis**
Chief Financial Officer

Sandown
16 March 2021

## CERTIFICATION FROM OUR COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act, 71 of 2008, I certify that, to the best of my knowledge and belief, Nedbank Limited has filed with the Commissioner all such returns and notices as are required by the Companies Act, 71 of 2008, and that all such returns and notices are true, correct and up to date.

**J Katzin**
Company Secretary

Sandown
16 March 2021

# REPORT FROM THE GROUP AUDIT COMMITTEE

**The Nedbank Group Audit Committee (GAC) is pleased to present its report for the 2020 financial year. This report has been prepared based on the requirements of the South African Companies Act, 71 of 2008, as amended ('Companies Act'), the King Code of Governance for South Africa ('King IV'), the JSE Listings Requirements and other applicable regulatory requirements. The committee carried out its responsibilities, including those relating to the audit and financial reporting obligations of the group, as set out in its board-approved charter.**

The GAC's main objective is to assist the board in fulfilling its oversight responsibilities, and in the evaluation of the adequacy and efficiency of accounting policies, internal financial controls and financial and corporate reporting processes. In addition, the GAC assesses the effectiveness of the internal auditors, the independence and effectiveness of the joint external auditors, and considers and recommends to shareholders the appointment of the joint external auditors.

This report aims to provide details on how the GAC satisfied its various statutory obligations during the period, as well as on some of the significant matters that arose and how the GAC addressed those to assist in ensuring the integrity of Nedbank's financial reporting.

### Covid-19 pandemic

The impact of Covid-19 and related government-initiated lockdowns was a significant factor during the 2020 financial year. Management, supported by the GAC, responded in a number of ways to ensure that:

- finance teams and employees (and their families) remained safe while continuing to perform their duties and responsibilities in an appropriate manner;
- the adequacy and efficiency of internal controls were maintained;
- an appropriate level of judgement and review was undertaken on key accounting matters; and
- financial information and financial forecasts remained robust and accurate.

On 27 March 2020, following the implementation of a countrywide lockdown, all finance teams transitioned to working from home. As a result of investments in systems, processes and people in prior years, the transition to working from home and the remote functioning of key finance processes and reporting were largely seamless.

In response to the challenges posed by Covid-19, the GAC responded as follows:

- Scheduled three additional ad hoc meetings and one additional formal meeting in connection with the 2020 interim results.
- Engaged the joint external auditors to perform additional procedures on key areas for the 2020 interim results.
- Increased the reporting timeline for the 2020 interim results and 2020 year-end results to allow additional time to consider key accounting judgements and to ensure a robust audit thereof.
- Increased regular one-on-one engagements between the chair of the GAC, the Chief Financial Officer (CFO), the Chief Internal Auditor (CIA), and the joint external auditors.

### People update

Raisibe Morathi resigned as the CFO and an executive director of Nedbank Group and Nedbank with effect from 30 September 2020. Raisibe had been CFO since September 2009 and is a highly regarded professional. The boards accepted her resignation with regret but wished her every success in her future career aspirations. In accordance with Nedbank's executive succession plan and after a process overseen by a panel of non-executive directors, Mike Davis, previously Group Executive: Balance Sheet Management (BSM), and an existing member of the Group Exco, was appointed as CFO. Mike has significant industry experience in finance, asset and liability management and capital management, having worked in financial services for over 20 years.

With effect from December 2020, Prabashni Naidoo resigned as CIA. The GAC wished Prabashni well in the next phase of her career and thanked her for the significant contribution and impact she made while at Nedbank. Anitha Dharmalingum [current member of the Group Internal Audit (GIA) executive team] was appointed Acting CIA while the process to appoint a new CIA is underway.

### Composition and governance

Members of the committee satisfy the requirements to serve as members of an audit committee, as provided in section 94 of the Companies Act, and have adequate knowledge and experience to carry out their duties. All members are independent non-executive directors.

The composition of the committee and the attendance of meetings by its members for the 2020 financial year are set out below:

| | Attendance | |
|---|---|---|
| Members | Formal | Ad hoc |
| S Subramoney (Chair) | 7/7 | 5/5* |
| EM Kruger | 7/7 | 3/3 |
| HR Brody | 7/7 | 3/3 |
| NP Dongwana | 7/7 | 3/3 |

* *Only the chair of the GAC is required to attend the Nedbank College of Audit Committee Chairs meeting.*

The Chief Executive (CE), the CFO, the Chief Operating Officer (COO), the Chief Risk Officer (CRO), the CIA, the Chief Compliance Officer and representatives from the joint external auditors are invited to attend all GAC meetings. Other members of management are invited to attend certain meetings to provide the committee with greater insight into specific issues or areas in the group.

The GAC chair has regular contact with the Nedbank management team to discuss relevant matters directly. The CIA and the external auditors have direct access to the committee, including closed sessions without management during the year, on any matter that they regard as relevant to the fulfilment of the committee's responsibilities. The GAC chair meets with the CIA and the joint external auditors at times considered necessary by either party. In addition, the GAC meeting agenda allows for a meeting solely with the members of the GAC.

Seven formal GAC meetings – including the Prudential Authority (PA) trilateral meeting – were held in respect of the 2020 financial year, aligned with key reporting and regulatory timelines. There were three ad hoc meetings held to address Nedbank's response to the Covid-19 pandemic and two Nedbank College of Audit Committee Chairs meetings, attended by the chairs of the group's various subsidiary audit committees. To comply with the lockdown, all meetings were held virtually

**The key focus areas of the meetings were as follows:**

| | |
|---|---|
| 23 April 2020<br>ad hoc meeting | Discussion and review of the impact of the Covid-19 pandemic and lockdown on finance teams, group internal audit and external audit. Assessment of potential implications on financial forecasts, accounting and tax.<br>Regulatory inputs including the PA's Guidance Note 4 of 2020 (G4/2020). |
| 21 May 2020 | Review of the April year-to-date trading results, first quarter trading statement, update on the co-ordinated assurance plan and the group's response to the Covid-19 pandemic. |
| 2 June 2020<br>ad hoc meeting | Preparation for half-year interim reporting and discussion on the special audit procedures requested by management to be performed by external auditors. |
| 25 June 2020<br>ad hoc meeting | Review and approval of Nedbank Limited's regulatory (Banks Act returns) audit. |
| 31 July 2020<br>College of Audit Committee Chairs | Discussion and review of the group's subsidiaries half-year performance, key judgement matters and GIA feedback with respect to the subsidiaries. |
| 5 August 2020 | Review of the interim results for the six months to 30 June 2020 and the related SENS announcements. Review and discussion of the group's rolling forecast.<br>Approval of the joint external auditors' strategy for the 2020 financial year. |
| 20 August 2020 | Approval of the interim results for the six months to June 2020.<br>Approval of the group's JSE trading statement.<br>Assessment of the key accounting judgements impacting the interim results, including credit impairments and impairment of the group investment in Ecobank Transnational Incorporated (ETI).<br>Review and discussion of the special procedures performed by the joint external auditors.<br>Review and approval of the external audit full-year 2020 scope and fees. |
| 9 September 2020 | Annual trilateral meeting with representatives of the PA's Bank Supervision Department for discussion of, among other things, key external audit findings, internal audit matters and regulatory reporting responsibilities. |
| 15 October 2020 | Review of the results for the nine months to 30 September 2020 and an update of the external audit plan. |
| 29 January 2021 | Review of preliminary results, key accounting judgements and tax matters.<br>Review and approval of the GIA audit plan for the 2021 financial year. |
| 26 Feb 2021<br>College of Audit Committee Chairs | Discussion and review of subsidiaries' full-year performance and GIA feedback on subsidiaries. |
| 3 March 2021 | Discussion and review of year-end reports from GIA, the joint external auditors and feedback from subsidiary audit committees, the Group Credit Committee (GCC), Group Risk and Capital Management Committee (GRCMC), and the Group Information Technology Committee (GITCO).<br>Review and approval of annual financial statements and related SENS announcements.<br>Review and approval of 2021 forecast. |

The GAC chair reports to the board on committee activities and the matters discussed at each meeting, highlighting any key items that the committee believes require action, and providing recommendations for the resolution thereof.

The performance of the GAC is reviewed every second year as part of the effectiveness review of the board and all its committees. The latest review concluded that the GAC continues to operate effectively and has been successful in discharging its responsibilities and duties.

## External auditors

The GAC is responsible for recommending the appointment, approving the compensation and oversight of the joint external auditors for the group, namely Deloitte & Touche and Ernst & Young Inc.

During the period the GAC:

- approved the joint external auditors' 2020 annual plan and related scope of work, confirming suitable reliance on GIA and the appropriateness of key audit risks identified;
- approved the proposed audit fees for the year under review;
- continued to monitor reputational risk concerns related to the external auditors and received regular updates from the external auditor firms' senior leadership;
- monitored the effectiveness of the external auditors in terms of their audit quality, expertise and independence, as well as the content and execution of the audit plan, with the annual review of the quality of the audit and the performance of the joint external auditors having been undertaken by means of presentations made by each firm and independent surveys administered by GIA;
- ensured that the appointment and the independence of the external auditors were in compliance with the Companies Act and all other regulatory and legal requirements, which included receiving from the external auditors all decision letters and explanations issued by the Independent Regulatory Board for Auditors or any other regulator, and any summaries relating to monitoring procedures or deficiencies (if applicable) issued by the external auditors to confirm the suitability for appointment of the joint external auditors and designated individual partners;
- confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act, 26 of 2005;
- considered and recommended to shareholders the appointment of Ernst & Young Inc and Deloitte & Touche for the 2021 financial year;
- considered reports from subsidiary audit committees and from management on the activities of subsidiary entities and formally engaged with the chairs of subsidiary audit committees; and
- reviewed the findings and recommendations of the external auditors and confirmed that there were no unresolved matters.

The GAC has a well-established policy on auditor independence and audit effectiveness. A firm approach was established in respect of the provision of non-audit services to the group by the external auditors, which further enhances their independence.

### Group Internal Audit

GIA performs an independent assurance function and forms part of the group's third line of defence. The CIA has a functional reporting line to the GAC chair and an administrative reporting line to the CRO. GIA provides independent, objective assurance to the board of directors of Nedbank Group Limited and Nedbank Limited, through the authority of the GAC, that the governance processes, including professional ethics, management of risk and systems of internal control, are adequate and effective to mitigate, in line with GIA's methodology, the significant control risks, both current and emerging, that threaten the achievement of the group's objectives.

GIA exhibits the highest level of professional objectivity in gathering, evaluating and communicating information, as well as the highest level of professional ethics in the conducting of its work.

GIA's focus has been on fully implementing its digital transformation journey to align with the bank's digital strategy. The current skills mix, which includes data scientists, developers and cybersecurity specialists, will ensure GIA uses technology platforms effectively to obtain efficient and increased coverage, including data analytics and continuous auditing techniques.

The GAC reviewed and approved the annual internal-audit charter, and evaluated the independence, effectiveness and performance of GIA in compliance with its charter as follows:

- Received reports from the CIA that highlighted significant issues related to the processes for controlling the activities of the group, including potential improvements to those processes.
- Assessed the effectiveness of the GIA function and reviewed and approved the annual GIA plan.
- Ensured that the CIA had a direct reporting line to the GAC chair and noted the administrative reporting line to the CRO.
- Ensured that the CIA had direct access to the CE, the Group chairman and the board as required.
- Ensured that the CIA had direct access to the Nedbank Africa Regions and Wealth Audit Committee chairs as required.
- Satisfied itself as to the appropriateness of the expertise, experience and resources of the CIA and the internal audit function.
- Monitored the effectiveness of the internal audit function in terms of its scope, execution of its plan, coverage, resources, independence, skills, staffing, overall performance and standing within the organisation.
- Monitored and challenged, where appropriate, actions taken by management regarding adverse internal-audit findings.
- Ensured that GIA complied with the reporting and independence requirements of its charter.
- Satisfied itself that GIA had conformed with the key principles of the International Institute of Internal Auditors' standards for professional practice of internal auditing. The rating in this regard was the highest attainable in terms of compliance with the standards.
- Reviewed the favourable findings from the external quality assurance results and noted the recommendations made for further improvements.

### Significant matters

The GAC has considered the appropriateness of the key audit matters reported in the external audit opinion and considered the significant accounting judgements and estimates relating to the annual financial statements. These were addressed by the committee as follows:

| Significant matter | How the GAC addressed the matter |
|---|---|
| **Impairment of loans and advances** | As a consequence of Covid-19, the various stages of lockdown and the resulting adverse macroenvironment, credit risk and the assessment of impairments was a significant matter. The GAC reviewed and discussed the feedback from the GCC regarding the level and appropriateness of impairments, provisioning methodologies and related key judgements in determining the impairment balances. The GAC considered the key disclosures related to sensitivity and post-model adjustments and considered the feedback from internal and external audit. |
| **Valuation of financial instruments held at fair value** | The GAC reviewed reports from the CFO regarding the Investment Committee review of investment valuations and details of critical valuation judgements applied to the valuation of group treasury and trading instruments, including funding valuation adjustments. The GAC considered the accounting implications arising from Covid-19. The GAC considered the key disclosures and considered the feedback from internal and external auditors. |
| **Fraud risk in relation to revenue recognition – non-interest revenue** | The GAC received regular feedback from the CFO in connection with controls over the financial reporting system and, where applicable, key judgements applied in the recognition of revenue. |
| **Fraud risk in relation to management override of controls and overall control environment** | The GAC received regular feedback from the CFO in connection with key judgements applicable to management estimates and from GIA in connection with the overall control environment and the 'tone at the top'. |

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

- The GAC received regular reports from the CFO regarding the financial performance of the group, the tracking and monitoring of key performance indicators, details of budgets, forecasts, long-term plans and capital expenditures, financial reporting controls and processes, and the adequacy and reliability of management information used during the financial reporting process. The GAC has evaluated and is satisfied with the appropriateness of the expertise and experience of the CFO according to the JSE Listings Requirements and is satisfied with the resources, expertise, succession and experience of Nedbank's finance function. The GAC reviewed the adequacy of the regulatory reporting processes as required by the Banks Act, which included evaluation of the quality of reporting and the adequacy of systems and processes, and consideration of any findings regarding the financial regulatory reports by the external auditors.
- The GAC reviewed the findings from the JSE Proactive Monitoring Panel.

### Annual financial statements and integrated reporting process

- The GAC reviewed all formal announcements relating to Nedbank's financial performance and found the reporting process and controls that led to the compilation of the financial information to be effective and appropriate. The GAC also assessed and confirmed the appropriateness of the going-concern assumption used in the annual financial statements, considering management budgets and the capital and the liquidity plans.
- The GAC reviewed and discussed the integrated report process, reporting process and governance and financial information proposed to be included in the integrated report after considering recommendations from the Group Transformation, Social and Ethics Committee, Group Remuneration Committee, GRCMC and the Group Directors' Affairs Committee.
- The GAC recommended to the board that the annual financial statements and the financial information included in the Integrated Report be approved. The board subsequently approved the annual financial statements.
- The GAC considered the significant matters.
- Despite the group's strong capital and liquidity position at 31 December, having considered the spirit of Guidance Notes 4/2020 and 3/2021 issued by the PA and noting growth opportunities and the group's responsibility to support clients and the economy, alongside the current uncertainty about the progression of the virus, possible future waves, and the vaccine rollout and its effectiveness, the GAC supported the recommendation to not declare a final dividend for 2020.
- The GAC considered the circumstances that have led to the restatements contained in notes A4 and A5 of the annual financial statements and has communicated the restatement notification, which is required in accordance with paragraph 3.1 of the JSE Listing Requirements, to the JSE.
- The GAC recommended to the board that the annual financial statements and the financial information included in the Integrated Report be approved. The board subsequently approved the annual financial statements.

### Internal control, risk management and information technology

The Enterprisewide Risk Management Framework (ERMF) operates within a risk philosophy of risk resilience. The group's risk governance and culture ensures that the ERMF is robust, resilient and agile to respond appropriately to the challenging external operating environment. The ERMF continues to be refreshed and fit for purpose and so remains resilient and effective in all material respects, enabling Nedbank's overall positive risk outcome in these extraordinarily risky, demanding and challenging times. The group has been assessing, and continues to assess, the impact of Covid-19 on activities that drive Nedbank's strategy. The overall state of Nedbank's risk management, balance sheet management, internal control environment and risk culture remains sound and robust, and has stood up exceptionally well during this 'black swan' event, and will no doubt continue to serve Nedbank well through these unprecedented times.

The GAC is responsible for reviewing the effectiveness of systems for internal control, financial reporting and risk management, and for considering the major findings of any internal investigations into control weaknesses, fraud or misconduct, and management's response thereto, and has continued to do so even during the Covid-19 crisis.

The GAC receives regular reports provided as part of the ERMF to assist in evaluating the group's internal controls. The ERMF places emphasis on accountability, responsibility, independence, reporting, communication and transparency, both internally and in respect of all Nedbank's key external stakeholders.

The GAC receives regular feedback from the GITCO regarding the monitoring of the adequacy and effectiveness of the group's information system controls and from the GCC regarding its oversight of the adequacy and effectiveness of the credit monitoring processes and systems.

The GAC regularly receives feedback on issues in the group's key issues control log from the CRO.

Having considered, analysed, reviewed and debated information provided by management, other board subcommittees and GIA and the external auditors, the GAC considered that the internal controls of the group had been effective in all material aspects throughout the year under review.

### Combined assurance

Nedbank employs a coordinated assurance (CA) model that integrates and aligns with risk, audit and compliance functions and assurance activities. This enables an effective internal control environment across the group with assurance focused on critical risk exposures supporting the integrity of information used in internal decision-making (to governance forums) and reporting to external stakeholders.

The CA internal forum (comprising the Group Risk, Group Compliance and GIA executive teams) is where CA plans are shared, discussed and challenged and the CA external forum, encompassing the CRO, the Chief Compliance Officer, the CIA together with the CFO and the joint external auditors, provides a platform for enhanced assurance planning, information exchange and collaboration, ensuring an optimal level of governance and oversight over the organisation's risk and internal control environment.

To ensure that the group maintained a strong system of internal control during this period, the CA 2020 plans were approved by the GAC and revised due to the Covid-19 pandemic.

The revision enabled greater collaboration across GIA, Group Compliance and Group Risk assurance coverage for the remainder of 2020, taking into consideration the capacity constraints to deliver on assurance commitments, inclusion of the expanded Nedbank top 12 risks and the additional Covid-19 regulatory requirements.

### Internal Financial Control Attestation

Nedbank continues to maintain a strong risk culture and has implemented adequate and effective internal financial controls (IFCs) to confirm the integrity and reliability of the financial statements. These IFCs safeguard, verify and maintain accountability of Nedbank's assets, are based on established policies and procedures and are implemented by trained and skilled personnel whose duties are duly segregated. Adherence with the implemented internal controls is monitored continuously by the GAC.

Paragraph 3.84(k) of the JSE Listing Requirements (the CE and FD sign-off) was introduced in December 2019 and is effective for issuers with a year-end on or after 31 December 2020. In terms of the JSE revised amendments, the CE and the CFO must make positive statements under their names and signatures in the annual report that:

- the annual financial statements fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of the International Financial Reporting Standards (IFRS);
- no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;
- internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer; and
- the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the audit committee and the auditors the deficiencies in design and operational effectiveness of the internal controls and any fraud that involves directors and have taken the necessary action.

The initial deficiencies in design and operating effectiveness of internal financial controls identified via the group's three lines of defence (first line via cluster finance and risk functions, second line via Group Finance and Group Risk and third line via GIA), were reported to the GAC. The GAC considered the initial deficiencies as well as the appropriateness of management's response including remediation, reliance on compensating controls and additional review procedures. As a result, the GAC noted the CE and CFO final attestation.

### Key focus areas for 2021

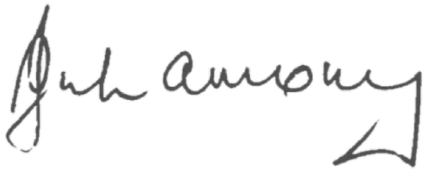
- Continue to ensure that the group's financial systems, processes and controls are operating effectively, are consistent with the group's complexity and are responsive to changes in the environment and industry.
- Ensure, through the Chairman's College of Audit Committee Chairs, that there is meaningful engagement between the GAC chair and the chairs of subsidiary audit committees..
- Monitor the implementation of the amended JSE Listings Requirements, including the effectiveness of internal financial controls.
- Continue to monitor the requirements arising from mandatory audit firm rotation that will require Deloitte & Touche to rotate after the 2023 financial year-end.
- Continue to monitor audit firm rotation at a subsidiary level.

### Conclusion

The GAC is satisfied that it has complied with all statutory duties as well as other duties given to it by the board under its terms of reference.

The GAC reviewed the group annual financial statements for the year ended 31 December 2020 and recommended them for approval to the board on 3 March 2021.

On behalf of the GAC



**Stanley Subramoney**
Group Audit Committee Chair

Sandown
16 March 2021

# REPORT FROM OUR DIRECTORS

The board of directors is pleased to present the consolidated annual financial statements of Nedbank Limited for the year ended 31 December 2020.

## Nature of business

Nedbank Limited ('Nedbank' or 'the company') is a registered bank that, through its subsidiaries, provides a wide range of banking and financial services. Nedbank maintains a primary listing of its non-redeemable, non-cumulative, non-participating preference shares under 'Preference Shares' on JSE Limited ('the JSE').

## King IV Attestation

Nedbank Limited is a wholly owned subsidiary of Nedbank Group Limited and as part of the group applies the principles of King IV. For further information please refer to Nedbank Group's Integrated report and Governance report, which we expect to publish on the 21 April 2021

## Annual financial statements

Details of the financial results are set out on pages 25 to 233 of the annual financial statements, which have been prepared under the supervision of the Nedbank Chief Financial Officer, Mike Davis and prepared in accordance with IFRS as issued by the IASB and IFRS Interpretations Committee (IFRS IC), the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act, 71 of 2008 and the JSE Listings Requirements.

## Companies Act, No 71 of 2008(as amended)

The Board of Directors confirm that Nedbank Limited has complied with the provisions of the Companies Act, No 71 of 2008 (as amended) specifically relating to its incorporation and has operated in conformity with its Memorandum of Incorporation during the period under review.

## Year under review

In a very difficult operating environment, Nedbank remained resilient, made good strategic progress and delivered an improved financial performance in the second half of the year

The year 2020 was unprecedented as the Covid-19 pandemic and subsequent lockdowns led to a rapid slowdown in global economic growth. In SA the pandemic and resultant domestic lockdowns had a severe impact on economic activity as the country's GDP declined by 7,0%, the largest fall in this metric since World War II. Businesses and individuals came under severe pressure and transactional volumes fell significantly in Q2 2020 before recovering somewhat into the second half of the year. In response to the economic crisis the SARB cut interest rates by 300 bps, which proved beneficial to clients' cashflow as instalments on floating-rate loans declined, but this also resulted in lower endowment income for Nedbank. On the back of these economic pressures, job losses increased and many clients' current and future ability to repay debt declined, resulting in higher levels of impairment charges, now determined under more-forward-looking IFRS 9 models. Despite these challenges, the SA banking sector and Nedbank demonstrated strong levels of resilience and was able to support clients while remaining well-capitalised, liquid and profitable, albeit at levels lower than in the prior year.

Nedbank's primary focus has been on the health and safety of our stakeholders, including employees and clients, as well as on helping our clients in good standing to navigate the financial challenges that arose in their business and personal finances. At the peak of the crisis we supported our clients with cashflow relief. We pivoted our strategy to focus on resilience and maintaining a well-capitalised and liquid balance sheet. Capital and liquidity ratios remained strong and most finished the year at higher levels than those reported in June – all well above regulatory minima.

The year under review is fully covered in the Reflections from our Chairman, Reflections from our Chief Executive and Reflections from our Chief Financial Officer sections of the 2020 Nedbank Group Limited Integrated Report, available at nedbankgroup.co.za. on 22 April 2021.

## Share capital

Details of the authorised and issued share capital, together with details of shares issued during the year, appear in note B3 to the annual financial statements.

## Ownership

The holding company of Nedbank is Nedbank Group Limited ('Nedbank Group'). Nedbank Group holds 100% of the issued ordinary shares of the company. Further details of preference shareholders appear in note M4 to the annual financial statements.

## Dividends

Details of the dividends appear in note B2 to the annual financial statements.

## Solvency and liquidity tests

The directors have performed the requisite solvency and liquidity tests where required by the Companies Act, 71 of 2008, as amended.

## Directors

Biographical details of the current directors appear in the Board of Directors section of the Nedbank Group Limited Integrated Report, available at nedbankgroup.co.za. Details of directors' and prescribed officers' remuneration and Nedbank Group shares and Nedbank non-redeemable, non-cumulative, non-participating preference shares issued to directors and prescribed officers appear in the Remuneration Report available at nedbankgroup.co.za on 22 April 2021.

During the period under review, and also subsequent to year-end, the following changes occurred to the Nedbank Board:

- Iain Williamson was appointed as non-executive director on 1 June 2020.
- Mike Davis was appointed as Chief Financial Officer on 1 October 2020.
- Raisibe Morathi resigned as Chief Financial Officer on 30 September 2020.
- Joel Netshitenzhe retired as independent non-executive director on 22 May 2020.
- Peter Moyo resigned as non-executive director on 19 March 2020.

In terms of Nedbank's memorandum of incorporation not less than one-third of the directors are required to retire at each Nedbank annual general meeting (AGM) and may offer themselves for election or reelection. The directors so retiring are firstly those directors appointed by the Nedbank board since the last AGM, and thereafter those longest in office since their last election.

Iain Williamson and Mike Davis were appointed by the board of directors after the Nedbank AGM held on 20 May 2020, and in terms of the memorandum of incorporation their appointments terminate at the close of the AGM to be held on 26 May 2021. They are available for election.

Neo Dongwana, Mpho Makwana, Vassi Naidoo and Mfundo Nkuhlu are also required to seek reelection at the AGM. The aforementioned directors make themselves available for reelection and separate resolutions will be submitted for approval at AGM to be held on 26 May 2021.

In terms of Nedbank Group policy, as applied by Nedbank, non-executive directors and independent non-executive directors of Nedbank who have served on the board for a period longer than nine years are required to retire at the conclusion of the first AGM held after the nine-year term, unless agreed to otherwise by the board.

Mpho Makwana has served on the Nedbank Board for longer than nine years but the board has agreed to extend his term of office for a further year.

Details of the members of the board who served during the year and at the reporting date are given below:

| Name | Position as director | Date initially appointed as director | Date resigned/retired (where applicable) |
|---|---|---|---|
| HR Brody | Independent non-executive director | 1 July 2017 | |
| MWT Brown | Chief Executive and executive director | 17 June 2004 | |
| BA Dames | Independent non-executive director | 30 June 2014 | |
| MH Davis | Chief Financial Officer and executive director | 1 October 2020 | |
| NP Dongwana | Independent non-executive director | 1 June 2017 | |
| EM Kruger | Independent non-executive director | 1 August 2016 | |
| RAG Leith | Non-executive director | 1 January 2019 | |
| PM Makwana | Acting Chairman and lead independent director | 17 November 2011 | |
| L Makalima | Independent non-executive director | 1 June 2017 | |
| T Marwala | Independent non-executive director | 27 May 2019 | |
| MA Matooane | Independent non-executive director | 15 May 2014 | |
| RK Morathi | Previous Chief Financial Officer and executive director | 1 September 2009 | 30 September 2020 |
| MP Moyo | Non-executive director | 11 June 2018 | 19 March 2020 |
| V Naidoo | Independent Chairman | 1 May 2015 | |
| JK Netshitenzhe | Independent non-executive director | 5 August 2010 | 22 May 2020 |
| MC Nkuhlu | Chief Operating Officer and executive director | 1 January 2015 | |
| S Subramoney | Independent non-executive director | 23 September 2015 | |
| IG Williamson | Non-executive director | 1 June 2020 | |

## Directors' interests

Nedbank Group Limited holds the issued ordinary shares.

The directors' interests in ordinary shares in Nedbank Group and non-redeemable, non-cumulative, non-participating preference shares in Nedbank at 31 December 2020 are set out in note M3. The directors had no interest in any third party or company responsible for managing any of the business activities of the group. Banking transactions with directors are entered into in the normal course of business.

## Group Audit Committee and Group Transformation, Social and Ethics Committee Reports

The Audit Committee Report appears on pages 11 to 15 and the Group Transformation, Social and Ethics Committee Report is included in the 2020 Nedbank Group Integrated Report which will be released on 22 April 2021.

## Company Secretary and registered office

As part of the annual board evaluation process, the board of directors conducts an assessment of the Company Secretary. The board is satisfied that Jackie Katzin is suitably competent, qualified and experienced, and adequately and effectively performed the role and duties of a company secretary, and provided the board with independent guidance and support. Jackie Katzin has direct access to, and ongoing communication with, the Chairman of the board and the Chairman and the Company Secretary meet regularly throughout the year. Jackie Katzin is not a director of the company.

The Company Secretary's addresses and registered office are as follows:

| Business address | Registered address | Postal address |
|---|---|---|
| Nedbank Limited<br>Nedbank 135 Rivonia Campus<br>135 Rivonia Road<br>Sandown, Sandton,<br>2196<br>SA | 135 Rivonia Road<br>Sandown, Sandton<br>2196<br>SA | Nedbank Limited<br>PO Box 1144<br>Johannesburg, 2000<br>SA |

## Property and equipment

There was no material change in the nature of the fixed assets of Nedbank or its subsidiaries or in the policy regarding their use during the year.

## Political donations

Nedbank Group has an established policy of not making donations to any political party.

## Contracts and matters in which directors and officers of the company have an interest

No contracts in which directors and officers of the company had an interest and that significantly affected the affairs or business of the company or any of its subsidiaries were entered into during the year.

## Directors' and prescribed officers' service contracts

There are no service contracts with the directors of the company, other than for the Chairman and executive directors as set out below. The directors who entered into these service contracts remain subject to retirement by rotation in terms of Nedbank's memorandum of incorporation.

The key responsibilities relating to Vassi Naidoo's position as Chairman of Nedbank are encapsulated in a contract.

Service contracts have been entered into for Mike Brown, Mfundo Nkuhlu and Mike Davis. These service contracts are effective until the executive directors reach the normal retirement age and stipulate a maximum notice period of six months (12 months for Mike Brown) under most circumstances.

Details relating to the service contracts of prescribed officers are incorporated in the Governance Report, which can be found at nedbankgroup.co.za.

## Subsidiary companies

Details of principal subsidiary companies are reflected in note E3.1 of the annual financial statements.

## Special resolutions by subsidiaries

- 30 January 2020 by Nedgroup Mogale ESD Proprietary Limited relating to the replacement of existing clause 7 with a new clause in the memorandum of incorporation dealing with dividends.
- 23 September 2020 by BoE Private Equity Investments Proprietary Limited relating to the replacement of existing clauses 2 and 3 with new clauses in the memorandum of incorporation dealing with the purpose describing the main business and main object.

## Acquisition of shares

No shares in Nedbank were acquired by Nedbank or by a Nedbank subsidiary during the financial year under review.

## Events after the reporting period

The directors are not aware of any other material events that occurred between the reporting date and 16 March 2021, other than those noted in note M2.

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NEDBANK LIMITED

**Report on the audit of the Nedbank Limited consolidated financial statements**

### Opinion

We have audited the consolidated financial statements of Nedbank Limited and its subsidiaries (the group) set out on pages 25 to 230 which comprise the consolidated statement of financial position at 31 December 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statements of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nedbank Limited at 31 December 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA code) and other independence requirements applicable to performing audits of financial statements of the group and in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA code and in accordance with other ethical requirements applicable to performing audits of the Group and in South Africa. The IRBA code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

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

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| Key audit matter | How the matter was addressed in the audit |
|---|---|

**Valuation of expected credit losses on loans and advances**

Refer to Note C2.2 Impairment charge on loans and advances by classification of the consolidated financial statements for selected disclosures applicable to this matter.

**Overview**

Loans and advances, which represent 72,5% of total assets, and the associated impairment provisions for expected credit losses are significant in the context of the consolidated financial statements.

The determination of impairment provisions for expected credit losses requires significant management judgement, due to the following:

- The level of subjective judgements applied in determining expected credit losses ("ECL");
- The evaluation of significant increase in credit risk ("SICR");
- Models incorporate forward looking macroeconomic variables and assumptions that change on an annual basis; and
- Management have made significant adjustments to ECL models' outputs to address limitations through post model adjustments.

This is further heightened by uncertainty about further spread and mutation of the Covid-19 virus as it impacts the world economy, individuals and businesses.

Credit rating downgrade events in South Africa have resulted in additional key judgements and changes to assumptions being made during the current year. Trading in this environment requires management to consider implementing model changes to ensure they remain responsive to the current economic conditions including emerging customer and government payment relief and forbearance. The ECL provision for loans and advances are significant in the context of the financial statements due to its magnitude and the significant level of judgement required in the determining the value of the ECL provision. Accordingly, we have identified the valuation of ECL on loans and advances to be a key audit matter.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus and professional scepticism in the Group's application of IFRS 9 *Financial Instruments* are detailed below:

- Definitions, policy choices, and judgements made in applying accounting policies including SICR and stage migration and collateral valuation;
- Post model adjustments;
- Forward looking information; and
- Disclosures.

**Definitions, policy choices, and judgements made in applying accounting policies including SICR and stage migration**

The Group is required to recognise an allowance for either 12 month or lifetime ECL's in accordance with IFRS 9, depending on whether there has been a significant increase in credit risk ("SICR") since initial recognition.

Indicators of SICR in the retail portfolio may include short-term forbearance, direct debit cancellation, extension to the terms granted and previous arrears within the past months. In addition to this, the emergence of new risks due to significant loss of jobs, closures of business and significant changes in interest rates not initially predicted for in the ECL models, requires careful reassessment. The current economic climate has resulted in an increase in ECL related to these factors.

Our response to the key audit matter included performing the following audit procedures across both retail and wholesale portfolios:

- Through inspection and enquiry, we obtained an understanding of management's process over credit origination, credit monitoring and credit remediation, with a focus on how management have responded to the effects of the global pandemic on individuals and businesses.
- We identified relevant controls that address the ECL risks identified and evaluated the design and implementation, and in some cases the operating effectiveness, of these controls.
- We focused on controls over the quantification of ECL the governance processes in place to assess the appropriateness of changes to credit models, new data inputs; the credit forums where key judgements are considered, and approval processes over ECL, including staging and post model adjustments.

**Definitions, policy choices, and judgements made in applying accounting policies including SICR, stage migration and collateral valuation**

- Supported by our accounting specialists, we evaluated management's application of key definitions in IFRS 9 such as default and SICR and whether these appropriately reflect current economic conditions through reviewing the principles in these policies against accounting guidelines in each portfolio.
- This included assessing the impact of debt relief measures, government relief programmes and the effect of financial support and credit enhancements in the consideration of SICR indicators.
- We evaluated refinements in methodologies made during the year against IFRS and industry practice.

**Model risk**

Together with the assistance of our modelling specialists, we:

- We tested the design and operating effectiveness of key controls focusing on the completeness and accuracy of external and internal data inputs into the ECL calculation.
- We involved our modelling specialists to review the ECL model development and code to assess whether these appropriately reflected the Group's policies and methodologies.
- Assessed changes to definitions and methodologies (at a parameter and ECL calculation level);
- Re-performed the IFRS 9 model build at a parameter level as well as the assessment of its components, e.g. probability of default, loss given default, exposure at default, SICR;
- Re-performed the ECL, SICR and stage migration calculations;
- We have assessed the appropriateness of the Group's SICR methodology and calibrations of the ECL models and we have tested the stage allocations including SICR for a sample of individual exposures and portfolios back to source data; and
- We also tested a sample of loans and advances in stages 1, 2 and 3 to assess that they were included in the appropriate stage based on the criteria established by the Group by considering factors such as credit risk ratings, the ageing of loans and advances and arrears status.

**Collateral valuation**

- We have evaluated the collateral management. monitoring and valuation process and inspected the legal documentation in support of collateral valuation and collateral validity in determining the ECL impact.

Indicators of a SICR in the wholesale portfolio may include any of the following: significant increase in the credit spread, significant adverse changes in business, financial and/or economic conditions in which the client operates, actual or expected forbearance or restructuring, significant change in collateral value or early signs of liquidity and cashflow challenges. The current economic climate has further heightened risk in exposures in those sectors that were significantly impacted by the Covid-19 pandemic, not limited to aviation, hospitality, construction as well as state owned entities.

IFRS 9 *Financial Instruments* requires that the determination of the ECL should reflect all reasonable and supportable information, including best available information which is forward-looking. Such forward-looking information require significant judgement and may include:

- Macroeconomic forecasts, including GDP, industry-sector growth rates, unemployment (national and regional), inflation, interest rates, property price indexation;
- The borrowers' probability of non-payment in response to macroeconomic factors that specifically relate to the borrower;
- The borrowers' behaviour in respect of timing of prepayment or extension options or use of undrawn facilities that impact the lender's exposure;
- The type and recovery methods applied for collateral within the wholesale and business bank portfolios; and
- The valuation of collateral and timing of foreclosure.

**Post model adjustments**

A significant portion of the ECL is calculated on a modelled basis. Post model adjustments are applied to address judgemental risks that are not specifically considered by the ECL models. The impact from the Covid-19 pandemic has led to significant loss of jobs, closures of businesses and significant changes in interest rates, that due to the inherent limitations of ECL models, were reconsidered for appropriateness. The basis and calculation of the post model adjustments require significant judgement.

**Forward-looking information**

The assessment of SICR and the calculation of ECL both incorporate forward-looking information and assumptions which are subjective and carry estimation risk requiring specific audit attention. The Group has performed historical analyses and identified the key economic variables impacting credit risk and ECL for each portfolio which required the use of specialists. The assumptions and forecasts for the macroeconomic scenarios require careful assessment in the context of the upside and downside risks to the economy. The determination of appropriate weightings incorporated into macroeconomic scenarios requires significant management judgement.

**Disclosure**

Financial reporting requires inclusion of disclosures that provide an adequate level of transparency regarding uncertainties inherent in the judgements, assumptions and estimates applied in determining ECL.This particularly important in an environment of heightened risk and uncertainty created by the Covid-19 pandemic.

- With the support of our valuation specialists, we have independently revalued a sample of the properties held as collateral by the bank.
- Where management used specialists to perform the valuations, we evaluated their competence, capabilities and objectivity in performing these valuations.
- Together with our corporate finance specialist we have stress tested the timing of the cash flows in the different scenarios which may be encountered in the realisation of the collateral considering the current economic climate as part of our assessment of management's valuations of recoverable amounts.
- Specifically, for wholesale and business banking portfolio exposures:
  - » We selected a sample of performing loans and advances and performed a detailed independent assessment of the expected credit losses. This included benchmarking internal ratings of loans and advances against external ratings;
  - » For a sample of loans and advances within sectors identified to be significantly impacted by Covid-19 restrictions and that had been individually evaluated and impaired, we assessed the valuation of impairment losses by developing an independent expectation of the amount of the ECL allowance. This involved assessing the collateral value and the expected cashflows, with the assistance of our valuation specialist;
  - » We considered evidence from externally available public data to assess the reasonableness of the assumptions applied by management, including evaluating the appropriateness of any guarantees or debtor substitution on the valuation of ECL raised; and
  - » For a sample of the more complex loans and advances, we used our own valuation specialists to assist the audit team in assessing the key valuation assumptions and performing analyses of inputs such as expected timing of cash flows under various stress scenarios.

**Post model adjustments**

We obtained management's post model adjustments and performed, amongst other procedures, the following:

- We tested the design, implementation and where applicable, the operating effectiveness of the revised controls over the governance and approval of post model adjustments.
- We tested supporting documentation and reperformed calculations for post model adjustments and assessed the quantification and rationale for reasonableness of judgemental risks that are not specifically considered by the ECL models.
- We assessed the inherent limitations of the ECL models in this Covid-19 impacted environment within the retail portfolios, including the limitation of past performance, emerging risks which are not yet present in the current data, macro-economic forecast challenges and sectoral stresses.
- We independently re-performed the calculations for the significant overlays including those related to the Covid-19 pandemic.
- We tested the industry level adjustments made to risk ratings and staging, as well as the consistency within the Group regarding the outlook of a given industry and its impact on credit risk.
- We evaluated the appropriateness of the sectoral post model adjustments across the portfolios by assessing the risk classification against our independent economists' view and assessed management's methodology in arriving to the sector overlay against and an acceptable estimate range.
- We assessed the completeness of the post model adjustments against our own research and publicly available information including sector, client and portfolio specific risk factors.

| | |
|---|---|
| | **Forward-looking information**<br>• We involved our economics specialists to evaluate the forward-looking model, assess the macroeconomic scenario forecasts generated.<br>• We assessed any changes made to processes and governance approvals over macroeconomic scenario forecasts.<br>• Together with our economic specialists, we tested how previously forecasted scenarios have performed against actual economic factors and how these compare based on our knowledge of the industry and publicly available external data.<br>• We have performed multiple economic scenario analyses on how management's models predict different speeds by which borrowers may resume payments, under heightened uncertainty arising in an economic downturn, to determine reasonableness.<br>**Disclosure**<br>With the support of our accounting technical specialists, we evaluated management's disclosure of the significant judgements exercised and the key assumptions used to determine its adequacy in terms of IFRS.<br><br>In addition, we assessed whether the disclosure conveys the significant judgements and assumptions made by management in material effects of the current economic environment. |
| **Valuation of level 3 financial assets carried at fair value** | |
| Refer to note H2 Valuation of financial instruments of the consolidated financial statements for the selected disclosure applicable to this matter.<br><br>Included in financial assets carried at fair value through profit and loss and fair value through other comprehensive income, are financial assets classified as level 3 in the fair value hierarchy as prescribed by IFRS 13 *Fair Value Measurement*.<br><br>Financial instruments that are classified as level 3 in the fair value hierarchy will have a significant element of estimation uncertainty inherent in their value, which by their nature are unobservable.<br><br>The level of estimation uncertainty has increased in the 2020 financial year as a result of the impact of Covid-19 on market conditions, including the lack of liquidity for certain asset classes.<br><br>These portfolios include investment securities which are difficult to value as a result of applying highly complex or non-standard valuation models or subjective inputs that are not readily available.<br><br>As the determination of the fair value of level 3 financial instruments is a key source of estimation uncertainty, is subject to significant judgements and represents a material balance which required significant auditor effort, this matter was considered to be a key audit matter in our audit of the consolidated financial statements. | Our response to the key audit matter included performing the following audit procedures, amongst others:<br>• We tested the design, implementation and operating effectiveness of the relevant controls, including amongst others, the governance exercised by various forums over the development of the valuation models and methodologies, assumptions, policies, independent price verification assessments.<br>• We evaluated the appropriateness of the models used, changes by managementto the models and assessed model inputs applied at year-end<br>• We used our independent valuation tools to re-perform valuations across a range of financial instruments to assess reasonableness.<br>• For a sample of unlisted investments, with the assistance from our valuation specialist, we have:<br>» Independently assessed the appropriateness of the valuation methodology and technique used by management in the valuation of the instruments including the use of market related data, where available. Our assessment included evaluating market updates in the current year as a result of the Covid-19 pandemic and market practice;<br>» Evaluated, for a sample of complex financial instruments, the key inputs and assumptions driving the valuation including, amongst others, cash flow forecasts, discount rates and pricing multiples, as well as impacts from market volatility on the reasonableness of the reported exit price against applicable valuation methodologies.<br>• We evaluated the appropriateness of the disclosures made relating to the valuation of financial instruments in relation to the fair value categorisation and hierarchy, to assess consistency with the requirements of the relevant accounting standards, such as IFRS 7 Financial instruments: disclosures, IFRS 9 Financial Instruments and IFRS 13 Fair value measurements. |

## Other information

The directors are responsible for the other information. The other information comprises the information included in the 233 page document titled “Nedbank Limited audited consolidated annual financial statements for the year ended 31 December 2020” which includes the Certification from the Company Secretary, report from the Group Audit Committee, and the Directors’ Report as required by the Companies Act of South Africa and the Chief Executive and Chief Financial Officer internal financial control responsibility statement, About this report, 2020 Highlights, Financial highlights, Ten-year review: Consolidated statement of comprehensive income, Ten-year review: Consolidated statement of financial position, M4 Preference shareholder analysis and Compliance with IFRS financial statement notes which we obtained prior to the date of this report. The other information does not include the consolidated financial statements and our auditors’ report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors’ report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

### Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Nedbank Group Limited for 47 years and Ernst Young Inc. has been the auditor of Nedbank Group Limited for 2 years.

Ernst & Young Inc.

**Farouk Mohideen**

Director

Chartered Accountant (SA)

Registered Auditor

For and on behalf of Ernst & Young Inc.

16 March 2021

DELOITTE & TOUCHE

**Lito Nunes**

Partner

Chartered Accountant (SA)

Registered Auditor

For and on behalf of Deloitte

Touche

16 March 2021

# AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

| | Notes | 2020 Rm | 2019 Rm |
|---|---|---|---|
| Interest received on financial instruments measured at amortised cost and debt instruments at fair value through other comprehensive income (FVOCI) | B5.1.1 | 67 812 | 78 650 |
| Interest received on other financial instruments and similar income | B5.1.1 | 842 | 590 |
| **Interest and similar income** | | 68 654 | 79 240 |
| Interest expense and similar charges | B5.1.2 | 41 146 | 51 888 |
| **Net interest income** | | 27 508 | 27 352 |
| Impairments charge on financial instruments | C2.1 | 12 425 | 5 953 |
| **Income from lending activities** | | 15 083 | 21 399 |
| Non-interest revenue | B5.2 | 19 026 | 20 905 |
| **Operating income** | | 34 109 | 42 304 |
| Total operating expenses | B6 | 27 705 | 27 891 |
| Indirect taxation | B7.1 | 1 017 | 961 |
| **Profit from operations before non-trading and capital items** | | 5 387 | 13 452 |
| Non-trading and capital items | B1.2 | (417) | (424) |
| **Profit from operations** | | 4 970 | 13 028 |
| Share of gains of associate companies | | 115 | 121 |
| **Profit before direct taxation** | | 5 085 | 13 149 |
| Direct taxation | B7.2.1 | 1 164 | 3 076 |
| **Profit for the year** | | 3 921 | 10 073 |
| **Other comprehensive income (OCI) net of taxation** | B7.2.3 | 256 | 144 |
| **Items that may subsequently be reclassified to profit or loss** | | | |
| Exchange differences on translating foreign operations | | 199 | (37) |
| Debt instruments at FVOCI – net change in fair value | | 96 | (294) |
| **Items that may not subsequently be reclassified to profit or loss** | | | |
| (Losses)/Gains on property revaluations | | (40) | 145 |
| Remeasurements on long-term employee benefit assets | | 1 | 330 |
| **Total comprehensive income for the year** | | 4 177 | 10 217 |
| **Profit attributable to:** | | | |
| – Ordinary equity holders | | 3 977 | 10 087 |
| – Holders of participating preference shares | | (58) | |
| – Non-controlling interest – ordinary shareholders | | 2 | (14) |
| **Profit for the year** | | 3 921 | 10 073 |
| **Total comprehensive income attributable to:** | | | |
| – Ordinary equity holders | | 4 233 | 10 231 |
| – Holders of participating preference shares | | (58) | |
| – Non-controlling interest – ordinary shareholders | | 2 | (14) |
| **Total comprehensive income for the year** | | 4 177 | 10 217 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT

| | Notes | 31 December 2020 Rm | 31 December 2019 Rm (Restated)[1] | 1 January 2019 Rm (Restated)[1] |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | C6 | **8 115** | 8 199 | 7 931 |
| Other short-term securities | C4 | **27 082** | 42 395 | 57 844 |
| Derivative financial instruments | C7 | **79 933** | 34 923 | 22 412 |
| Government and other securities[1] | C3 | **131 380** | 99 709 | 73 487 |
| Loans and advances[1,2] | C1.1 | **835 568** | 815 063 | 748 428 |
| Other assets | G3 | **10 407** | 10 544 | 12 040 |
| Current taxation assets | | **75** | 213 | 105 |
| Investment securities | E1 | **8 269** | 9 007 | 6 787 |
| Non-current assets held for sale | G2 | **69** | 90 | 305 |
| Investments in associate companies | E2 | **1 037** | 1 229 | 786 |
| Deferred taxation assets | B7.3 | **346** | 42 | 40 |
| Investment property | | | 56 | |
| Property and equipment[3] | F1 | **9 661** | 10 403 | 8 367 |
| Long-term employee benefit assets | G1.1 | **5 709** | 5 505 | 4 764 |
| Mandatory reserve deposits with central banks | C6 | **24 482** | 21 424 | 19 789 |
| Intangible assets | F2 | **10 225** | 9 508 | 8 538 |
| **Total assets** | | **1 152 358** | 1 068 310 | 971 623 |
| **Equity and liabilities** | | | | |
| Ordinary share capital | B3.1 | **28** | 28 | 28 |
| Ordinary share premium | | **20 073** | 19 182 | 19 182 |
| Reserves | | **53 512** | 53 582 | 49 636 |
| **Total equity attributable to ordinary equity holders** | | **73 613** | 72 792 | 68 846 |
| Preference share capital and premium | B3.2 | **3 561** | 3 561 | 3 561 |
| Holders of participating preference shares | | **(58)** | 7 | 561 |
| Holders of additional tier 1 capital instruments | B4 | **7 822** | 6 850 | 3 416 |
| Non-controlling interest attributable to ordinary shareholders | | **11** | 9 | 23 |
| **Total equity** | | **84 949** | 83 219 | 76 407 |
| Derivative financial instruments | C7 | **64 649** | 27 621 | 19 761 |
| Amounts owed to depositors[4] | D1 | **929 761** | 881 297 | 806 487 |
| Provisions and other liabilities[5] | J1.1 | **12 359** | 13 473 | 10 414 |
| Current taxation liabilities | | **516** | 42 | 272 |
| Deferred taxation liabilities | B7.3 | **155** | 645 | 224 |
| Long-term employee benefit liabilities | G1.1 | **2 366** | 2 401 | 2 648 |
| Long-term debt instruments | D2 | **57 603** | 59 612 | 55 410 |
| **Total liabilities** | | **1 067 409** | 985 091 | 895 216 |
| **Total equity and liabilities** | | **1 152 358** | 1 068 310 | 971 623 |

*[1] Refer to note A4: Reclassification.*

*[2] Included in loans and advances are loans to fellow subsidiaries of R35,9bn (2019: R31,1bn) and derivative financial assets to fellow subsidiaries of R2,7bn (2019: R1,6bn).*

*[3] Includes right-of-use assets.*

*[4] Included in amounts owed to depositors are deposits from fellow subsidiaries of R37,4bn (2019: R32,7bn) and derivative financial liabilities from fellow subsidiaries of R3,8bn (2019: 1,3bn).*

*[5] Includes lease liabilities.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER

| Rm | Number of ordinary shares | Ordinary share capital | Ordinary share premium | Reserves: Foreign currency translation reserve[1] | Reserves: Property revaluation reserve[2] | Reserves: Share-based payments reserve[3] |
|---|---|---|---|---|---|---|
| Balance at 1 January 2019 | 27 876 479 | 28 | 19 182 | 162 | 1 536 | (579) |
| Additional tier 1 capital instruments issued | | | | | | |
| Preference share dividends | | | | | | |
| Preference share buybacks | | | | | | |
| Additional tier 1 capital instruments interest paid | | | | | | |
| Dividend to shareholders | | | | | | |
| Total comprehensive income/(losses) for the year | | | | (37) | 145 | – |
| Profit attributable to ordinary and preference equity holders | | | | | | |
| Exchange differences on translating foreign operations | | | | (37) | | |
| Movement in fair-value reserve | | | | | | |
| Gains on property revaluations | | | | | 145 | |
| Remeasurements on long-term employee benefit assets | | | | | | |
| Transfer (from)/to reserves and other movements | | | | | (67) | 59 |
| Share-based payments reserve movement | | | | | | (243) |
| Other movements | | | | | | |
| **Balance at 31 December 2019** | **27 876 479** | **28** | **19 182** | **125** | **1 614** | **(763)** |
| Additional tier 1 capital instruments issued | | | | | | |
| Share issuance | **190 000** | | **891** | | | |
| Preference share dividends | | | | | | |
| Preference share buybacks | | | | | | |
| Additional tier 1 capital instruments interest paid | | | | | | |
| Dividend to shareholders | | | | | | |
| Total comprehensive (losses)/income for the year | | | | **199** | **(40)** | **–** |
| Profit attributable to ordinary and preference equity holders | | | | | | |
| Exchange differences on translating foreign operations | | | | **199** | | |
| Movement in fair-value reserve | | | | | | |
| Losses on property revaluations | | | | | **(40)** | |
| Remeasurements on long-term employee benefit assets | | | | | | |
| Transfer (from)/to reserves and other movements | | | | | **(36)** | **(337)** |
| Share-based payments reserve movement | | | | | | **(438)** |
| Other movements | | | | | | |
| **Balance at 31 December 2020** | **28 066 479** | **28** | **20 073** | **324** | **1 538** | **(1 538)** |

*[1] This represents the cumulative foreign exchange differences that arise on the translation of an entity with a different functional currency than the presentation currency of the parent company. The cumulative reserve relating to a subsidiary or associate company that is disposed of is included in the determination of profit/loss on disposal of the subsidiary or associate company.*

*[2] This represents the cumulative amounts that have been recognised on the revaluation of group properties net of deferred taxation. When the property is disposed of, the cumulative revaluation surplus is transferred directly to retained income.*

*[3] Equity-settled share-based payment expenses are recognised in the statement of comprehensive income, with the corresponding amount recognised in share-based payment reserves. Any excess tax benefit over the relative tax on the share-based payments expense is recognised directly in this reserve. On the expiry or exercise of a share-based instrument, the cumulative amount recognised in this respect is transferred directly to other distributable reserves. The negative share-based payment reserve arises from the grants paid by Nedbank Limited to various share schemes to acquire Nedbank Group Limited shares, which is recognised directly in equity. The reconciliation shown in this note is the cumulative share-based payment charge for all share schemes.*

| Reserves | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Other non-distributable reserves | FVOCI reserve | Other distributable reserves | Total equity attributable to ordinary equity holders | Preference share capital and premium | Holders of preference shares in subsidiary companies | Holders of participating preference shares | Holders of additional tier 1 capital instruments | Non-controlling interest attributable to ordinary share-holders | Total equity |
| 15 | 610 | 47 651 | 68 605 | 3 561 | 561 | | 3 416 | 23 | 76 166 |
| | | | – | | | | 3 500 | | 3 500 |
| | | (345) | (345) | | | | (66) | | (411) |
| | | | – | | (554) | | | | (554) |
| | | (496) | (496) | | | | | | (496) |
| | | (4 750) | (4 750) | | | | | | (4 750) |
| – | (294) | 10 417 | 10 231 | – | – | | – | (14) | 10 217 |
| | | 10 087 | 10 087 | | | | | (14) | 10 073 |
| | | | (37) | | | | | | (37) |
| | (294) | | (294) | | | | | | (294) |
| | | | 145 | | | | | | 145 |
| | | 330 | 330 | | | | | | 330 |
| | | 8 | – | | | | | | – |
| | | (198) | (441) | | | | | | (441) |
| | | (12) | (12) | | | | | | (12) |
| **15** | **316** | **52 275** | **72 792** | **3 561** | **7** | **–** | **6 850** | **9** | **83 219** |
| | | | **–** | | | | **972** | | **972** |
| | | | **891** | | | | | | **891** |
| | | **(280)** | **(280)** | | | | | | **(280)** |
| | | | **–** | | **(7)** | | | | **(7)** |
| | | **(739)** | **(739)** | | | | | | **(739)** |
| | | **(2 800)** | **(2 800)** | | | | | | **(2 800)** |
| **–** | **96** | **3 978** | **4 233** | **–** | **–** | **(58)** | **–** | **2** | **4 177** |
| | | **3 977** | **3 977** | | | **(58)** | | **2** | **3 921** |
| | | | **199** | | | | | | **199** |
| | **96** | | **96** | | | | | | **96** |
| | | | **(40)** | | | | | | **(40)** |
| | | **1** | **1** | | | | | | **1** |
| | | **373** | **–** | | | | | | **–** |
| | | **(53)** | **(491)** | | | | | | **(491)** |
| | | **7** | **7** | | | | | | **7** |
| **15** | **412** | **52 761** | **73 613** | **3 561** | **–** | **(58)** | **7 822** | **11** | **84 949** |

# CONSOLIDATED STATEMENT OF CASHFLOWS

## FOR THE YEAR ENDED 31 DECEMBER

| | Notes | 2020 Rm | 2019 Rm (Restated)[2] |
|---|---|---|---|
| **Cash generated by operations[2]** | L1 | **17 429** | 26 092 |
| Cash received from clients[2] | L2 | **83 785** | 100 582 |
| Cash paid to clients, employees and suppliers[2] | L3 | **(67 758)** | (75 927) |
| Dividends received on investments | L4 | **266** | 210 |
| Recoveries on loans previously written off | | **1 136** | 1 227 |
| **Change in funds for operating activities** | | **(3 386)** | (13 775) |
| Increase in operating assets[2] | L5 | **(90 688)** | (96 223) |
| Increase in operating liabilities[2] | L6 | **87 302** | 82 448 |
| **Net cash from operating activities before taxation** | | **14 043** | 12 317 |
| Taxation paid | L7 | **(2 344)** | (3 815) |
| **Cashflows from operating activities** | | **11 699** | 8 502 |
| **Cashflows utilised by investing activities** | | **(3 995)** | (7 821) |
| Acquisition of property and equipment, computer software and development costs and investment property | | **(3 696)** | (4 476) |
| Disposal of property and equipment, computer software and development costs and investment property | | **84** | 15 |
| Disposal of investment banking assets | | **30** | 23 |
| Disposals/(Acquisitions) of investments in associate companies | | **266** | (342) |
| Acquisition of investment securities | | **(2 116)** | (3 743) |
| Disposal of investment securities | | **1 437** | 702 |
| **Cashflows (utilised by)/from financing activities** | | **(4 730)** | 1 222 |
| Issue of ordinary shares | | **891** | |
| Issue of additional tier 1 capital instruments | | **972** | 3 500 |
| Issue of long-term debt instruments | D2.1 | **5 189** | 12 895 |
| Redemption of long-term debt instruments | D2.1 | **(7 039)** | (8 737) |
| Capital repayments of lease liabilities | | **(924)** | (845) |
| Dividends paid to ordinary shareholders | | **(2 800)** | (4 750) |
| Preference share dividends paid | | **(280)** | (345) |
| Additional tier 1 capital instruments interest paid | | **(739)** | (496) |
| **Effects of exchange rate changes on opening cash and cash equivalents** | | [1] | [1] |
| **Net increase in cash and cash equivalents** | | **2 974** | 1 903 |
| Cash and cash equivalents at the beginning of the year[3] | | **29 623** | 27 720 |
| **Cash and cash equivalents at the end of the year[3]** | C6 | **32 597** | 29 623 |

*[1] Represents amounts less than R1m.*

*[2] 2019 restated, refer to note A5: Restatement of the consolidated statement of cashflows.*

*[3] Including mandatory reserve deposits with central banks.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SECTION A: ACCOUNTING POLICIES

### A1 PRINCIPAL ACCOUNTING POLICIES

#### ACCOUNTING POLICIES

The group's principal accounting policies in preparing the consolidated financial statements of Nedbank Limited are disclosed in the individual sections of the financial statements. This section details the basis of preparation and key accounting policy elections.

#### BASIS OF PREPARATION

The financial statements have been prepared on a going-concern basis. The financial statements have been prepared on a basis consistent with the prior year. The new accounting standards, interpretations and amendments to existing accounting standards and interpretations effective in the current year that have a material impact on the group have been disclosed. The amendments to standards not yet effective at 31 December 2020 are not expected to have a significant impact on implementation. During the year the group had complied with externally imposed capital requirements.

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB and IFRS IC, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act, 71 of 2008 and the JSE Listings Requirements.

The financial information presented in the consolidated financial statements comprises that of the parent company, Nedbank Group Limited, together with its subsidiaries, including consolidated structured entities and associates, presented as a single entity ('the group'). The financial information presented in the separate financial statements comprises that of the parent company, Nedbank Group Limited ('the company'). The accounting policies of the group apply to the company unless otherwise stated. Separate financial statements for the company are available at the company's headoffice at Nedbank 135 Rivonia Road Campus, 135 Rivonia Road, Sandown, 2196, Johannesburg.

The financial statements are presented in SA rand, the functional currency of Nedbank Limited, and are rounded off to the nearest million rands.

## ACCOUNTING POLICY ELECTIONS

The following accounting policy elections have been made by the group:

| Asset/Liability | Option | ELECTION AND IMPLICATION | Note/Section |
|---|---|---|---|
| **Property and equipment** | • International Accounting Standard (IAS) 16 permits the use of the cost or revaluation model for the subsequent measurement of property and equipment (choice per category). | • Land and buildings are stated at revalued amounts, being fair value less subsequent depreciation and impairment.<br>• Revaluation surpluses are recognised in equity, through OCI. When the property is disposed of, the cumulative revaluation surplus is transferred directly to retained income.<br>• Computer equipment, furniture and other equipment and vehicles are carried at cost less accumulated depreciation and impairment.<br>• Right-of-use assets in accordance with IFRS 16 are carried at cost less accumulated depreciation and impairment. | F1 |
| **Investment in venture capital divisions** | • IAS 28 provides an exemption from applying the equity method of accounting if an investment in an associate is held by, or indirectly through, a venture capital organisation. | • The group determines, on initial recognition of an investment, whether the investment will be accounted for using equity accounting or at fair value through profit or loss. This election is made separately for each associate considering the type of investment being made and the appropriate measurement basis to be applied. | E2 |
| **Financial instruments** | • IFRS 9 permits trade date or settlement date accounting for the regular-way purchase or sale of financial assets. | • Regular-way purchases or sales of financial assets are recognised and derecognised using trade date accounting. | H |
| **Investments in subsidiaries and associate companies in separate financial statements** | • In terms of IAS 27, investments in subsidiaries and associates can be accounted for in the separate financial statements at cost, in accordance with IFRS 9 or in terms of IAS 28. | • The group has elected to recognise investments in subsidiary companies at cost in the separate financial statements.<br>• The group has elected to recognise investments in associate companies in the separate financial statements in terms of IAS 28, ie using the equity method of accounting. | Separate financial statements(available upon request) |

## A2 KEY ASSUMPTIONS CONCERNING THE FUTURE AND KEY SOURCES OF ESTIMATION

### KEY ASSUMPTIONS CONCERNING THE FUTURE AND KEY SOURCES OF ESTIMATION

The group's key accounting policy elections are set out in note A1.2 of the consolidated financial statements. Detailed accounting policies are disclosed in the notes to the consolidated financial statements. Certain policies, as well as estimates made by management, are considered to be important to an understanding of the group's financial position since they require management to make difficult, complex or subjective judgements and estimates, some of which may relate to matters that are inherently uncertain. Further information on accounting policies, that include estimates that are particularly sensitive in terms of judgements and the extent to which estimates are used, are provided within the notes to the consolidated financial statements. Other accounting policies involve significant amounts of judgements and estimates, but the total amounts involved are not significant to the financial statements. Management has agreed the accounting policies and critical accounting estimates with the board and Nedbank Group Audit Committee.

## A3 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

### NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

There are no standards that are not yet effective and that would be expected to have a material impact on the group in the current or future reporting periods and on foreseeable future transactions.

## A4 RECLASSIFICATIONS

During the year, the group reviewed its presentation of listed corporate bonds. As a result of this review, the group's listed corporate bonds previously included in 'Government and other securities' have been reclassified to 'Loans and advances' in order to better reflect the group's credit risk management practices as listed corporate bonds are originated through the same business process as loans and advances. To provide comparability the prior-year balances have been restated accordingly. The reclassification had no impact on the group's statement of comprehensive income, statement of changes in equity and statement of cashflows. The impact of the reclassification on the group's statement of financial position is detailed below:

| | 31 December 2019 | | | 1 January 2019 | | |
|---|---|---|---|---|---|---|
| | Restated | Restatement | As previously reported | Restated | Restatement | As previously reported |
| **Assets** | | | | | | |
| Cash and cash equivalents | 8 199 | | 8 199 | 7 931 | | 7 931 |
| Other short-term securities | 42 395 | | 42 395 | 57 844 | | 57 844 |
| Derivative financial instruments | 34 923 | | 34 923 | 22 412 | | 22 412 |
| Government and other securities | 99 709 | (27 953) | 127 662 | 73 487 | (22 636) | 96 123 |
| Loans and advances | 815 063 | 27 953 | 787 110 | 748 428 | 22 636 | 725 792 |
| Other assets | 10 544 | | 10 544 | 12 040 | | 12 040 |
| Current taxation assets | 213 | | 213 | 105 | | 105 |
| Investment securities | 9 007 | | 9 007 | 6 787 | | 6 787 |
| Non-current assets held for sale | 90 | | 90 | 305 | | 305 |
| Investments in associate companies | 1 229 | | 1 229 | 786 | | 786 |
| Deferred taxation assets | 42 | | 42 | 40 | | 40 |
| Investment property | 56 | | 56 | | | |
| Property and equipment | 10 403 | | 10 403 | 8 367 | | 8 367 |
| Long-term employee benefit assets | 5 505 | | 5 505 | 4 764 | | 4 764 |
| Mandatory reserve deposits with central banks | 21 424 | | 21 424 | 19 789 | | 19 789 |
| Intangible assets | 9 508 | | 9 508 | 8 538 | | 8 538 |
| **Total assets** | 1 068 310 | – | 1 068 310 | 971 623 | – | 971 623 |
| **Equity and liabilities** | | | | | | |
| Ordinary share capital | 28 | | 28 | 28 | | 28 |
| Ordinary share premium | 19 182 | | 19 182 | 19 182 | | 19 182 |
| Reserves | 53 582 | | 53 582 | 49 636 | | 49 636 |
| **Total equity attributable to ordinary equity holders** | 72 792 | – | 72 792 | 68 846 | – | 68 846 |
| Preference share capital and premium | 3 561 | | 3 561 | 3 561 | | 3 561 |
| Holders of preference shares | 7 | | 7 | 561 | | 561 |
| Holders of additional tier 1 capital instruments | 6 850 | | 6 850 | 3 416 | | 3 416 |
| Non-controlling interest attributable to ordinary shareholders | 9 | | 9 | 23 | | 23 |
| **Total equity** | 83 219 | – | 83 219 | 76 407 | – | 76 407 |
| Derivative financial instruments | 27 621 | | 27 621 | 19 761 | | 19 761 |
| Amounts owed to depositors | 881 297 | | 881 297 | 806 487 | | 806 487 |
| Provisions and other liabilities | 13 473 | | 13 473 | 10 414 | | 10 414 |
| Current taxation liabilities | 42 | | 42 | 272 | | 272 |
| Deferred taxation liabilities | 645 | | 645 | 224 | | 224 |
| Long-term employee benefit liabilities | 2 401 | | 2 401 | 2 648 | | 2 648 |
| Long-term debt instruments | 59 612 | | 59 612 | 55 410 | | 55 410 |
| **Total liabilities** | 985 091 | – | 985 091 | 895 216 | – | 895 216 |
| **Total equity and liabilities** | 1 068 310 | – | 1 068 310 | 971 623 | – | 971 623 |

## A5 RESTATEMENT OF THE CONSOLIDATED STATEMENT OF CASHFLOWS

During the year, management corrected the cashflow from operating activities disclosure to exclude non- cash items (i.e. accrued interest income, accrued interest expense, accrued operating expenses, unrealised fair-value adjustments, share-based payment expense and accrued employee benefits) from the presentation of interest and similar income, interest expense and similar charges, other non-interest income and staff costs respectively which were previously erroneously included in the consolidated statement of cashflows. As a result, the comparative information has been restated.

The impact of the restatement on the group's consolidated statement of cashflows is detailed below:

| | 31 December 2019 | | |
|---|---|---|---|
| | Restated | Restatement | As previously reported |
| **Cash generated by operations** | 26 092 | 665 | 25 427 |
| Cash received from clients | 100 582 | 209 | 100 373 |
| Cash paid to clients, employees and suppliers | (75 927) | 456 | (76 383) |
| Dividends received on investments | 210 | | 210 |
| Recoveries on loans previously written off | 1 227 | | 1 227 |
| **Change in funds for operating activities** | (13 775) | (665) | (13 110) |
| Increase in operating assets | (96 223) | (209) | (96 014) |
| Increase in operating liabilities | 82 448 | (456) | 82 904 |
| **Net cash from operating activities before taxation** | 12 317 | – | 12 317 |
| Taxation paid | (3 815) | | (3 815) |
| **Cashflows from operating activities** | 8 502 | – | 8 502 |
| **Cashflows utilised by investing activities** | (7 821) | – | (7 821) |
| Acquisition of property and equipment, computer software and development costs and investment property | (4 476) | | (4 476) |
| Disposal of property and equipment, computer software and development costs and investment property | 15 | | 15 |
| Disposal of investment banking assets | 23 | | 23 |
| Disposals/(Acquisitions) of investments in associate companies | (342) | | (342) |
| Acquisition of investment securities | (3 743) | | (3 743) |
| Disposal of investment securities | 702 | | 702 |
| **Cashflows from financing activities** | 1 222 | – | 1 222 |
| Issue of additional tier 1 capital instruments | 3 500 | | 3 500 |
| Issue of long-term debt instruments | 12 895 | | 12 895 |
| Redemption of long-term debt instruments | (8 737) | | (8 737) |
| Capital repayments of lease liabilities | (845) | | (845) |
| Dividends paid to ordinary shareholders | (4 750) | | (4 750) |
| Preference share dividends paid | (345) | | (345) |
| Additional tier 1 capital instruments interest paid | (496) | | (496) |
| **Net increase in cash and cash equivalents** | 1 903 | – | 1 903 |
| Cash and cash equivalents at the beginning of the year | 27 720 | | 27 720 |
| **Cash and cash equivalents at the end of the year** | 29 623 | – | 29 623 |

## SECTION B: SEGMENTAL AND PERFORMANCE-RELATED INFORMATION

### B1 SEGMENTAL REPORTING

#### B1.1 SEGMENTAL REPORTING

**ACCOUNTING POLICY**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues, the operating results of which components are regularly reviewed by the group's chief operating decisionmakers to make decisions about resources to be allocated and to assess its performance, and for which financial information is available.

The group's identification of its segments and the measurement of segment results are based on the group's internal reporting to management. The segments have been identified according to the nature of their respective products and services and their related target markets.

The group has one segment, therefore no additional segment disclosures have been provided. The group's measure of segment profit is headline earnings, refer to B1.2 below.

The group incorrectly provided segment information for the following segments (Nedbank Corporate and Investment Banking, Nedbank Retail and Business Banking, Nedbank Wealth, Nedbank Africa Regions and Centre) in the prior year. The group's internal management reporting and reviews submitted to the chief operating decision maker, the Group Executive Committee, are based on Nedbank level information only.

## B1.2 HEADLINE EARNINGS

### ACCOUNTING POLICY

Non-trading and capital items are disclosed separately on the face of the statement of comprehensive income, being remeasurements excluded from the calculation of headline earnings in accordance with the guidance contained in SAICA Circular 1/2019: Headline Earnings. The principal items that will be included under these measures are gains and losses on sale of subsidiaries, gains and losses on sale of property and equipment, impairment of property, equipment and intangible assets and fair-value adjustments of investment properties.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| Rm | Gross | Net of taxation | Gross | Net of taxation |
| **Profit attributable to ordinary equity holders** | | **3 977** | | 10 087 |
| **Non-trading and capital items** | **417** | **298** | 424 | 295 |
| IAS 16 loss on disposal of property and equipment | **73** | **55** | 18 | 13 |
| IAS 36 impairment of property and equipment | | | 148 | 107 |
| IAS 36 impairment of intangible assets | **207** | **149** | 227 | 153 |
| IAS 40 loss/(profit) on revaluation of investment properties | **2** | **2** | (2) | (2) |
| IFRS 5 impairment reversal of non-current assets held for sale | **(17)** | **(17)** | | |
| IFRS 16 impairment of right-of-use assets | **152** | **109** | 33 | 24 |
| **Headline earnings** | | **4 275** | | 10 382 |

## B2 DIVIDENDS

### B2.1 ORDINARY SHARES

| | Millions of shares | Cents per share | Rm |
|---|---|---|---|
| **2020** | | | |
| Final declared for 2019 – paid 2020 | **28** | **10 044** | **2 800** |
| **Ordinary dividends paid 2020** | | **10 044** | **2 800** |

No dividends were declared for 2020.

| | Millions of shares | Cents per share | Rm |
|---|---|---|---|
| **2019** | | | |
| Final declared for 2018 – paid 2019 | 28 | 11 120 | 3 100 |
| Interim declared for 2019[1] | 28 | 5 919 | 1 650 |
| Ordinary dividends paid 2019 | | 17 039 | 4 750 |
| Final ordinary dividend declared for 2019[1] | 28 | 10 044 | 2 800 |

[1] *Total dividend declared for 2019 was 15 963 cents per share.*

### B2.2 PREFERENCE SHARES

| Dividends declared | Number of shares | Cents per share | Amount Rm |
|---|---|---|---|
| **2021** | | | |
| Nedbank – Final (dividend no 36) declared for 2020 – payable April 2021 | **358 277 491** | **29,45696** | **105,5** |
| **2020** | | | |
| Nedbank – Final (dividend no 34) declared for 2019 – paid April2020 | **358 277 491** | **42,11186** | **150,9** |
| Nedbank – Interim (dividend no 35) declared for 2020 – paid September 2020 | **358 277 491** | **35,94033** | **128,8** |
| Total of dividends declared | | | **279,7** |
| | | | **279,7** |
| **2019** | | | |
| Nedbank – Final (dividend no 32) declared for 2018 – paid March 2019 | 358 277 491 | 42,23172 | 151,3 |
| Nedbank – Interim (dividend no 33) declared for 2019 – paid September 2019 | 358 277 491 | 42,35729 | 151,8 |
| Total of dividends declared | | | 303,1 |
| | | | 303,1 |

### B2.3 AMOUNTS ATTRIBUTABLE TO PARTICIPATING PREFERENCE SHAREHOLDERS

| Profits/losses attributable to participating preference shareholders | Amount Rm |
|---|---|
| **2020** | |
| Nedbank (MFC) – share of economic profit/(loss)[1] | **(58,0)** |
| | **(58,0)** |
| **2019** | |
| Nedbank (MFC) – share of economic profit/(loss)[1] | 41,7 |
| | 41,7 |

[1] *Share in economic profit/(loss) calculated semi-annually.*

## B3 SHARE CAPITAL

### ACCOUNTING POLICY

**Share capital**

Ordinary share capital, preference share capital or any financial instrument issued by the group is classified as equity when:

- payment of cash, in the form of a dividend or redemption, is at the discretion of the group;
- the instrument does not provide for the exchange of financial instruments under conditions that are potentially unfavourable to the group.
- settlement in the group's own equity instruments is for a fixed number of equity instruments at a fixed price; and
- the instrument represents a residual interest in the assets of the group after deducting all its liabilities.

Consideration paid or received for equity instruments is recognised directly in equity. Equity instruments are initially measured at the proceeds received, less incremental directly attributable issue costs, net of any related income tax benefits. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's equity instruments.

Distributions to holders of equity instruments are recognised as distributions in the statement of changes in equity in the period in which they are payable. Dividends for the year that are declared after the reporting date are disclosed in note B2 to the financial statements.

### B3.1 ORDINARY SHARE CAPITAL

| | **2020 Rm** | 2019 Rm |
|---|---|---|
| **Authorised** | | |
| 30 000 000(2019: 30 000 000) ordinary shares of R1 each | **30** | 30 |
| **Issued** | | |
| 28 066 479 (2019: 27 876 479) fully paid ordinary shares of R1 each | **28** | 28 |
| | **28** | 28 |

Subject to the restrictions imposed by the Companies Act, 71 of 2008 and by shareholders in terms of the authority previously provided, the unissued shares are under the control of the directors until the forthcoming annual general meeting.

## B3.2 PREFERENCE SHARE CAPITAL AND PREMIUM

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Authorised** | | |
| **Nedbank Limited preference share capital and premium** | | |
| 1 000 000 000 (2019: 1 000 000 000) non-redeemable non-cumulative, non-participating preference shares of R0,001 each | **1** | 1 |
| 5 000 class 'A' redeemable non-cumulative preference shares of R0,0001 each | [1] | [1] |
| 5 000 class 'B' redeemable non-cumulative preference shares of R0,0001 each | [1] | [1] |
| **Issued** | | |
| **Nedbank Limited preference share capital and premium** | | |
| 358 277 491 (2019: 358 277 491) non-redeemable non-cumulative, non-participating preference shares of R0,001 each | [1] | [1] |
| 100 class 'A' redeemable non-cumulative preference shares of R0,0001 each | [1] | [1] |
| 100 class 'B' redeemable non-cumulative preference shares of R0,0001 each | [1] | [1] |
| Preference share premium | **3 561** | 3 561 |
| | **3 561** | 3 561 |

*[1] Represents amounts less than R1m.*

The preference shares are classified as equity instruments. All redeemable preference shares are redeemable at the option of the group.

Each preference share confers on the holder the right to capital of the company in the form of a cash dividend prior to payment of dividends to any other class of shareholder. The rate is limited to 83,33% of the prevailing prime rate on a deemed value of R10 and is never compounded. The dividends, if declared, accrue half-yearly on 30 June and 31 December and are payable within 120 days of these dates respectively.

If a preference dividend is not declared, the dividend will not accumulate and never become payable by the company, whether in preference to payments to any other class of share or otherwise.

Each preference share confers on the holder the right to a return of capital on the winding-up of the company prior to the any payment to any other class of share, but holders are not entitled to any further participation in the profits, assets or any surplus assets of the company in such circumstances.

The holders of this class of share are not entitled to be present or vote (even by proxy) at any meeting of the company, except when a declared dividend or part thereof remains in arrears and unpaid after six months from the due date or a resolution is proposed that directly affects the rights attached to the preference share or the interests of the holder, including resolutions to wind up the company or to reduce its share capital.

At every general meeting where the preference shareholder is entitled to vote, the voting rights are restricted to the holder's nominal value in proportion to the total nominal value of all shares issued by the company.

No shares in the capital of the company, in priority to the preference shares, can be created or issued without prior sanction of the holders of preference shares by way of a resolution passed at a separate class meeting properly constituted in terms of the provisions set out in the memorandum of incorporation.

## B4 HOLDERS OF ADDITIONAL TIER 1 CAPITAL INSTRUMENTS

The group issued new style (Basel III compliant) additional tier 1 (AT1) capital instrument as follows:

| Instrument code | Date of issue | Call date | Instrument terms | 2020 Rm | 2019 Rm |
|---|---|---|---|---|---|
| **Subordinated callable notes (rand-denominated)** | | | | | |
| NEDT1A | 20 May 2016 | 21 May 2021 | 3-month JIBAR + 7,00% per annum | **1 500** | 1 500 |
| NEDT1B | 25 November 2016 | 26 November 2021 | 3-month JIBAR + 6,25% per annum | **500** | 500 |
| NED04U | 30 June 2017 | 1 July 2022 | 3-month JIBAR + 5,65% per annum | **600** | 600 |
| NED07U | 19 October 2018 | 20 October 2023 | 3-month JIBAR + 4,64% per annum | **750** | 750 |
| NED09U | 22 March 2019 | 25 March 2024 | 3-month JIBAR + 4,40% per annum | **671** | 671 |
| NED11U | 24 June 2019 | 15 January 2025 | 3-month JIBAR + 4,50% per annum | **1 829** | 1 829 |
| NED12U | 22 November 2019 | 22 May 2025 | 3-month JIBAR + 4,25% per annum | **1 000** | 1 000 |
| NED14U | 4 August 2020 | 5 August 2025 | 3-month JIBAR + 4,95% per annum | **500** | |
| NED15U | 18 November 2020 | 19 November 2025 | 3-month JIBAR + 4,55% per annum | **472** | |
| **Total** | | | | **7 822** | 6 850 |

The AT1 notes represent perpetual, subordinated instruments, with no redemption date. The instruments are redeemable subject to regulatory approval at the sole discretion of the issuer, Nedbank Limited, from the applicable call date and following a regulatory event or following a tax event. The payment of interest is at the discretion of the issuer and interest payments are non-cumulative. If certain conditions are reached, the regulator may prohibit Nedbank from making interest payments. Accordingly, the instruments are classified as equity instruments and disclosed as a separate category of equity.

## B5 REVENUE

### ACCOUNTING POLICY

**Interest income and expense**

In terms of IFRS 9 interest income and expense are recognised in profit or loss using the effective-interest method, taking into account the expected timing and amount of cashflows. The effective-interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing financial instrument and its amount at maturity calculated on an effective-interest-rate basis.

**IFRS 15: Revenue from Contracts with Customers**

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the client. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The group has concluded that the loyalty points awarded to clients are considered payable to our clients' clients in terms of IFRS 15. IFRS 15 requires revenue to be decreased by the amount expected to be payable to clients, which is recognised as a liability until payment is effected.

- Revenue

The group assesses the contract and determines whether the fees identified in the contract are in the scope of IFRS 15. If so, the revenue will be recognised only when the group can:

- » identify the contract;
- » identify the performance obligation;
- » determine the transaction price;
- » allocate the transaction price to the performance obligations in the contract; and
- » recognise the revenue as and when the performance obligation is satisfied.

The group is able to identify the contract when both the client and the group have accepted the terms of the agreement. The contract will also identify all the services (performance obligations) the group will render to the client. Based on this, the transaction price is allocated to each identified performance obligation. The group recognises the revenue once the performance obligation is satisfied, which may occur over time or at a point in time.

- Commission and fees income

The group earns fees and commissions from a range of services it provides to clients and these are accounted for as follows:

- » Income earned on the execution of a distinct performance obligation is recognised when the distinct performance obligation has been performed. Revenue is recognised at a point in time.
- » Income earned from the provision of services is recognised over time as the performance obligation is fulfilled.
- » Income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income in terms of IFRS 9.
- » Fees charged for servicing a loan are recognised in revenue as the performance obligation is provided, which in most instances occurs monthly when the fees are levied.

- Principal versus agent

When the group acts as a principal, it is deemed to be purchasing and selling financial instruments on its own behalf and therefore reports profits and losses as part of net trading income. When the group acts as an agent, the net commission or markup earned is reported as fee income and costs incurred on behalf of the principal are not reported in the statement of comprehensive income.

Where costs are not directly reimbursed, or not included in the cost basis used for calculating a markup, it may be appropriate to gross up and separately report the costs within 'commission and fees expense'.

- Directly attributable and incremental costs

The types of expenses that are presented as part of non-interest revenue are those incremental costs that are directly attributable to the revenue generated. The group defines incremental expenses as those that would not have been incurred had it not been for the acquisition of a contract that generated the revenue.

- Commitment fees

The group typically earns commitment fees on lending facilities, such as credit facility fees and revolving-credit-facility fees. The fees are typically charged for making the facilities available to the client.

The group recognises commitment fees as follows:

- Commitment fees that arise from instruments that are not classified and measured at fair value through profit or loss (FVTPL), ie financial instruments that are classified and measured at amortised cost or FVOCI:
  - » where drawdown is unlikely, ie remote or uncertain, the related commitment fees should be recognised as revenue in terms of IFRS 15 on a time-proportionate basis and over the period that the facility is provided; and
  - » where drawdown is probable, the related commitment fee is recognised as part of the effective interest rate over the life of the facility.

- Commitment fees that relate to a loan commitment that is measured and classified as FVTPL will be included in the cashflows used to determine the fair value of the loan commitment.

- Non-refundable upfront fees

Non-refundable upfront fees normally relate to the issuing or administration of a loan facility. These fees will be recognised as revenue when the performance obligation is satisfied. This is applicable when the non-refundable performance obligation can be satisfied over time or at a point in time.

To apply this principle the group first assesses if the contract is satisfied over time. Should this be the case, the revenue is spread over the period of the contract on a time proportionate basis. If the performance obligation is not satisfied over time and instead satisfied at a point in time, the revenue is recognised when the service is complete and no further performance obligations are required according to the contract.

The group recognises non-refundable upfront fees that are an integral part of a loan in net interest income through the unwinding of the effective interest rate.

- Net insurance income

Net insurance income comprises premiums written on insurance contracts entered into during the year, with the earned portion of premiums received recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Premiums are disclosed gross of commission payable and reinsurance premiums. Claims incurred consist of claims and claims-handling expenses paid during the financial year for the movement in provision for outstanding claims. Outward reinsurance premiums are accounted for in the same accounting period as premiums for the related direct insurance.

- Dividend income

Dividend income is recognised when the right to receive payment is established on the ex-dividend date for equity instruments and is included in dividend income under non-interest revenue.

- Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest, expense, costs and dividends. Interest earned while holding trading securities and interest incurred on trading liabilities are reported within non-interest revenue.

- Revenue on investment management contracts

Fees charged for investment management services in conjunction with investment management contracts are recognised as revenue over time when the performance obligation is fulfilled. Initial fees that exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the projected period over which services will be provided.

- Other

Exchange and securities trading income, from investments and net gains on the sale of investment banking assets, is recognised in profit or loss when the amount of revenue from the transaction can be measured reliably. It is probable that the economic benefits of the transaction will flow to the group and the costs associated with the transaction or service can be measured reliably.

Fair-value gains or losses on financial instruments at FVTPL, including derivatives, are included in non-interest revenue. These fair-value gains or losses are determined after deducting the interest component, which is recognised separately in interest income and expense. Gains or losses on derecognition of any financial assets or financial liabilities are included in non-interest revenue.

## B5.1 NET INTEREST INCOME

### B5.1.1 INTEREST AND SIMILAR INCOME

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Home loans (including properties in possession) | 11 435 | 14 170 |
| Commercial mortgages | 13 688 | 16 192 |
| Instalment debtors | 12 361 | 13 997 |
| Credit cards | 2 237 | 2 564 |
| Overdrafts | 1 596 | 1 961 |
| Term and other loans | 14 056 | 17 034 |
| Personal loans | 5 008 | 4 786 |
| Government and other securities | 7 451 | 7 090 |
| Short-term funds and securities | 822 | 1 446 |
| | 68 654 | 79 240 |
| Interest and similar income may be analysed as follows: | | |
| – Interest and similar income from financial instruments at amortised cost | 66 233 | 77 452 |
| – Interest and similar income from financial instruments at FVOCI | 1 579 | 1 198 |
| – Interest and similar income from financial instruments at FVTPL | 842 | 590 |
| | 68 654 | 79 240 |

### B5.1.2 INTEREST EXPENSE AND SIMILAR CHARGES

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Deposit and loan accounts | **22 075** | 29 531 |
| Current and savings accounts | **597** | 950 |
| Negotiable certificates of deposit | **7 007** | 8 002 |
| Other interest-bearing liabilities[1] | **9 444** | 11 889 |
| Long-term debt instruments | **4 625** | 5 315 |
| Interest expense related to fair-value activities | **(2 602)** | (3 799) |
| | **41 146** | 51 888 |
| Interest expense and similar charges may be analysed as follows: | | |
| – Interest expense and similar charges from financial instruments at amortised cost | **40 148** | 51 184 |
| – Interest expense and similar charges from financial instruments at FVTPL | **998** | 704 |
| | **41 146** | 51 888 |

*[1] Includes interest expense of R147m (2019: R204m) related to lease liabilities.*

## B5.2 NON-INTEREST REVENUE

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Commission and fees income** | **16 846** | 18 934 |
| Administration fees | **594** | 590 |
| Card income | **5 075** | 6 012 |
| Cash-handling fees | **989** | 1 104 |
| Exchange commission | **501** | 471 |
| Guarantee income | **281** | 230 |
| Insurance commission | **627** | 746 |
| Other commission | **4 057** | 4 526 |
| Other fees | **712** | 1 002 |
| Service charges | **4 010** | 4 253 |
| **Commission and fees expense** | **(2 453)** | (2 930) |
| Card income | **(1 992)** | (2 358) |
| Insurance commission | **(203)** | (236) |
| Other fees | **(250)** | (327) |
| Service charges | **(8)** | (9) |
| **Net insurance income** | **1** | 145 |
| **Fair-value adjustments (note B5.2.1)** | **336** | 51 |
| Fair-value adjustments | **(354)** | (57) |
| Hedged-accounted portfolios | **690** | 108 |
| **Net trading income**[2] | **4 550** | 4 062 |
| Foreign exchange | **1 331** | 1 230 |
| Debt securities | **3 142** | 2 708 |
| Equities | **24** | 25 |
| Commodities | **53** | 99 |
| **Private-equity income** | **(945)** | 257 |
| Realised gains, interest and other income | **542** | 673 |
| Unrealised losses | **(1 600)** | (461) |
| Dividends received | **113** | 45 |
| **Investment income** | **183** | 188 |
| Dividends received on investments | **153** | 165 |
| Long-term-asset sales | **30** | 23 |
| **Net sundry income** | **508** | 198 |
| Rents received | **19** | 28 |
| Rental income from properties in possession | [1] | [1] |
| Other sundry income | **489** | 170 |
| | **19 026** | 20 905 |

[1] *Represents amounts less than R1m.*

[2] *Trading income includes R2 602m (2019: R3 799m) of amortised cost funding related to fair-value activities. Refer to note B5.2.1 for further details.*

### B5.2.1 ANALYSIS OF FAIR-VALUE ADJUSTMENTS

| Fair-value adjustments can be analysed as follows: | 2020 Rm | 2019 Rm |
|---|---|---|
| – Financial instruments designated as FVTPL | 6 013 | 1 816 |
| – Financial instruments mandatorily at fair value | (5 677) | (1 765) |
| | 336 | 51 |

## B6 TOTAL OPERATING EXPENSES

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Staff costs** | **14 472** | 14 927 |
| Remuneration and other staff costs | **13 099** | 13 103 |
| Short-term incentives | **1 320** | 1 773 |
| Long-term employee benefits (note G1.1.2)[1] | **(217)** | (519) |
| Share-based payments expense – employees | **270** | 570 |
| **Computer processing** | **5 277** | 4 508 |
| Depreciation of computer equipment | **693** | 710 |
| Depreciation of right-of-use assets: computer equipment | **88** | 79 |
| Amortisation of computer software | **1 399** | 1 139 |
| Short-term lease charges for computer equipment | **222** | 214 |
| Development costs | **31** | 358 |
| Other computer processing expenses | **2 844** | 2 008 |
| **Communication and travel** | **612** | 720 |
| Depreciation of vehicles | **2** | 3 |
| Other communication and travel expenses | **610** | 717 |
| **Occupation and accommodation** | **2 113** | 2 077 |
| Depreciation of owner-occupied land and buildings | **392** | 421 |
| Depreciation of right-of-use assets: land and buildings | **736** | 727 |
| Other occupation and accommodation expenses | **985** | 929 |
| **Marketing and public relations** | **1 045** | 1 368 |
| **Fees and assurances** | **3 482** | 3 227 |
| Auditors' remuneration | **215** | 120 |
| Statutory and regulatory audit | **210** | 116 |
| Non-audit services | **5** | 4 |
| Other fees and assurance costs | **3 267** | 3 107 |
| **Furniture, office equipment and consumables** | **492** | 610 |
| Depreciation of furniture and other equipment | **316** | 317 |
| Short-term lease charge for furniture and other equipment | **11** | 10 |
| Other office equipment and consumables | **165** | 283 |
| Other sundries | **212** | 454 |
| | **27 705** | 27 891 |

*[1] Includes contributions to defined-benefit and pension funds and postretirement medical aid funding and any adjustments for defined-benefit obligations together with any fair-value adjustments of plan assets held. See note G1.*

## B7 TAXATION

### ACCOUNTING POLICY

Taxation expense, recognised in the statement of comprehensive income, comprises current and deferred taxation. Current or deferred taxation is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity, and, to the extent that it relates to items recognised in OCI, in which case it is also recognised in OCI. The group recognises the income tax consequences of dividends in profit or loss, OCI or equity according to where the group originally recognised those past transactions or events.

**Current taxation**

Current taxation is the expected tax payable on the taxable income for the year, using taxation rates enacted or substantively enacted at the reporting date, and any adjustment to taxation payable in respect of previous years (prior-period tax paid).

**Deferred taxation**

Deferred taxation is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective taxation bases. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is measured at the taxation rates (enacted or substantively enacted at the reporting date) that are expected to be applied to the temporary differences when they are reversed.

Deferred taxation is recognised in profit or loss for the period, except to the extent that it relates to a transaction that is recognised directly in equity or in OCI, or a business combination that is accounted for as an acquisition. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss for the period, except to the extent that it relates to items previously charged or credited directly to equity or OCI.

Deferred taxation liabilities are recognised for all taxable temporary differences, and deferred taxation assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefits will be realised.

Deferred taxation assets and liabilities are offset if there is a legally enforceable right to offset current taxation liabilities against current taxation assets, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxation entities, but they intend to settle current tax liabilities and assets on a net basis or their taxation assets and liabilities will be realised simultaneously.

## B7.1 INDIRECT TAXATION

| | **2020 Rm** | 2019 Rm |
|---|---|---|
| Value-added taxation[1] | **941** | 744 |
| Transaction-based taxes | **76** | 217 |
| | **1 017** | 961 |

*[1] Comprises the value-added taxation incurred that is irrecoverable in respect of the making of exempt supplies as defined in the Value-Added Tax Act, 89 of 1991.*

## B7.2 DIRECT TAXATION

### B7.2.1 Charge for the year

| | **2020 Rm** | 2019 Rm |
|---|---|---|
| SA normal taxation: | | |
| – Current charge | **1 833** | 2 780 |
| – Capital gains taxation – deferred | **(129)** | (6) |
| – Deferred taxation | **(356)** | 552 |
| Foreign taxation | **50** | 58 |
| Current and deferred taxation on income | **1 398** | 3 384 |
| Prior-year overprovision | **(115)** | (179) |
| Total taxation on income | **1 283** | 3 205 |
| Taxation on non-trading and capital items | **(119)** | (129) |
| | **1 164** | 3 076 |

### B7.2.2 Taxation rate reconciliation

| | 2020 % | 2019 % |
|---|---|---|
| Standard rate of SA normal taxation | **28,0** | 28,0 |
| Non-taxable income | **(3,9)** | (1,6) |
| Capital items | **0,6** | (0,5) |
| Foreign income and section 9D attribution | **0,3** | |
| Non-deductible expenses | **3,6** | 0,1 |
| Additional tier 1 capital instruments | **(3,8)** | (1,1) |
| Prior-year adjustments | **(0,9)** | (1,3) |
| Share of profits of associate companies | **(0,6)** | |
| **Effective taxation rate** | **23,3** | 23,6 |

### B7.2.3 Income tax recognised in other comprehensive income

| Rm | Gross | Taxation | Net of Taxation |
|---|---|---|---|
| **2020** | | | |
| Exchange differences on translating foreign operations | **199** | | **199** |
| Debt instruments at FVOCI – net change in fair value | **148** | **(52)** | **96** |
| Remeasurements on long-term employee benefit assets | **1** | | **1** |
| Losses on property revaluations | **(54)** | **14** | **(40)** |
| **2019** | | | |
| Exchange differences on translating foreign operations | (37) | | (37) |
| Debt instruments at FVOCI – net change in fair value | (409) | 115 | (294) |
| Remeasurements on long-term employee benefit assets | 458 | (128) | 330 |
| Gains on property revaluations | 198 | (53) | 145 |

### B7.2.4 Future taxation relief

The group has estimated taxation losses of R293m (2019: R150m) which are available for set-off against future taxable income. Deferred tax assets of R57m (2019: R11m) relating to tax losses carried forward were recognised. The group has actual losses that have not been recognised of R91m (2019: R109m)

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## B7.3 DEFERRED TAXATION

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Deferred taxation assets** | | |
| – Deferred taxation assets to be recovered after more than 12 months | **346** | 42 |
| | **346** | 42 |
| **Deferred taxation liabilities** | | |
| – Deferred taxation liabilities to be recovered after more than 12 months | **(155)** | (645) |
| | **(155)** | (645) |
| **Net deferred taxation assets/(liabilities)** | **191** | (603) |
| **The gross movement on the deferred income taxation account, is as follows:** | | |
| – Balance at the beginning of the year | **(603)** | (184) |
| – Statement of comprehensive income charge | **941** | (461) |
| – Tax charge/(credit) relating to components of OCI | **(38)** | (67) |
| – Tax change/ (credit) directly to equity | **(109)** | 122 |
| – Reclassification between taxation types and categories | | (13) |
| **Balance at the end of the year** | **191** | (603) |

The movement in deferred taxation assets and liabilities during the year, without taking into consideration the offsetting of balances with the same tax jurisdiction is as follows:

**Deferred Taxation assets**

| | IFRS 16 | Credit impairments | Deferred revenue | Medical aid | Provisions | Taxation losses | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2018** | | 1 474 | 413 | 79 | 1 249 | 3 | 3 218 |
| (Credited)/charged to the statement of comprehensive income | 23 | 446 | 16 | (10) | (328) | 8 | 155 |
| Charged to OCI | | | | (101) | | | (101) |
| Charged/(Credited) directly to equity | 94 | | | | 59 | | 153 |
| Reclassification between taxation types and categories | | | | 32 | (13) | | 19 |
| **Balance at 31 December 2019** | 117 | 1 920 | 429 | – | 967 | 11 | 3 444 |
| Charged/(credited) to the statement of comprehensive income | **1** | **725** | **(90)** | | **202** | **46** | **884** |
| Charged to OCI | | | | | | | **–** |
| Charged directly to equity | | | | | **(15)** | | **(15)** |
| Reclassification between taxation types and categories | | | | | **(1)** | | **(1)** |
| **Balance at 31 December 2020** | **118** | **2 645** | **339** | **–** | **1 153** | **57** | **4 312** |

**Deferred taxation liabilities**

| | Accelerated asset allowances | Property revaluations | Deferred acquisition costs |
|---|---|---|---|
| **Balance at 31 December 2018** | (929) | (563) | (702) |
| (Credited)/charged to the statement of comprehensive income | (483) | | (88) |
| Charged/(credited) to OCI | | (53) | |
| Charged/(credited) directly to equity | | 25 | |
| Reclassification between tax types and categories | | | |
| **Balance at 31 December 2019** | **(1 412)** | **(591)** | **(790)** |
| (Credited)/charged to the statement of comprehensive income | **(120)** | | **(18)** |
| Charged/(credited) to OCI | | **14** | |
| Charged/(credited) directly to equity | | **15** | |
| Reclassification between tax types and categories | | | |
| **Balance at 31 December 2020** | **(1 532)** | **(562)** | **(808)** |

| | Long-term employees | Capital invest-ments | Share-based payments | FVOCI | Total |
|---|---|---|---|---|---|
| | (660) | (238) | (83) | (227) | (3 402) |
| | (151) | 76 | 30 | | (616) |
| | (27) | | | 114 | 34 |
| | | | (56) | | (31) |
| | (32) | | | | (32) |
| | **(870)** | **(162)** | **(109)** | **(113)** | **(4 047)** |
| | **(66)** | **316** | **(55)** | | **57** |
| | | | | **(52)** | **(38)** |
| | | | **(109)** | | **(94)** |
| | | | | **1** | **1** |
| | **(936)** | **154** | **(273)** | **(164)** | **(4 121)** |

# SECTION C: CORE BANKING ASSETS

## ACCOUNTING POLICY

Refer to Section H: Financial instruments for the group's accounting policies regarding financial assets and liabilities.

## C1 LOANS AND ADVANCES

The group extends advances to individuals and to the corporate, commercial and public sectors. Advances made to individuals are mostly in the form of mortgages, instalment credit, overdrafts, personal loans and credit card borrowings.

In April 2020, the President of SA announced a R500bn social and economic support package designed to assist individuals and businesses impacted by the Covid-19 crisis. As part of this package the President announced the introduction of a R200bn loan guarantee scheme in partnership with the major banks of SA, the National Treasury and the South African Reserve Bank (SARB). This package is designed to assist qualifying enterprises with operational costs, such as salaries, rent and the payment of suppliers. Within this context, the Covid-19 Loan Guarantee Scheme was formulated, of which, the group is a participant. At 31 December 2020, loans amounting to R1,4bn has been disbursed by the group as part of this scheme.

The Covid-19 Loan Guarantee Scheme is structured as follows:

- The group receives funding from the SARB, with interest charged at the prevailing repurchase rate. There is a six-month disbursement period for the group to advance loans to its clients. The funding is accounted for as a financial liability at amortised cost. Refer to Section H: Financial instruments for the group's accounting policies regarding financial assets and liabilities.
- The qualifying criteria to obtain a loan per the scheme includes businesses in good standing prior to 31 December 2019, registered with the South African Revenue Services and where such businesses have no existing capacity to borrow and directly or indirectly have been adversely impacted by the Declaration of National Disaster, which has resulted in a significant and adverse impact on their ability to generate revenue.
- Interest on the loans to clients are charged at the prime interest rate. Clients are given a maximum period of six months of operational recovery before payments became due, with interest capitalised during this period. The outstanding loan balance is repayable on an amortising basis over a period of up to five years in line with the agreed repayment terms. The loans to clients are subject to the group's standard credit approval processes. The loans to clients are accounted for as financial assets at amortised cost. Refer to Section H: categories of financial instruments for the group's accounting policies regarding financial assets and liabilities.
- The cashflow and loss waterfall per the group's portfolio is as follows:
  - The first mitigant towards losses is absorbed by the lending margin of the group.
  - The second mitigant towards losses is absorbed by the guarantee fee charged by SARB to the group.
  - The third mitigant towards losses is absorbed by the group and comprises the group’s own funds up to a maximum of 6% of the facility amount made available by SARB.
  - The final mitigant towards the remainder of the losses is the guarantee provided by SARB. SARB therefore guarantees 94% of losses on the loans to clients. This guarantee is considered integral to the loans to clients.
- The difference between the prime lending rate, related expenses, the cost of funding provided by SARB and the cost of capital allocated to these loans are ring-fenced for losses, and all profits over those used to offset losses (if any), on termination of the facility are distributed to SARB. The amount distributed to SARB is also considered integral to the loans to clients.

## C1.1 CATEGORIES OF LOANS AND ADVANCES

| | 2020 Rm | 2019 Rm (Restated)[1] |
|---|---|---|
| Mortgage loans | **343 759** | 327 010 |
| Home loans | **155 406** | 149 433 |
| Commercial mortgages | **188 353** | 177 577 |
| Instalment debtors | **133 355** | 127 703 |
| Credit cards | **16 584** | 16 958 |
| Other loans and advances | **365 530** | 360 095 |
| Properties in possession | **63** | 55 |
| Overdrafts | **20 284** | 23 605 |
| Personal loans | **24 954** | 22 663 |
| Term and other loans | **204 429** | 221 225 |
| Covid-19 Loan Guarantee Scheme | **1 355** | |
| Listed Corporate Bonds[1] | **21 910** | 27 960 |
| Overnight loans | **9 590** | 14 349 |
| Foreign client lending | **14 221** | 11 990 |
| Preference shares and debentures | **12 106** | 12 580 |
| Factoring accounts | **5 084** | 6 563 |
| Deposits placed under reverse repurchase agreements | **47 371** | 18 164 |
| Fair-value hedge-accounted portfolios | **4 163** | 941 |
| Gross loans and advances | **859 228** | 831 766 |
| Impairment of loans and advances (note C2) | **23 660** | 16 703 |
| | **835 568** | 815 063 |
| Gross loans and advances comprise: | | |
| – Loans and advances to clients | **824 718** | 813 220 |
| – Loans and advances to banks | **34 510** | 18 546 |
| | **859 228** | 831 766 |

*¹ 2019 restated, refer to note A4: Reclassification for further details.*

## C1.2 SECTORAL ANALYSIS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Individuals | **294 675** | 280 636 |
| Financial services, insurance and real estate[1] | **285 719** | 260 595 |
| Banks | **34 510** | 18 546 |
| Manufacturing[1] | **63 293** | 75 726 |
| Building and property development | **9 589** | 7 304 |
| Transport, storage and communication[1] | **26 608** | 32 024 |
| Retailers, catering and accommodation | **5 589** | 8 891 |
| Wholesale and trade[1] | **30 515** | 31 979 |
| Mining and quarrying[1] | **20 981** | 27 901 |
| Agriculture, forestry and fishing | **15 216** | 16 833 |
| Government and public sector[1] | **20 220** | 23 522 |
| Other services | **52 313** | 47 809 |
| | **859 228** | 831 766 |

*[1] 2019 restated, refer to note A4: Reclassification.*

## C1.3 GEOGRAPHICAL ANALYSIS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| SA[1] | **776 485** | 758 966 |
| Rest of Africa | **18 437** | 24 133 |
| Europe[2] | **55 444** | 33 994 |
| Asia[2] | **2 975** | 6 353 |
| United States of America | **2 234** | 821 |
| Rest of world | **3 653** | 7 499 |
| | **859 228** | 831 766 |

[1] *2019 restated, refer to A4: Reclassification.*
[2] *During the year the group reviewed the geographic analysis of loans and advances. As a result of this review, an amount of R7bn in 2019 has been reclassified from Asia to Europe line item to better reflect the geographic analysis of these exposures.*

## C1.4 CLASSIFICATION OF LOANS AND ADVANCES

| | Total | | Subject to 12-month expected credit losses (stage 1) | | Subject to lifetime expected credit losses (stage 2) – not credit-impaired | | Subject to lifetime expected credit losses (stage 3) – credit-impaired | |
|---|---|---|---|---|---|---|---|---|
| **Rm** | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| Mortgage loans[5] | **338 475** | 323 213 | **288 212** | 281 106 | **33 960** | 32 532 | **16 303** | 9 575 |
| Instalment debtors | **133 355** | 127 703 | **106 600** | 103 297 | **16 412** | 17 897 | **10 343** | 6 509 |
| Credit cards | **16 584** | 16 958 | **12 731** | 14 441 | **1 575** | 734 | **2 278** | 1 783 |
| Overdrafts | **20 283** | 23 605 | **13 294** | 18 218 | **5 145** | 4 233 | **1 844** | 1 154 |
| Preference shares and debentures | **12 106** | 12 579 | **11 050** | 12 306 | **855** | 76 | **201** | 197 |
| Fair-value hedge-accounted portfolios[5] | **4 163** | 941 | **4 163** | 941 | | | | |
| Term Loans[1,5] | **143 852** | 162 941 | **109 360** | 147 092 | **24 326** | 9 922 | **10 166** | 5 927 |
| Other Loans [2,5] | **94 524** | 103 695 | **80 652** | 98 010 | **11 896** | 5 179 | **1 976** | 506 |
| Specialised and other loans to clients[1] | **57 877** | 54 769 | **53 817** | 53 030 | **3 653** | 1 503 | **407** | 235 |
| Properties in possession | **63** | 55 | | | | | **63** | 55 |
| Listed corporate bonds[3] | **21 910** | 27 960 | **15 578** | 27 961 | **5 331** | | **1 001** | |
| Overnight loans | **9 590** | 14 349 | **7 590** | 10 902 | **1 708** | 3 276 | **292** | 171 |
| Factoring accounts | **5 084** | 6 562 | **3 667** | 6 117 | **1 204** | 400 | **213** | 45 |
| Loans and advances at amortised cost | **763 342** | 771 635 | **626 062** | 675 411 | **94 169** | 70 573 | **43 111** | 25 651 |
| Loans and advances at FVTPL[5] | **78 065** | 43 738 | | | | | | |
| Loans and advances at FVOCI[4,5] | **17 821** | 16 391 | **12 372** | 15 365 | **3 738** | 577 | **1 711** | 448 |
| **Gross loans and advances (note C1.1)** | **859 228** | 831 764 | **638 434** | 690 776 | **97 907** | 71 150 | **44 822** | 26 099 |

[1] *Term loans and other loans were previously presented in one product line namely 'personal, term and other loans'. In the current financial year 'personal, term and other loans' has been split into 'term loans' and 'specialised and other loans to clients' due to the different nature of these loans.*
[2] *An 'other loans' subtotal line has been added into the current year presentation table in order to group certain products based on similar nature and size.*
[3] *2019 restated, refer to note A4: Reclassification.*
[4] *Loans and advances at FVOCI was previously included in the loans and advances at amortised cost presentation table. The 2019 balances have been restated to separately disclose FVOCI loans and advances.*
[5] *Certain categories of loans and advances were reclassified between FVOCI, FVTPL and amortised in 2019. The measurement basis of these instruments has however not changed. Refer to note H1: Consolidated statement of financial position – categories of financial instruments for further details.*

## C1.5 CREDIT QUALITY OF LOANS AND ADVANCES

| Rm | Total 2020 | Total 2019 | NGR 1—12 2020 | NGR 1—12 2019 |
|---|---|---|---|---|
| **Subject to 12-month expected credit losses (stage 1)** | **628 763** | 675 410 | **263 892** | 301 059 |
| Mortgage loans[4] | **288 213** | 281 106 | **112 280** | 105 497 |
| Instalment debtors | **106 599** | 103 297 | **3 391** | 4 281 |
| Credit cards | **12 731** | 14 440 | **941** | 1 155 |
| Overdrafts | **13 293** | 18 218 | **3 606** | 4 142 |
| Personal, term and other loans[4] | **165 878** | 200 124 | **114 800** | 141 825 |
| Listed corporate bonds[1] | **15 578** | 27 960 | **15 578** | 25 951 |
| Overnight loans | **7 590** | 10 901 | **5 893** | 9 276 |
| Preference shares and debentures | **11 051** | 12 306 | **7 052** | 8 799 |
| Factoring accounts | **3 667** | 6 117 | **351** | 133 |
| Fair-value hedge-accounted portfolios[4] | **4 163** | 941 | **–** | – |
| **Subject to lifetime expected credit losses (stage 2)** | **94 171** | 70 575 | **20 839** | 5 477 |
| Mortgage loans[4] | **33 959** | 32 532 | **2 941** | 2 284 |
| Instalment debtors | **16 413** | 17 897 | **726** | 18 |
| Credit cards | **1 575** | 735 | **3** | – |
| Overdrafts | **5 146** | 4 233 | **768** | 203 |
| Personal, term and other loans | **27 981** | 11 426 | **9 728** | 2 305 |
| Listed corporate bonds[1] | **5 331** | – | **5 078** | – |
| Overnight loans | **1 708** | 3 277 | **1 014** | 667 |
| Preference shares and debentures | **854** | 76 | **571** | – |
| Factoring accounts | **1 204** | 400 | **10** | – |
| **Subject to lifetime expected credit losses (stage 3)** | **43 111** | 25 652 | **–** | – |
| Mortgage loans | **16 303** | 9 575 | | |
| Instalment debtors | **10 343** | 6 509 | | |
| Credit cards | **2 278** | 1 783 | | |
| Properties in possession | **63** | 55 | | |
| Overdrafts | **1 844** | 1 154 | | |
| Personal, term and other loans | **10 573** | 6 163 | | |
| Listed corporate bonds[1] | **1 001** | – | | |
| Overnight loans | **292** | 171 | | |
| Preference shares and debentures | **201** | 197 | | |
| Factoring accounts | **213** | 45 | | |
| **Total loans and advances** | **766 045** | 771 637 | **284 731** | 306 536 |
| **Loans and advances at FVOCI[2]** | **17 821** | 16 391 | **8 943** | 10 961 |
| **Provision for impairment of off-balance-sheet items[3]** | **560** | 255 | **62** | 36 |
| Subject to 12-month expected credit losses (stage 1) | **131** | 101 | **39** | 21 |
| Subject to lifetime expected credit losses (stage 2) | **192** | 67 | **23** | 15 |
| Subject to lifetime expected credit losses (stage 3) | **237** | 88 | **–** | |
| **Total credit quality** | **784 426** | 788 283 | **293 736** | 317 533 |

*[1] Refer to A4: Reclassification.*

*[2] Loans and advances at FVOCI was previously included in the loans and advances at amortised cost presentation table. In the current year loans and advances at FVOCI has been stripped out of loans and advances at amortised cost and presented separately.*

*[3] Provision for impairment of off-balance-sheet items includes the expected credit loss (ECL) allowance recognised with respect to financial guarantees and loan commitments of R500m (2019: R202m), credit balances and zero balances of the various loans and advances products.*

*[4] Certain categories of loans and advances were reclassified between FVOCI, FVTPL and amortised cost in 2019. The measurement basis of these instruments has however not changed. Refer to note H1: Consolidated statement of financial position – categories of financial instruments.*

| NGR 13—20 | | NGR 21—25 | | NP 1—3 | | Unrated | |
|---|---|---|---|---|---|---|---|
| **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| **329 785** | 350 289 | **30 740** | 22 645 | **–** | – | **4 347** | 1 417 |
| **167 164** | 168 138 | **8 750** | 7 451 | **–** | – | **19** | 20 |
| **90 782** | 97 970 | **12 426** | 985 | **–** | – | **–** | 61 |
| **9 020** | 9 802 | **2 770** | 3 484 | **–** | – | **–** | (1) |
| **9 505** | 13 444 | **183** | 632 | **–** | – | **–** | – |
| **44 311** | 47 794 | **6 500** | 10 075 | **–** | – | **267** | 430 |
| **–** | 2 009 | **–** | – | **–** | – | **–** | – |
| **1 597** | 1 625 | **100** | – | **–** | – | **–** | – |
| **3 999** | 3 507 | **–** | – | **–** | – | **–** | – |
| **3 305** | 5 966 | **11** | 18 | **–** | – | **–** | – |
| **102** | 34 | **–** | – | **–** | – | **4 061** | 907 |
| **41 801** | 37 359 | **31 531** | 27 739 | **–** | – | **–** | – |
| **12 103** | 10 347 | **18 915** | 19 901 | **–** | – | **–** | – |
| **9 046** | 17 127 | **6 641** | 752 | **–** | – | **–** | – |
| **424** | 104 | **1 148** | 630 | **–** | – | **–** | – |
| **3 433** | 2 923 | **945** | 1 107 | **–** | – | **–** | – |
| **14 903** | 5 870 | **3 350** | 3 251 | **–** | – | **–** | – |
| **253** | – | **–** | – | **–** | – | **–** | – |
| **432** | 690 | **262** | 1 919 | **–** | – | **–** | – |
| **283** | 76 | **–** | – | **–** | – | **–** | – |
| **924** | 222 | **270** | 178 | **–** | – | **–** | – |
| **–** | – | **–** | – | **43 111** | 25 651 | **–** | 1 |
| | | **–** | – | **16 303** | 9 575 | **–** | – |
| | | **–** | – | **10 343** | 6 508 | **–** | 1 |
| | | **–** | – | **2 278** | 1 783 | **–** | – |
| | | **–** | – | **63** | 55 | **–** | – |
| | | **–** | – | **1 844** | 1 154 | **–** | – |
| | | **–** | – | **10 573** | 6 163 | **–** | – |
| | | **–** | – | **1 001** | – | **–** | – |
| | | **–** | – | **292** | 171 | **–** | – |
| | | **–** | – | **201** | 197 | **–** | – |
| | | **–** | – | **213** | 45 | **–** | – |
| **371 586** | 387 648 | **62 271** | 50 384 | **43 111** | 25 651 | **4 347** | 1 418 |
| **6 710** | 3 639 | **198** | 1 343 | **1 969** | 448 | **–** | – |
| **211** | 97 | **50** | 35 | **237** | 88 | **–** | – |
| **89** | 67 | **3** | 13 | **–** | | | |
| **122** | 30 | **47** | 22 | **–** | | | |
| **–** | | **–** | | **237** | 88 | | |
| **378 507** | 391 384 | **62 519** | 51 761 | **45 317** | 26 187 | **4 347** | 1 418 |

The group uses a master rating scale for the measurement of credit risk, which is the risk of the borrower defaulting excluding the effect of collateral or any loss mitigation [ie probability of default (PD) only]. The Nedbank Group Rating (NGR) master scale is a comprehensive PD rating scale, mapped to default probabilities and external rating agency scales. This enables the group to measure credit risk consistently and accurately across its entire portfolio. A brief explanation of the scale follows:

NGR 1–12: Represents borrowers who demonstrate a strong capacity to meet financial obligations, and who have a negligible or low probability of default. This category typically includes the group's large corporate clients, including financial institutions, parastatals and other government-related institutions.

NGR 13–20: Represents borrowers who demonstrate a satisfactory ability to make payments and who have a low or moderate probability of default. This category typically includes small and medium-sized businesses, medium-sized corporate clients and individuals.

NGR 21–25: Represents borrowers who are of higher risk. This category typically includes higher-risk individuals or small businesses, as well as borrowers that were rated higher on inception, but have since migrated down the rating scale as a result of poor financial performance. However, the borrower has not defaulted and is continuing to make repayments.

NP 1–3: Represents clients who have defaulted. Refer to note C2.6 for the group's definition of 'default'.

Unrated: Represents borrowers who do not have a NGR rating and are not in default.

Refer to note H1: Consolidated statement of financial position – Catergories of financial instruments.

## C2 IMPAIRMENTS CHARGE ON FINANCIAL INSTRUMENTS

### CREDIT RISK

Credit risk arises from lending and other financing activities that constitute the group's core business and is managed across the group in terms of its board-approved Group Credit Risk Management Framework (GCRMF). This framework covers the macrostructures for credit risk management and incorporates key excerpts from the group credit policy, credit approval mandates, credit risk monitoring and governance structures. It is a key component of the group's Enterprisewide Risk Management Framework (ERMF), Capital Management and Retirement Annual Fund (RAF), and it is reviewed quarterly.

The GCRMF includes the two advanced internal rating-based (AIRB) approach technical forums (ie wholesale and retail) and the ad hoc Group Credit Ratings Committee, which reports into the Group Credit Committee (GCC). Also included is the Large-exposure Approval Committee (LEAC), whose function is the approval of credit applications in excess of the large-exposure threshold imposed by the Banks Act, 94 of 1990.

The GCC also acts as the designated committee appointed by the board to monitor, challenge and ultimately approve all material aspects of the group's AIRB rating and risk estimation systems and processes. The current membership includes seven non-executive directors and three executive directors. The board and the GCC are required by the banking regulations to have a general understanding of the AIRB system and the related reports. The GCC also needs to ensure the independence of Group Credit Risk Monitoring (GCRM), which includes the Credit Model Validation Unit (CMVU) and Model Risk Management (MRM), from the business units originating the credit in the group.

Group Credit Risk (GCR) monitors the business units' credit portfolios, risk procedures, policies and credit standards, and maintains the GCRMF. GCR has also been assessing and reporting the impact of Covid-19 on the credit portfolio to the GCC and the SARB Prudential Authority (PA).

The CMVU is the bank's independent risk control unit required by banking regulations. CMVU validates the bank's regulatory credit capital models and IFRS 9 impairment models. The CMVU champions the Basel III AIRB and IFRS 9 methodologies across the bank to ensure consistency in the credit rating process.

Model Risk Management (MRM) ensures that model risk is optimised and effectively managed across the bank. MRM validates non-regulatory credit models, including credit valuation and pricing models, as well as the IFRS 9 macroeconomic forecast models within the bank.

Group Risk Analytics (GRA) calculates and consolidates credit regulatory and economic capital. GRA maintains and enhances the Credit Portfolio Management (CPM) system and credit risk calculation engine system, developed inhouse, and tests and implements all credit regulatory model updates. GRA calculates and consolidates the IFRS 9 impairment calculations across the bank, as well as performs credit risk analytics for the bank.

### KEY ASSUMPTIONS CONCERNING THE FUTURE AND KEY SOURCES OF ESTIMATION

#### Allowances for loan impairment and other credit risk provisions

The judgements in relation to determining the allowance for loan impairment and other credit risk provisions are as follows:

- Defining what is considered to be a significant increase in credit risk – refer to C2.5 for further information;
- Selecting and calibrating PD, LGD and EAD models and linking these input parameters to macroeconomic drivers - refer to C2.5 and C2.7 for further information;
- Estimating macroeconomic parameters based on forecast macroeconomic scenarios – refer to C2.7 for further information;
- Making post model adjustments to account for emerging or developing events, model and data limitations and deficiencies, and the application of expert credit judgement – refer to C2.8 for further information.

Allowances for loan impairment represent management's estimate of the credit losses expected in the loan portfolios at the reporting date.

Within the Nedbank Retail and Business Banking and Nedbank Wealth portfolios, which comprise large numbers of small homogeneous assets with similar risk characteristics where credit-scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on the portfolio, based on historical recovery rates and assumed emergence periods. These statistical analyses use, as primary inputs, the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. There are many such models in use, each tailored to a product, line-of-business or client category. Judgement and knowledge utilised in selecting the statistical methods to be used when the models are developed or revised. Post model adjustments (discussed further in C2.8) may be applied to model outputs to cater for emerging or developing events, model and data limitations and deficiencies, and the application of expert credit judgement. The impairment allowance reflected in the financial statements for these portfolios is considered to be reasonable and supportable judgements.

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition, as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified as stage 1.
- Where a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to stage 2, but not yet deemed to be credit-impaired. In considering whether there has been an increase in credit risk, the group considers guarantees (and other credit enhancements) to the extent that it affects the likelihood of the borrower defaulting on the instrument, eg where the guarantee creates an economic incentive for the guarantor to continue to fund the borrower. Note C2.5 describes how the group determines when a significant increase in credit risk has occurred.
- Where the financial instrument is credit-impaired, the financial instrument is moved to stage 3. Note C2.6 describes how the group defines 'credit-impaired' and 'default'.
- Financial instruments in stage 1 have their ECLs measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments classified as stages 2 and 3 have their ECLs measured based on a lifetime basis.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that forward-looking information should be considered. Note C2.7 includes an explanation of how the group has incorporated forward-looking information into our ECL models.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECLs are measured on a lifetime basis.
- Off-balance-sheet items are also subject to the IFRS 9 impairment model and include financial guarantees and undrawn loan commitments.

For individually significant loans with larger exposures, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cashflows are taken into account, for example, the business prospects for the client, the realisable value of collateral, the group's position relative to other claimants, the reliability of client information and the likely cost and duration of the workout process. The level of the impairment allowance is the difference between the value of the discounted expected future cashflows (discounted at the loan's original effective interest rate) and its carrying amount. Subjective judgements are made in the calculation of future cashflows. Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairments charge in the income statement.

**Impact of the Covid-19 pandemic on allowances for loan impairment and other credit risk provisions**

The Covid-19 pandemic is evolving and the economic environment in which the group operates could be subject to sustained volatility, which could continue to impact our financial results negatively. The key judgements are the duration of the pandemic and the speed and shape of the economic recovery. The current environment requires complex judgements and estimates regarding the effectiveness of Covid-19 containment measures and related lockdowns, and global and domestic policy responses and the outcome thereof, which represent a high degree of estimation uncertainty.

i. Assessment of significant increase in credit risk

To support our clients, we have established relief programmes to help retail and wholesale banking clients manage the challenges of Covid-19 through payment deferrals, covenant waivers, and refinancing or credit restructuring. The utilisation of a payment deferral programme does not trigger a significant increase in credit risk automatically. This complies with SARB Directive 3 (D3/2020) of 2020, which relates to the treatment of retail and wholesale restructured credit exposures due to Covid-19. Our assessment of SICR continues to be based on quantitative lifetime PD thresholds and for our wholesale portfolios, changes in the borrower's risk rating. Additional qualitative reviews and a 30-day-past-due backstop are also applied (refer to C2.5 for further information). Risk ratings and the broader macroeconomic impacts of the pandemic are largely reflected in an instrument's lifetime PD. To the extent the impacts of Covid-19 are not already reflected within the lifetime PD model, they are reflected through the qualitative review performed to assess the staging results and adjustments are made, as necessary, including through the use of post model adjustments – refer to C2.8.

ii. Use of forward-looking information

The scale of the economic shock induced by the Covid-19 pandemic, the heterogeneous impacts on various sectors, challenges in accurately reflecting the risk of clients under payment holidays, uncertainty around the economic recovery including impacts of further waves of the virus, timing of the vaccine rollouts and the difficulty in gauging the impact of relief measures have all meant that there is significant increase in the level of estimating ECL under the current environment.

The emergence of the Covid-19 global pandemic significantly impacted our economic outlook, which is reflected in the macroeconomic variables used to estimate our stage 1 and stage 2 credit loss allowances. The environment, including government support measures introduced, continues to evolve and as a result, our macroeconomic outlook has a higher than usual degree of uncertainty and is inherently subject to change, which may materially change our estimate of stage 1 and stage 2 credit loss allowances. This has resulted in a greater reliance on management judgement in assessing the accuracy of macroeconomic forecasts and assessing the associated impairment outcome. Accordingly management has had to make use of significantly higher levels of post-model adjustments in establishing the group's year end ECL position.

## C2.1 MOVEMENT IN IMPAIRMENTS CHARGE ON FINANCIAL INSTRUMENTS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Balance at the beginning of the year | **16 958** | 14 740 |
| Stage 1 ECL allowance | **3 121** | 2 608 |
| Stage 2 ECL allowance | **3 811** | 3 409 |
| Stage 3 ECL allowance | **10 026** | 8 723 |
| Statement of comprehensive income charge net of recoveries | **12 425** | 5 953 |
| Stage 1 ECL allowance | **792** | 452 |
| Stage 2 ECL allowance | **2 453** | 520 |
| Stage 3 ECL allowance | **8 605** | 4 714 |
| Off-balance-sheet allowance | **299** | 54 |
| Non-loans and advances | **(8)** | (1) |
| FVOCI loan impairment charge | **284** | 214 |
| Adjusted for: | **(5 163)** | (3 736) |
| Recoveries[1] | **1 136** | 1 227 |
| Interest in suspense[1] | **929** | 696 |
| Amounts written off[1] | **(7 361)** | (5 407) |
| Foreign exchange and other transfers[1] | **409** | (38) |
| Non- loans and advances | **8** | |
| FVOCI loan impairment charge | **(284)** | (214) |
| Balance at the end of the year | **24 220** | 16 958 |
| Stage 1 ECL allowance | **3 908** | 3 121 |
| Stage 2 ECL allowance | **6 501** | 3 811 |
| Stage 3 ECL allowance | **13 811** | 10 026 |
| Split by measurement category [2] | **24 220** | 16 958 |
| Loans and advances | **23 660** | 16 703 |
| Off-balance-sheet allowance | **560** | 255 |

[1] *Amounts written off against the impairment, adjusted for recoveries, interest in suspense, foreign exchange and other recovery costs is R4 887m (2019: R3 522m) - refer to C2.2. Foreign exchange movements included in this amount is a R49m gain (2019: R1m gain).*
[2] *Loans and advances at FVOCI and non-loans and advances wese previously included in the stage 1, stage 2 and stage 3 ECL allowance. In the current year loans and advances at FVOCI and non-loans and advances have been presented as separate lines in the above.*

## C2.2 IMPAIRMENT CHARGE ON LOANS AND ADVANCES BY CLASSIFICATION

| | Balance at the beginning of the year Rm | Impair- ments charge/ (release), net of recoveries Rm | Amounts written off against the impairment, adjusted for recoveries and interest in suspense Rm | Balance at the end of the year Rm |
|---|---|---|---|---|
| **Total impairment – 2020** | | | | |
| Home loans | **2 253** | **973** | **(37)** | **3 189** |
| Commercial mortgages | **1 035** | **1 044** | **(56)** | **2 023** |
| Credit cards | **2 265** | **1 475** | **(775)** | **2 965** |
| Overdrafts | **847** | **428** | **(87)** | **1 188** |
| Instalment debtors | **4 759** | **3 230** | **(1 424)** | **6 565** |
| Preference shares and debentures | **94** | **60** | **5** | **159** |
| Term loans[1] | **4 914** | **3 950** | **(2 502)** | **6 362** |
| Financial guarantees and loan commitments | **203** | **305** | **(8)** | **500** |
| Other loans[2] | **588** | **684** | **(3)** | **1 269** |
| Properties in possession | **8** | **(1)** | **2** | **9** |
| Specialised and other loans to clients[1] | **410** | **674** | **(5)** | **1 079** |
| Overnight loans | **137** | **(81)** | **2** | **58** |
| Factoring accounts | **33** | **92** | **(2)** | **123** |
| | **16 958** | **12 149** | **(4 887)** | **24 220** |
| Impairment on loans and advances at FVOCI[3] | **336** | **284** | **(23)** | **597** |
| **Total impairment** | **17 294** | **12 433** | **(4 910)** | **24 817** |
| **Total impairment – 2019** | | | | |
| Home loans | 2 188 | 243 | (178) | 2 253 |
| Commercial mortgages | 967 | 100 | (32) | 1 035 |
| Credit cards | 2 416 | 924 | (1 075) | 2 265 |
| Overdrafts | 743 | 207 | (103) | 847 |
| Instalment debtors | 4 238 | 1 979 | (1 458) | 4 759 |
| Preference shares and debentures | 2 | (33) | 125 | 94 |
| Term loans[1] | 3 638 | 2 031 | (755) | 4 914 |
| Financial guarantees and loan commitments | 166 | 35 | 2 | 203 |
| Other loans[2] | 382 | 254 | (48) | 588 |
| Properties in possession | 18 | (7) | (3) | 8 |
| Specialised and other loans to clients[1,4] | 301 | 148 | (39) | 410 |
| Overnight loans | 40 | 96 | 1 | 137 |
| Factoring accounts | 22 | 17 | (6) | 33 |
| Trade, other bills and banker's acceptances | 1 | | (1) | – |
| | 14 740 | 5 740 | (3 522) | 16 958 |
| Impairment on loans and advances at FVOCI[3] | 122 | 214 | | 336 |
| **Total impairment** | 14 862 | 5 954 | (3 522) | 17 294 |

[1] *Term loans and other loans were previously presented in one product line namely 'personal, term and other loans'. In the current financial year 'personal, term and other loans' has been split into 'term loans' and 'specialised and other loans to clients' due to the different nature of these loans.*
[2] *An 'other loans' subtotal line has been added into the current year presentation table in order to group certain products based on similar nature and size.*
[3] *Loans and advances at FVOCI was previously included in the loans and advances at amortised cost presentation table. In the current year loans and advances at FVOCI has been stripped out of loans and advances at amortised cost and presented separately.*
[4] *2019 restated, refer to note A4: Reclassification for further details.*

The balance at the end of the year includes off-balance-sheet items of R560m (2019: R255m).

## C2.3 SECTORAL ANALYSIS

| | Total Impairment | | Stage 1: 12-month ECL allowance | | Stage 2: Lifetime ECL allowance (not credit-impaired) | | Stage 3: Lifetime ECL allowance (credit-impaired) | |
|---|---|---|---|---|---|---|---|---|
| | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm |
| Individuals | **16 625** | 12 540 | **2 659** | 2 239 | **3 769** | 2 578 | **10 197** | 7 723 |
| Financial services, insurance and real estate[1] | **2 440** | 1 496 | **428** | 257 | **1 476** | 677 | **536** | 562 |
| Manufacturing [1] | **1 529** | 722 | **198** | 149 | **450** | 230 | **881** | 343 |
| Building and property development | **464** | 186 | **13** | 17 | **65** | 54 | **386** | 115 |
| Transport, storage and communication[1] | **474** | 217 | **37** | 37 | **88** | 21 | **349** | 159 |
| Retailers, catering and accommodation | **91** | 29 | **18** | 13 | **41** | 11 | **32** | 5 |
| Wholesale and trade[1] | **587** | 498 | **101** | 75 | **182** | 76 | **304** | 347 |
| Mining and quarrying[1] | **232** | 144 | **148** | 80 | **11** | 37 | **73** | 27 |
| Agriculture, forestry and fishing | **307** | 345 | **56** | 55 | **48** | 20 | **203** | 270 |
| Government and public sector | **398** | 123 | **48** | 30 | **141** | 28 | **209** | 65 |
| Other services[1] | **1 073** | 658 | **202** | 169 | **230** | 79 | **641** | 410 |
| | **24 220** | 16 958 | **3 908** | 3 121 | **6 501** | 3 811 | **13 811** | 10 026 |

## C2.4 GEOGRAPHICAL ANALYSIS

| | Total Impairment | | Stage 1: 12-month ECL allowance | | Stage 2: Lifetime ECL allowance (not credit-impaired) | | Stage 3: Lifetime ECL allowance (credit-impaired) | |
|---|---|---|---|---|---|---|---|---|
| | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm |
| SA[1] | **23 763** | 16 459 | **3 779** | 2 959 | **6 434** | 3 787 | **13 550** | 9 713 |
| Other African countries | **198** | 110 | **104** | 86 | **42** | 24 | **52** | – |
| Europe | **246** | 332 | **13** | 19 | **24** | – | **209** | 313 |
| Asia | **1** | 4 | **1** | 4 | **–** | – | **–** | – |
| United States of America | **3** | – | **2** | – | **1** | – | **–** | – |
| Other | **9** | 53 | **9** | 53 | **–** | – | **–** | – |
| | **24 220** | 16 958 | **3 908** | 3 121 | **6 501** | 3 811 | **13 811** | 10 026 |

*[1] 2019 restated, refer to note A4 and Reclassification.Loans and advances at FVOCI was previously included in the loans and advances at amortised cost presentation table. In the current year loans and advances at FVOCI has been stripped out of loans and advances at amortised cost and presented separately.*

## C2.5 ASSESSMENT OF SIGNIFICANT INCREASE IN CREDIT RISK (STAGE 2)

Stage 2 is comprised of all performing financial instruments that have experienced an SICR since initial recognition. The group recognises lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer an SICR since initial recognition, the financial instrument returns to stage 1 and 12-month ECL are recognised. Alternatively, if the credit risk of the financial instrument deteriorates and the stage 3 criteria are met, lifetime ECL is recognised. At each reporting date, the group assesses whether there has been an SICR for financial instruments since initial recognition by:

- comparing the PD at the reporting date over the remaining expected life, with the PD on the date of initial recognition. Established thresholds for an SICR are based on a percentage change in lifetime PD relative to initial recognition;
- using a set of portfolio-specific qualitative criteria that are indicative of a SICR to enhance the overall SICR assessment; and
- considering instruments that are more than 30 days past due to have experienced a SICR.

The group has not used the low-credit-risk exemption for any financial instruments in the year ended 31 December 2020.
The group adopted the PA Directive 3 of 2020 (D3/2020). The use of a payment holiday itself has not been judged to indicate an SICR, where applicable, with the underlying long-term credit risk deemed to be driven by economic factors and captured using a combination of forward-looking models and temporary post model adjustments. The group considers these to continue to perform adequately under the current economic environment, which was impacted by the Covid-19 pandemic as well as payment holidays. These models and post model adjustments capture the anticipated increased credit risk and future defaults and are therefore an appropriate assessment of staging and ECL
By the end of 2020, the majority of these loans had either reverted to performing (stage 1 or stage 2) or were classified as stage 3 (refer to C2.6 for further details related to D3/2020 loans which have subsequently been accounted for as a distressed restructure), with R27bn remaining in the 'D3 restructures' portfolio. Nedbank has ceased to grant D3/2020 renewals on a business-as-usual basis with renewals granted on an exceptional basis only.
The R27bn mainly relates to R25bn of loans restructures in CIB which mature in the first half of 2021, with the remaining R2bn in RBB. At 31 December 2020, 97% of RBB's payment holidays have matured. The 'D3 restructures' portfolio continues to be monitored separately by the respective credit governance structures.
There have been no changes made to the quantitative or qualitative triggers used as at 31 December 2020, except for minor enhancements in certain retail portfolios and the treatment of D3/2020 restructures as follows:

- Where retail clients requested an extension to their D3/2020 restructure beyond the initial period of the payment holiday/restructure, these exposures were classified as stage 2, ie the request for an extension was considered a SICR trigger.
- Wholesale clients were assessed on an individual exposure basis, to determine the appropriate stage allocation for D3/2020 relief extensions.

## C2.6 DEFINITION OF 'DEFAULT'

Loans and advances are deemed to have defaulted when the SA banking regulations definition of default criteria is triggered, which is in line with the Basel III requirements. For retail and specialised lending portfolios, this is product-centred, and a default would therefore be specific to borrower account (a specific advance). The remaining portfolios are client or borrower-centred, meaning that should any transaction within a borrowing group default, all transactions within the borrowing group would be treated as having defaulted.

Defaulted loans and advances will be classified as stage 3 and an appropriate ECL will be measured as the difference between the asset's gross carrying amount and the present value of the estimated future cashflows discounted at the asset's original effective interest rate.

Default occurs in respect of a client in the following instances:

**Quantitative criteria**

- The client has exceeded its advised credit limit or is past due for more than 90 days on any material credit obligation to the group.

**Qualitative criteria**

- The group considers that the client is unlikely to meet its credit obligations to the group in full without the group having recourse to actions such as realising security (if held).
- The group has consented to a distressed restructuring of the credit obligation, in accordance with PA Directive 7 of 2015 (D7/2015), that is likely to result in a reduced financial obligation.
- The group has applied for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation.
- The client is placed under business rescue in terms of the Companies Act, 71 of 2008, and when the client requests a restructure of its facilities due to financial distress.

**Impact of Covid-19**

The Covid-19 pandemic had a significant impact on the macroeconomic environment, therefore, the ability of borrowers to meet their obligations. The PA supported Covid-19 related relief initiatives, such as payment holidays offered by banks, to support the local economy. Consequently, the PA issued D3/2020 to enable banks to continue to extend credit to the real economy during the period of financial stress without the need for inappropriate higher capital requirements. The intention of PA is to reinstate the requirements of D7/2015 in full after the impact of Covid-19 has subsided.

The group adopted a strict interpretation of D3/2020. For any loan restructured after 29 February 2020 where the below conditions were met, the loan was classified as a 'Covid-19 loan restructure' or 'D3/2020 restructure'. The D3/2020 restructures remained in their respective stage classification (stage 1 or stage 2), instead of being identified as a distressed restructure, in accordance with D7/2015, and consequently classified as credit-impaired (in default). The following conditions were applied:

- the loan was up-to-date (with zero arrears) at 29 February 2020;
- the restructure was due to Covid-19 related factors, based on all reasonable and verifiable information available at the date of restructuring the loan; and
- the loan is expected to remain in an up-to-date status subsequent to the relief period, all other factors remaining constant. If an account was unlikely to stay up-to-date once the restructure period ended, the account was not considered a D3/2020 restructure and treated as a distressed restructure, ie classified as credit-impaired (in default).

If there were adverse changes in the actual or expected circumstances during or after the relief period and the changes were not expected to be temporary in nature over and above the relief provided, such circumstances were deemed to be indicators of distress, the D3/2020 loan would be reclassified as a distressed restructured loan, ie credit-impaired (in default).

## C2.7 FORWARD-LOOKING INFORMATION INCORPORATED IN THE ECL MODELS

To account for forward-looking information (FLI) the ECL input parameters [PD, loss-given default (LGD) and exposure at default (EAD)] are typically linked to macroeconomic drivers such as the prime rate, gross domestic product (GDP) growth, household debt-to-income, consumer price inflation and credit growth. Overlays are raised where the modelling inadequately captures the risks within the portfolio.

The incorporation of FLI into the ECL allows for a range of macroeconomic outcomes to capture non-linearities. The parameter inputs used to estimate the ECL are modelled on four macroeconomic scenarios: base (expected), positive, mild stress and high stress. Scenarios are provided by the Nedbank Group Economic Unit and incorporate historical trends, statistical models and expert judgement. The macroeconomic scenarios are updated quarterly, with the option of an out-of-cycle update based on significant macroeconomic events. There is a robust internal governance process to review and approve the forecasted macroeconomic factors, which include approval by a board subcommittee.

The ECL under each macroeconomic scenario is the sum of the discounted products of the PD, LGD and EAD for that specific scenario. The ECL is calculated to reflect an unbiased and probability-weighted amount, with the scenario weights estimated based on the likelihood of occurrence. The ECL is discounted from the point of default using the most applicable interest rate, or a reasonable estimate thereof, to arrive at the ECL at reporting date.

The forecasted ranges for macroeconomic variables are shown below by using the annual average forecast over the three-year period per scenario.

.

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Economic forecast (%) | | |
| **Scenario** | **Probability weighting (%)** | **Total ECL allowance** | **Economic measures** | **2021** | **2022** | **2023** |
| **Base case** | **50** | **24 695** | **GDP** | **3,04** | **2,22** | **1,52** |
| | | | **Prime** | **7,00** | **7,38** | **7,50** |
| | | | **HPI** | **2,10** | **2,30** | **3,50** |
| **Mild stress** | **21** | **25 187** | **GDP** | **2,84** | **1,65** | **1,15** |
| | | | **Prime** | **7,25** | **8,00** | **8,00** |
| | | | **HPI** | **1,81** | **2,12** | **3,08** |
| **Positive outcome** | **21** | **24 376** | **GDP** | **3,85** | **2,44** | **1,57** |
| | | | **Prime** | **7,00** | **7,00** | **7,00** |
| | | | **HPI** | **3,60** | **4,10** | **4,80** |
| **High stress** | **8** | **25 727** | **GDP** | **2,14** | **1,68** | **0,92** |
| | | | **Prime** | **7,42** | **8,46** | **8,50** |
| | | | **HPI** | **1,51** | **1,94** | **2,66** |
| **Weighted scenarios** | **100** | **24 817** | | | | |

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Economic forecast (%) | | |
| **Scenario** | Probability weighting (%) | Total ECL allowance | Economic measures | 2020 | 2021 | 2022 |
| **Base case** | 50 | 17 219 | GDP | 1,09 | 1,32 | 1,49 |
| | | | Prime | 10,00 | 10,00 | 10,00 |
| | | | HPI | 1,69 | 5,00 | 5,56 |
| **Mild stress** | 21 | 17 775 | GDP | 0,59 | 0,66 | 1,23 |
| | | | Prime | 10,46 | 10,42 | 10,25 |
| | | | HPI | 0,34 | 1,69 | 5,00 |
| **Positive outcome** | 21 | 16 532 | GDP | 1,69 | 1,97 | 2,14 |
| | | | Prime | 9,58 | 9,50 | 9,50 |
| | | | HPI | 7,93 | 9,38 | 10,00 |
| **High stress** | 8 | 18 447 | GDP | 0,02 | (0,06) | 1,07 |
| | | | Prime | 10,83 | 11,00 | 10,83 |
| | | | HPI | 0,00 | 1,74 | 4,27 |
| **Weighted scenarios** | 100 | 17 294 | | | | |

The total ECL allowance is the sum of the impairment allowance on loans and advances at amortised cost and FVOCI.

Post the explicit forecast period, 2021 to 2023 (2109: 2020 to 2022), the group returns all forecast variables to a long-term average for modelling purposes. The long-term average used for modelling purposes are: GDP of 2% (2019: 2%), prime of 10,25% (2019: 10,25%) and house price index (HPI) of 5% (2019: 5%).

### Base case scenario – a slow climb back to 2019 level

**Covid-19 and lockdown:**

- Transmission rates remain relatively steady into 2021, before falling at a faster pace to low levels throughout 2022. The virus is effectively contained but not completely defeated in 2021. Regional flare-ups persist. However, treatments become more effective and mortality rates decline significantly. Medical advances produce increasingly effective treatments throughout 2021 and a vaccine is eventually rolled out towards end-2021 and the years that follow.
- Lockdown restrictions are eased further during 2021. The countries moves to level 0 around mid-2021, but preventive health protocols are kept in place. The country adjusts to a new normal. International travel restrictions to and from most countries are lifted around mid-2021, but a fear of contagion contains growth in both business travel and tourist numbers to modest levels. More significant improvements in the overall business environment only materialises in 2022.
- The economic impact of Covid-19 lessens as time passes, partly because business adapts to a new way of working and government refrains from level 5 lockdowns. Important lessons were learned and the fear of the virus gradually subsides as treatments become more effective.

**Global economic assumptions**

- The world economy shrinks between 3% and 5% in 2020. The recovery gathers a moderate pace in 2021, posting growth of between 4% and 5% in 2021. Most major advanced countries return to pre-Covid-19 levels by mid- 2022, but emerging markets lag behind, held back by country-specific political and social turmoil, geopolitical conflict and structural impediments.
- World trade contracts by around 10% to 15% in 2020, followed by a similar bounce in 2021. Activity reverts to trend from Q1 2022 onwards.
- Global risk appetites improve in Q4 2020, but underlying sentiment remains fragile and market volatility remains elevated. Over the forecast period, risk appetites remain fluid, switching between risk-off and risk-on. Emerging markets are subjected to spells of large capital outflows, followed by speculative inflows driven the search for yields.
- Commodity prices are mixed. Non-fuel commodity prices manage to end 2020 marginally higher, before registering moderate growth of around 5% in 2021. The pace of recovery slows in 2021 and 2022 as global growth gradually returns to trend. Non-fuel commodity prices rise at an annual average rate of around 2% over 2022 to 2023. Fuel prices recover during the course of 2021, but at a slow pace, registering only modest gains over the three years from 2021 to 2023.

**Global policy responses**

- Monetary policies: Remain highly accommodative throughout the period, marked by low to falling interest rates, large quantitative easing programmes and other targeted liquidity injections.
- Fiscal policies: Ramped up dramatically. Initially aimed at health care and support for vulnerable companies and households, but later extended to infrastructure and other economic initiatives to kick-start and stimulate global growth.

**Domestic policy landscape**

- Monetary policy: The MPC signals tighter policy in 2021, but CPI and GDP fall short of SARB's expectations. Consequently, rates are kept on hold in 2021. A temporary rise moves CPI higher in early 2022 and the MPC responds by hiking rates by a cumulative 50 bps. However, inflation recedes rapidly towards end-2022 and throughout 2023, averaging only 4% per annum over 2021 to 2023, resulting in a pause in the tightening cycle in 2023.
- Fiscal policy: There is a sharp increase in health expenditure, social grants and support for small business in 2020 and early 2021, followed by deep cuts in spending. The budget deficit is gradually reduced to around 10% of GDP in 2023, while the public debt burden continues to rise, peaking at close to a 100% of GDP. Deeper cuts into junk status from all three major ratings agencies are assumed, but an outright sovereign debt crisis is avoided.
- Structural constraints: Change occurs slowly driven by budget pressures. There are some gains on low-hanging fruit, such as the release of spectrum, changes to mining legislation and the deregulation of the energy sector occuring throughout 2021 and 2022. Politically sensitive changes around labour and land reforms, IP rights and others are left unchanged. Electricity constraint remains but deregulation slowly occurs. Some SOEs do not survive and are broken up and sold off.

**Domestic economic consequences**

- GDP
  - » The economy shrinks by 8,1%, recovers slowly, expanding to 3,04%, 2,22% and 1,52% in 2021, 2022 and 2023 respectively.
  - » Fixed investment declines sharply as companies rush to reduce costs, followed by a recovery off a low base in 2021. Around 5% of productive capacity is permanently lost.
  - » Company failures and growing pressure on earnings trigger job losses and pay cuts. Household income shrinks and debt levels increase. Consumer spending declines by almost 8% in 2020, followed by a moderate recovery at an annual average rate of just over 2%.
- Credit
  - » Household credit: Loans to households turn the corner before end-2020. Most credit categories post modest recoveries off low bases throughout 2021. Credit quality deteriorates and there is a much higher risk of bad debts expected particularly in 2021. The ratio of household debt to disposable income (PDI) moderates as household incomes gradually recover to an average of around 75% over 2021 to 2023.
  - » Corporate credit: All categories of corporate credit slows sharply, hitting a trough in H1 2021, before slowly recovering off a low base. Risks differ from industry to industry. Risks of default extremely high.
- Asset prices
  - » Equities: Stock markets recover throughout 2021, supported by a gradual recovery in earnings, but still constrained by policy uncertainty and subdued underlying growth prospects. As a result, equity price movements are characterised by short spells of improvement followed by almost equal periods of corrections as investors start to discount the reality of structurally lower growth in earnings and sharply higher risk premiums.

- » House prices: House price growth remains steady but unimpressive at around 2% in nominal terms, but declines in real terms up to end 2022. A modest acceleration starts in 2023, but policy and legislative uncertainty cap the upside.

## High-stress scenario – long-term stagnation

**Covid-19 and lockdown**

- Transmission rates are stabilised at a relatively high level. Regional flare-ups occur regularly, but are managed relatively effectively. This situation persists throughout 2021. Treatments also become more effective, freeing up hospital capacity and resulting in lower mortality rates. Given the stubbornly high prevalence of the virus, strict health protocols are maintained deep into 2022. Thereafter medical advances gradually support a return to normality.
- Lockdown restrictions are eased as transmission rates decline. The country moves to level 0 in late 2021, but strict health protocols are kept in place. Regional flare ups are dealt with through localised restrictions rather than national lockdown. While key lessons were learnt in the first wave, the government's tendency to over-regulate persists. Restrictions on international travel are intermittently reimposed as various countries across the globe battle new waves of infections. Regulations around travel and tourism remain confusing and onerous.
- Covid-19 continues to disrupt business operations, reduces productivity and raises production costs. International trade and tourism are undermined by staggered lockdowns both locally and globally as a result of either flare-ups or new waves of infections in different countries. Some semblance of normality emerges towards the end of 2022 and throughout 2023.The economic impact of Covid-19 lessens as time passes, partly because business adapts to a new way of working and government refrains from level 5 lockdowns. Important lessons were learned and the fear of the virus gradually subsides, as treatments become more effective.

**Global economic assumptions**

- A U- or W-shaped world recession is assumed. However, the trough is deeper and the climb longer and harder than under the expected scenario. World GDP contracts by over 5%. The hit to global demand and supply is carried over into 2021 and 2022.
- World trade contracts around 20% in 2020. Recovery starts in the second half of 2021. Activity reverts to trend from mid-2022 onwards.
- Global 'risk-off' sentiment returns in 2021 due to repeated Covid-19 flare ups and the slower than expected rollout of effective vaccines. Risk appetites return in 2022. This supports some improvements in capital flows to emerging markets, but investors remain selective, shunning emerging markets with large structural imbalances and other associated problems. Expectations of higher interest rates in advanced countries towards the end of the forecast period result in sharp capital outflows from emerging markets in 2023.
- Commodity prices rise over the short to medium term. Non-fuel commodity and fuel prices are volatile but ends 2021 marginally higher as supply chain disruptions result in underlying upward pressure on prices as global demand gradually recovers from the disruptions of H1 2020. In the outer years non-fuel commodity prices start to enter a downturn due to a relapse in global demand, while the recovery in fuel prices continue albeit as a slower pace, brought about by co-ordinated supply cuts and loss of productive capacity among some major producers.

**Global policy responses**

- Remain highly accommodative throughout the period. The stimulatory policies, coupled with rising food and fuel prices due to changes in supply chains eventually push inflation higher in 2022. This ushers in a period of monetary policy normalisation in key advanced countries. Central banks start to reduce bloated balance sheets but interest rates in advanced countries remain anchored near or below zero throughout the forecast period.
- Fiscal policies: Public debt burdens rise sharply as governments accelerate both consumption and capital expenditure to revive struggling economies in 2022. These efforts slowly start to move the world economy forward, but efforts are not synchronised, and progress is slow.

**Domestic policy landscape**

- Monetary policy: Rates are reduced by a cumulative 300bps as CPI recedes, ending 2020 around 3% on shrinking demand and low global oil prices. CPI returns quickly in 2021, driven by a weaker rand, rising to over 5% by end 2023. Rates move higher in 2021, up by 100 bps, followed by two hikes of 25 bps each in early 2022. Prime rises to 8,50% by end-2023 to counter persistent pressure on the currency and deal with rising inflationary pressures.
- Fiscal policy: Public spending rises sharply in 2020 and settles at a higher base, while tax revenue persistently fall short of targets. Budget deficits average around 12% of GDP and the debt burden peaks at over 100% of GDP. Deeper cuts into junk status from all three major ratings agencies are assumed and the country teeters at the brink of a fiscal crisis throughout the forecast period.
- Structural constraints: Politics and ideology undermine structural reforms. Vested interest slows progress in rolling out renewable energy, restructuring SOEs and deregulation in other key industries. Energy constraints become less of a concern as the economy operates throughout the forecast period at well below capacity. High debt burdens and limited financing option eventually bring about some progress on structural reforms in 2021 through to 2023.

**Domestic economic consequences**

- GDP
  - » GDP shrinks by 11% in 2021 and recovery falls short of expectations. GDP grows to 2,14%, 1,68% and 0,92% in 2021, 2022 and 2023.
  - » Fixed investment contracts by 19% and 2,5% in 2020 and 2021. The recovery that follows is modest, constrained by energy shortages, a deeply ingrained loss of confidence and other domestic constraints. Covid-19 deals a permanent blow to SA. Companies fold and productive capacity is lost.
  - » Unemployment surges and settles at higher levels. Disposable income declines, hurt first by job losses in 2020 and then by rising inflation and higher taxes from 2021 onwards. Consumer spending contracts by over 8% in 2020. Growth improves slowly in 2021 and 2022, but struggles to gain meaningful momentum.
- Credit
  - » Household credit: Advances slow to around 2,7% in early 2021. A moderate recovery starts in mid-2021, eventually taking credit growth up to a modest 4,9% in nominal terms by end-2023. Household indebtedness remains high, averaging 88% of disposable income over the three-year period.

  - » Corporate credit: The collapse in fixed investment dominates, resulting in sharp declines in all credit categories. The weakness in loans to companies intensifies, shrinking by 9% by mid-2021. Loan growth returns in H2 2021. A risk of default is exceptionally high.

- Asset prices
  - » Equities: Prices recover over the forecast period but fails to return to pre-Covid-19 levels, with the upside limited by rising interest rates, disappointing economic growth and the country's worsening fiscal position.
  - » House prices: House price growth slows to around 1,5% by 2022 and then drifts up a peak of 2,5% by end-2023. In real or inflation-adjusted terms house prices decline throughout the period. A worsening policy and legislative environment, with growing doubts about private-property rights prevent a meaningful or sustainable recovery.

### Positive outcome scenario – V-shaped recession

**Covid-19 and lockdown:**

- Transmission rates decline rapidly towards year-end, reaching low levels by Q1 2021. In 2021 the virus is largely defeated. Where and when new infections are imported, transmission is kept in check through early detection, rapid contact tracing and testing facilitated through the use of new technology and the use of widely available vaccines. Health authorities remain alert and society largely compliant, supporting the return to relative normality in 2021.
- The country moves to level 0 in early 2021. Health and safety protocols are also eased but sensible preventive measures are kept in place. In 2021 the situation is monitored closely and importation risks are mitigated and managed effectively.
- The economic impact of Covid-19 restrictions lessens significantly throughout 2021. The economy still operates at sub-optimal levels throughout 2021 mainly due to the persistence of the virus in the rest of the world, which continues to weigh on global trade and tourism. The adverse impact declines systematically throughout 2021. By early 2022 restrictions to global trade, travel and tourism are lifted and the business environment normalise.

**Global economic assumptions**

- World recession is sharp but short. World GDP contracts by around 3% in 2020, before regaining lost ground from 2021 onwards.
- World trade declines by around 10% in 2020, before rebounds from 2021 onwards.
- Global risk appetites return, fuelled by convincing signs of global recovery and the search of yield.
- Commodity prices trend stronger. The unexpectedly quick lift in global activity supports a moderate recovery in commodity prices. Longer-term structural changes to global supply chains also contribute to rise in global commodity prices.

**Global policy responses**

- Monetary policies: Initially highly accommodative, but interventions prove effective, restoring confidence and lifting asset prices. By late 2023 the process of monetary policy normalisation gradually starts, led by the US Fed.
- Fiscal policies: Global coordination helps the world economy out of a tight spot. Fiscal stimulus quickly shifts from disaster relief to economic stimulation. Infrastructure spending picks up, giving commodities and the world economy a strong boost. Although public debt doubles, the return of growth largely calms concerns and enables governments to manage debt to lower levels in an organised manner. Poorer countries are supported through effective debt-repayment holidays and even in some cases debt relief.

**Domestic policy landscape**

- Monetary policy: Interest rates are reduced to a cumulative 300 bps in 2020 and are then left unchanged throughout the forecast period. Inflation is contained at between 3% and 4% throughout the period, supported by modest costcompetitive gains brought about by the gradual implementation of effective structural change.
- Fiscal policy: Public spending rises sharply in 2020, but good policies and structural reforms slowly lift growth, improve tax revenues and enable the reprioritising of spending towards capital rather than consumption expenditure. Junk status is not lifted over the three-year forecast period, but the ratings outlook gradually improves to neutral and ultimately positive.
- Structural constraints: Energy constraints persist in 2021, but rapid rollout of alternative forms of energy and the effective maintenance at Eskom enable the country to cope with these constraints. Covid-19 and ratings downgrades to junk status serve as a wake-up call to politicians. Economic policies, regulation and legislation are reviewed, streamlined and tweaked to remove disincentive to business and investment. The middle make the most of the crisis and emerges stronger thereafter. There is greater political and social cohesion**.**

**Domestic economic consequences**

- GDP
  - » GDP shrinks by 7,5% in 2020, but bounces back to 3,85% in 2021, 2,44% in 2022 and 1,57% in 2023.
  - » Fixed investment contracts in 2020, but gradually recovers from 2021 onwards, supported by improved investor sentiment on positive policy and other interventions.
  - » Unemployment climbs and income declines in 2020, but pick-up in economic activity and progress in structural reforms support confidence and growth from 2021 onwards. Job opportunities gradually improve. Income growth also recovers throughout 2021. Confidence buoys consumer spending throughout

- Credit
  - » Household credit: credit demand also recovers towards end-2020 and gathers momentum as the economy recovers in 2021, accelerating to a peak of over 8% by end-2023. The ratio of household debt to disposable income averages 73% over the whole period.
  - » Corporate credit: Credit demand improves in 2021 as fixed investment activity slowly picks up, the policy environment improves and global growth accelerates.

- Asset prices
  - Equities: Prices decline sharply in 2020, but rebound strongly over the next three years, supported by encouraging signs of transition towards a more business-friendly political and policy environment.
  - House prices: The recovery starts in late 2020 and gains moderate momentum from 2021 onwards, driven by improved confidence, secured property rights and lower interest rates.

### Mild scenario – a milder version of high-stress scenario

The mild scenario is a milder version of the high stress scenario where:

- increases in the prime rate are lower, reflecting a 75 bps increase in 2021 and 25 bps in 2022;
- the pace and rate of recovery remain slow, reflected in GDP growth peaking at 2,84% in 2021, reverting to less than 2% in 2022 and 2023; and
- the HPI recovery reflects a slow recovery similar to GDP growth.

## C2.8 POST-MODEL ADJUSTMENTS

Post-model adjustments are raised to cater for known model and data deficiencies and to account for emerging or developing information for which there is insufficient data and/or time to update models accordingly.

The scale of the economic shock induced by the Covid-19 pandemic, the heterogeneous impacts on various sectors, challenges in accurately reflecting the risk of clients under payment holidays, uncertainty around the economic recovery including impacts of further waves of the virus, timing of the vaccine rollouts and the difficulty in gauging the impact of relief measures have all meant that there is significant challenge in reliably estimating ECL under the current environment. In addition, some historical relationships between credit risk parameters and macroeconomic factors (eg the positive correlation between prime interest rates and default rates) do not hold true in 2020.

Nedbank developed a comprehensive Covid-19 credit programme in response, which sought to address these these challenges and associated uncertainty. The programme focused on updating credit policies, data and models that may have a material impact on the estimation of the ECL impairment allowance and the associated income statement charge, with additional emphasis on judgement-based post-model adjustments to ensure emerging short-term and long-term risks are accounted for adequately. As such, there has been a significantly higher level of post-model adjustments applied in establishing the group's year end 2020 ECL position. Approximately 30% of the 2020 income statement impairment charge is driven by key judgemental overlays and forward-looking macroeconomic adjustments that address the following:

- Known model deficiencies or insufficient outcome data.
- Shorter-term impacts of Covid-19 on the portfolio, for clients who remain under D3/2020 payment holiday periods at 31 December 2020.
- In the wholesale portfolios (including business banking's wholesale portfolios) to account for industry-specific impacts of Covid-19 that are not fully captured by the portfolio level models.
- The potential impact of Covid-19 on valuations in the secured lending portfolios, ageing of the defaulted portfolio and possible change in the default resolution mix of cure, restructure and liquidation probabilities.
- Macroeconomic scenarios and the longer-term impact of Covid-19 on the portfolio.
- Expert credit judgement related to significant single obligors.
- To account for emerging or developing events, including the additional restrictions announced on 28 December 2020.

Considering the greater reliance on judgement-based post-model adjustments, existing governance processes and controls were strengthened in a manner that is well-coordinated, effective and efficient.

- **First line of defence:** Post-model adjustment processes/quantification methodologies were developed by the business units.
- **Second line of defence:** Group Credit Risk (GCR) provided assurance by challenging existing overlays and identifying emerging risks and recommending overlays to ensure completeness and adequacy of impairments. Second-line-of-defence committee oversight is provided through avenues such as RBB Monthly Impairments Meetings, Cluster Credit Committees (CCCs), Executive Credit Committee (ECC), and Credit Rating Approval Meetings (CRAMs). GCR provided further oversight in ensuring alignment and consistency in the ECL approaches across the various portfolios. The Credit Models Validation Unit (CMVU) within GCR performed independent validation of the material post-model adjustments. GCR also performed a final assessment of the adequacy of impairments and considered emerging risks that needed to be accounted for as part of the group's forward-looking macro adjustments.
- **Third/Fourth line of defence:** Group internal audit provides third-line-of-defence assurance, while external audit provides extensive oversight through their year-end audits.

Continued close monitoring of the portfolio and further model enhancements and redevelopments remain a focus area for 2021. The post-model adjustments will be reassessed periodically in line with the emergence of risk in the data and/or the updating of models to adequately capture the prevailing economic environment.

| Overlays | Dec-20 | Dec-19 |
|---|---|---|
| Model driven ECL | **20 313** | 16 535 |
| Post model adjustments | **4 504** | 759 |
| – Non Covid-19 related adjustments | **726** | 509 |
| – Covid-19 key judgement overlays | **1 873** | |
| – Forward-looking macro adjustments | **1 905** | 250 |
| | **24 817** | 17 294 |

The impairment charge includes the impairment on loans and advances at amortised cost, impairment on loans and advances at FVOCI and off-balance-sheet allowance.

Post model adjustments are recognised in the following stages: R0,8bn in stage 1, R3bn in stage 2 and R0,7bn in stage 3 (2019: R0,5bn in stage 1 and 2 and R0,3bn in stage 2).

### MODEL DRIVEN ECL

This is the impairment allowance that is quantitatively driven by IFRS 9 models across the group. This includes, modelled ECL estimates for retail clients in stage 3 and expert judgement driven ECL estimates for wholesale clients in stage 3.

### POST MODEL ADJUSTMENTS

#### Non-Covid-19 related adjustments

Includes business-as-usual overlays, largely related to loss given default adjustments and industry stress scenarios (non Covid-19 related stress) due to known model and data limitations and deficiencies, not yet incorporated into the group's credit models.

**Covid-19 key judgmental overlays**

Shorter-term impacts of Covid-19 on the portfolio for clients who were granted D3/2020 payment relief. The key overlays relate to:

- Elevated credit risk on clients who were granted D3/2020 relief extensions and its impact on lifetime (stage 2) ECL estimates.
- Residual risk for the lack of sufficient behavioural history with respect to the D3/2020 population's ability to repay post the payment holiday.
- Adjusted recovery rates on D3/2020 loans where these clients were in default (stage 3) at year end.
- High risk industries where the underlying models were unable to sufficiently identify the risk of default due to Covid-19 restrictions.
- Expert credit judgement related to significant single obligors.

**Forward-looking macro adjustments**

The forward-looking macro adjustments adjusts the forecast longer-term impact of Covid-19 on the portfolio. The key overlays relate to:

- The ECL impact of the uncertainty around the economic recovery including impacts of further waves of the virus, timing of the vaccine rollouts and the difficulty in gauging the impact of relief measures.
- Loss given default rates given anticipated collateral value deterioration and resolution mix changes in cure, restructure and liquidation probabilities.
- Emerging risks not yet reflected in the underlying data, models or macroeconomic forecasts.
- The unprecedented drop in GDP countered by monetary interventions to reduce interest rates, resulted in a breakdown in the relationship between macroeconomic factors (prime interest rates) and default experience. Therefore, an overlay based on employment forecasts was incorporated, based on the correlation between job losses and the ability of clients to repay their debt obligations. This is the main driver of the Retail post model adjustment.

## C2.9 SCENARIO ANALYSIS

**Macroeconomic variable (%)**

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| Scenario | Probability weighting (%) | Total ECL allowance | Difference to weighted scenario | Percentage difference to weighted scenario | Probability weighting (%) | Total ECL allowance | Difference to weighted scenario | Percentage difference to weighted scenario |
| Base case | 50 | 24 695 | (122) | (0,49) | 50 | 17 219 | (75) | (0,44) |
| Mild stress | 21 | 25 187 | 370 | 1,49 | 21 | 17 775 | 481 | 2,78 |
| Positive outcome | 21 | 24 376 | (441) | (1,78) | 21 | 16 532 | (762) | (4,41) |
| High stress | 8 | 25 727 | 910 | 3,67 | 8 | 18 447 | 1 153 | 6,67 |
| Weighted scenarios | 100 | 24 817 | | | 100 | 17 294 | | |

The total ECL allowance is the sum of the impairment allowance on loans and advances at amortised cost and FVOCI.

Nedbank has utilised four economic scenarios (base case, mild stress, positive outcome and high stress) in the estimation of ECL. These scenarios are prepared by the Nedbank Group Economic Unit, approved by the Nedbank House View Forum and the Group Credit Committee. The base case is our expected outcome and is according allocated a 50% probability weight. The other scenarios represent the tails of our expected distribution of outcomes and thus allocated probability weights based on the likelihood of their occurrence. The non Covid-19 related adjustments and Covid-19 key judgement overlays were not flexed in the mild stress, positive outcome and high stress scenarios. The forward looking macro adjustments relating to Retail portfolios were flexed. The scenarios and the associated probability weightings are reviewed at least quarterly to incorporate any changes in the macroeconomic environment.

The table above summarises the most significant macroeconomic variables impacting ECL for the group have been weighted and stressed against the final-weighted ECL. The different scenarios are a weighting of the different macroeconomic scenarios (for example interest rate and GDP).

The table above summarises the sensitivity of the ECL outcome against the four economic scenarios by calculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL. The ECL calculated for the positive outcome and the high stress scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes.

There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting

## C2.10 CREDIT RISK EXPOSURE

**Maximum exposure to credit risk – financial instruments not subject to impairment**

| Rm | Maximum exposure to credit risk[1] 2020 | 2019 |
|---|---|---|
| Other short-term securities | **27,082** | 33,055 |
| Derivative financial instruments | **79,933** | 34,923 |
| Government and other securities | **54,232** | 35,317 |
| Loans and advances [2] | **78,065** | 43,738 |
| Investment securities | **8,236** | 8,980 |
| | **247,548** | 156,013 |

*[1] This amount excludes the impact of any collateral held or credit enhancements.*
*[2] Certain categories of loans and advances were reclassified between FVOCI, FVTPL and amortised cost in 2019. The measurement basis of these instruments has however not changed. Refer to note H1: Consolidated statement of financial position – categories of financial instruments.*

Credit-impaired financial assets and related collateral held to mitigate potential losses are disclosed below:

**2020**

**Collateral held as security and other credit enhancements relating to credit impaired financial assets**

| Rm | Gross exposure [2] | Impairment allowance | Carrying amount | Fair value of collateral held |
|---|---|---|---|---|
| Home loans | **10,852** | **2,097** | **8,755** | **9,698** |
| Commercial mortgages | **5,451** | **970** | **4,481** | **5,011** |
| Properties in possession | **63** | **9** | **54** | **9** |
| Credit cards and overdrafts | **4,122** | **2,360** | **1,762** | **693** |
| Term loans [1] | **11,877** | **4,555** | **7,322** | **3,927** |
| Overnight loans | **292** | **22** | **270** | **0** |
| Specialised and other loans to clients [1] | **1,408** | **162** | **1,246** | **151** |
| Instalment debtors | **10,343** | **3,808** | **6,535** | **7,665** |
| Preference shares and debentures | **201** | **67** | **134** | **107** |
| Factoring accounts | **213** | **22** | **191** | **198** |
| **Loans and advances at amortised cost and FVOCI** | **44,822** | **14,072** | **30,750** | **27,459** |

*[1] Term loans and other loans were previously presented in one product line namely 'Personal, Term and Other loans'. In the current financial year 'Personal, Term and Other loans' has been split into 'Term loans' and 'Specialised and other loans to clients' due to the different nature and size of these accounts.*
*[2] Included in the total loans and advances at amortised cost and FVOCI is a gross carrying amount of R1 711m (2020); R448m (2019) relating to term loans at FVOCI.*

**2019**

**Collateral held as security and other credit enhancements relating to credit-impaired financial assets**

| Rm | Gross exposure [2] | Impairment allowance | Carrying amount | Fair value of collateral held |
|---|---|---|---|---|
| Home loans | 7,227 | 1,462 | 5,765 | 7,301 |
| Commercial mortgages | 2,348 | 496 | 1,852 | 2,236 |
| Properties in possession | 55 | 8 | 47 | 19 |
| Credit cards and overdrafts | 2,937 | 1,823 | 1,114 | 2,939 |
| Term loans [1] | 6,375 | 3,581 | 2,794 | 1,588 |
| Overnight loans | 171 | 13 | 158 | 720 |
| Specialised and other loans to clients [1] | 235 | 80 | 155 | 342 |
| Instalment debtors | 6,509 | 2,661 | 3,848 | 6,615 |
| Preference shares and debentures | 197 | 33 | 164 | 237 |
| Factoring accounts | 45 | 15 | 30 | 51 |
| **Loans and advances at amortised cost and FVOCI** | 26,099 | 10,172 | 15,927 | 22,048 |

The following tables disclose the distribution of loan-to-value (LTV) ratios of credit-impaired financial assets:

**Loans and advances**

**2020**

**LTV distributions**

| Rm | Gross carrying amount of credit-impaired financial assets | | | |
|---|---|---|---|---|
| | **Home loans** | **Commercial mortgages** | **Properties in possession** | **Credit cards and overdrafts** |
| Lower than 50% | **1,810** | **584** | **0** | **386** |
| 50% to 75% | **2,305** | **323** | **0** | **0** |
| 75% to 100% | **3,982** | **2,409** | **23** | **323** |
| Higher than 100% | **2,755** | **2,135** | **40** | **3,413** |
| **Total** | **10,852** | **5,451** | **63** | **4,122** |

**2019**

| Rm | Gross carrying amount of credit-impaired financial assets | | | |
|---|---|---|---|---|
| | Home loans | Commercial mortgages | Properties in possession | Credit cards and overdrafts |
| Lower than 50% | 1,044 | 337 | 0 | 229 |
| 50% to 75% | 1,489 | 192 | 0 | 0 |
| 75% to 100% | 2,612 | 875 | 20 | 158 |
| Higher than 100% | 2,082 | 944 | 35 | 2,550 |
| **Total** | 7,227 | 2,348 | 55 | 2,937 |

*[1] Term loans and other loans were previously presented in one product line namely 'Personal, Term and Other loans'. In the current financial year 'Personal, Term and Other loans' has been split into 'Term loans' and 'Specialised and other loans to clients' due to the different nature and size of these accounts.*
*[2] Included in the total loans and advances at amortised cost and FVOCI is a gross carrying amount of R1 711m (2020); R448m (2019) relating to term loans at FVOCI.*

| Term loans 1 | Overnight loans | Specialised and other loans to clients 1 | Instalment debtors | Preference shares and debentures | Factoring accounts |
|---|---|---|---|---|---|
| **1,155** | **0** | **115** | **285** | **0** | **0** |
| **0** | **0** | **2** | **562** | **201** | **0** |
| **1,644** | **0** | **108** | **1,616** | **0** | **164** |
| **9,078** | **292** | **1,183** | **7,880** | **0** | **49** |
| **11,877** | **292** | **1,408** | **10,343** | **201** | **213** |

| Term loans 1 | Overnight loans | Specialised and other loans to clients 1 | Instalment debtors | Preference shares and debentures | Factoring accounts |
|---|---|---|---|---|---|
| 354 | 0 | 33 | 178 | 9 | 2 |
| 12 | 0 | 0 | 370 | 0 | 11 |
| 2 | 0 | 36 | 1,116 | 0 | 7 |
| 6,007 | 171 | 166 | 4,845 | 188 | 25 |
| 6,375 | 171 | 235 | 6,509 | 197 | 45 |

## C2.11 LOSS ALLOWANCE

**Reconciliation of loss allowance relating to financial assets subsequently measured at amortised cost**

The following tables present a reconciliation from the opening balance to the closing balance of the loss allowance, and how significant changes in the gross carrying amount of financial instruments contributed to changes in the loss allowance:

### 2020

### Loans and advances

| | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| Rm | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 668 036 | 3 121 | 664 915 |
| New financial assets originated or purchased | 200 938 | 2 052 | 198 886 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements[1] | (56 061) | 5 303 | (61 364) |
| Final repayments | (120 784) | (785) | (119 999) |
| Transfers to 12-month ECL | 38 592 | 836 | 37 756 |
| Transfers to lifetime ECL (not credit-impaired) | (100 761) | (2 496) | (98 265) |
| Transfers to lifetime ECL (credit-impaired) | (19 733) | (4 132) | (15 601) |
| Foreign exchange movements | 4 153 | 9 | 4 144 |
| Net balances (refer note C2.2) | 614 380 | 3 908 | 610 472 |
| Total credit and zero balances[2] | 7 519 | (49) | 7 568 |
| Balance at the end of the year | 621 899 | 3 859 | 618 040 |
| Loans and advances at FVTPL | | | |
| Loans at FVOCI [3] | | | |
| Off-balance sheet impairment allowance | | | |
| Fair-value hedge-accounted portfolios | | | |
| ECL credit and other balances | | | |
| **Loans and advances** | | | |

*[1] Includes credit risk changes as a result of significant increases in credit risk, changes in credit risk that did not result in a transfer between stages, changes in model inputs and assumptions and changes due to drawdowns of undrawn commitments.*
*[2] Total credit and zero balances throughout this note refer to the loss allowance on balances that became liabilities to the group during the financial year. The group, however, still has credit risk exposure on these facilities.*
*[3] Loans and advances at FVOCI was previously included in the loans and advances at amortised cost presentation table. The 2019 balances have been restated to separately disclose FVOCI loans and advances.*

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 70 556 | 3 811 | 66 745 | 25 604 | 10 026 | 15 578 | 764 196 | 16 958 | 747 238 |
| | – | – | – | – | – | – | 200 938 | 2 052 | 198 886 |
| | – | – | – | (7 361) | (7 361) | – | (7 361) | (7 361) | – |
| | | | | | | | | | |
| | (10 030) | 4 070 | (14 100) | (2 828) | 4 700 | (7 528) | (68 919) | 14 073 | (82 992) |
| | (19 423) | (297) | (19 126) | (1 304) | (433) | (871) | (141 511) | (1 515) | (139 996) |
| | (35 897) | (687) | (35 210) | (2 695) | (149) | (2 546) | – | – | – |
| | 102 857 | 2 688 | 100 169 | (2 096) | (192) | (1 904) | – | – | – |
| | (13 988) | (3 080) | (10 908) | 33 721 | 7 212 | 26 509 | – | – | – |
| | 72 | (4) | 76 | 12 | 8 | 4 | 4 237 | 13 | 4 224 |
| | 94 147 | 6 501 | 87 646 | 43 053 | 13 811 | 29 242 | 751 580 | 24 220 | 727 360 |
| | 22 | (12) | 34 | 58 | – | 58 | 7 599 | (61) | 7 660 |
| | 94 169 | 6 489 | 87 680 | 43 111 | 13 811 | 29 300 | 759 179 | 24 159 | 735 020 |
| | | | | | | | | | 78 065 |
| | | | | | | | | | 17 821 |
| | | | | | | | | | 560 |
| | | | | | | | | | 4 163 |
| | | | | | | | | | (61) |
| | | | | | | | | | 835 568 |

### Home loans

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 128 154 | 267 | 127 887 |
| New financial assets originated or purchased | 9 237 | 35 | 9 202 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | 6 485 | 508 | 5 977 |
| Final repayments | (7 971) | (13) | (7 958) |
| Transfers to 12-month ECL | 5 227 | 23 | 5 204 |
| Transfers to lifetime ECL (not credit-impaired) | (9 656) | (209) | (9 447) |
| Transfers to lifetime ECL (credit-impaired) | (2 804) | (295) | (2 509) |
| Foreign exchange movements | – | – | – |
| Net balances | 128 672 | 316 | 128 356 |
| Total credit and zero balances | 163 | (1) | 164 |
| **Balance at the end of the year** | **128 835** | **315** | **128 520** |

### Commercial mortgages

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 152 794 | 205 | 152 589 |
| New financial assets originated or purchased | 48 872 | 150 | 48 722 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | (7 390) | 55 | (7 445) |
| Final repayments | (28 592) | (53) | (28 539) |
| Transfers to 12-month ECL | 7 990 | 117 | 7 873 |
| Transfers to lifetime ECL (not credit-impaired) | (13 150) | (69) | (13 081) |
| Transfers to lifetime ECL (credit-impaired) | (1 220) | (43) | (1 177) |
| Foreign exchange movements | 73 | 1 | 72 |
| Net balances | 159 377 | 363 | 159 014 |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | **159 377** | **363** | **159 014** |

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 13 890 | 523 | 13 367 | 7 218 | 1 463 | 5 755 | 149 262 | 2 253 | 147 009 |
| | – | – | – | – | – | – | 9 237 | 35 | 9 202 |
| | – | – | – | (222) | (222) | – | (222) | (222) | – |
| | 6 | 552 | (546) | (463) | 180 | (643) | 6 028 | 1 240 | 4 788 |
| | (699) | (23) | (676) | (404) | (77) | (327) | (9 074) | (113) | (8 961) |
| | (4 673) | (17) | (4 656) | (554) | (6) | (548) | – | – | – |
| | 10 645 | 265 | 10 380 | (989) | (56) | (933) | – | – | – |
| | (3 453) | (520) | (2 933) | 6 257 | 815 | 5 442 | – | – | – |
| | – | (4) | 4 | – | – | – | – | (4) | 4 |
| | 15 716 | 776 | 14 940 | 10 843 | 2 097 | 8 746 | 155 231 | 3 189 | 152 042 |
| | 4 | – | 4 | 9 | – | 9 | 176 | (1) | 177 |
| | 15 720 | 776 | 14 944 | 10 852 | 2 097 | 8 755 | 155 407 | 3 188 | 152 219 |

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 18 638 | 334 | 18 304 | 2 348 | 496 | 1 852 | 173 780 | 1 035 | 172 745 |
| | – | – | – | – | – | – | 48 872 | 150 | 48 722 |
| | – | – | – | (29) | (29) | – | (29) | (29) | – |
| | (1 394) | 681 | (2 075) | (339) | 310 | (649) | (9 123) | 1 046 | (10 169) |
| | (1 744) | (76) | (1 668) | (169) | (51) | (118) | (30 505) | (180) | (30 325) |
| | (7 786) | (103) | (7 683) | (204) | (14) | (190) | – | – | – |
| | 13 198 | 77 | 13 121 | (48) | (8) | (40) | – | – | – |
| | (2 672) | (223) | (2 449) | 3 892 | 266 | 3 626 | – | – | – |
| | – | – | – | – | – | – | 73 | 1 | 72 |
| | 18 240 | 690 | 17 550 | 5 451 | 970 | 4 481 | 183 068 | 2 023 | 181 045 |
| | | | – | | | – | – | – | – |
| | 18 240 | 690 | 17 550 | 5 451 | 970 | 4 481 | 183 068 | 2 023 | 181 045 |

### Properties in possession

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | – | – | – |
| New financial assets originated or purchased | – | – | – |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | – | – | – |
| Final repayments | – | – | – |
| Transfers to 12-month ECL | – | – | – |
| Transfers to lifetime ECL (not credit-impaired) | – | – | – |
| Transfers to lifetime ECL (credit-impaired) | – | – | – |
| Foreign exchange movements | – | – | – |
| Net balances | – | – | – |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | – | – | – |

### Credit card and overdrafts

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 26 381 | 788 | 25 593 |
| New financial assets originated or purchased | 7 774 | 238 | 7 536 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | 7 736 | 1 279 | 6 457 |
| Final repayments | (16 007) | (83) | (15 924) |
| Transfers to 12-month ECL | 3 413 | 105 | 3 308 |
| Transfers to lifetime ECL (not credit-impaired) | (8 460) | (679) | (7 781) |
| Transfers to lifetime ECL (credit-impaired) | (2 513) | (888) | (1 625) |
| Foreign exchange movements | 345 | (1) | 346 |
| Net balances | 18 669 | 759 | 17 910 |
| Total credit and zero balances | 7 356 | (48) | 7 404 |
| **Balance at the end of the year** | 26 025 | 711 | 25 314 |

| | Not credit-impaired | | | Credit impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | – | – | – | 55 | 8 | 47 | 55 | 8 | 47 |
| | – | – | – | – | – | – | – | – | – |
| | – | – | – | 2 | 2 | – | 2 | 2 | – |
| | – | – | – | 3 | (1) | 4 | 3 | (1) | 4 |
| | – | – | – | 3 | – | 3 | 3 | – | 3 |
| | – | – | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – | – | – |
| | – | – | – | 63 | 9 | 54 | 63 | 9 | 54 |
| | | | – | – | | – | – | – | – |
| | – | – | – | 63 | 9 | 54 | 63 | 9 | 54 |

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 4 954 | 500 | 4 454 | 2 899 | 1 824 | 1 075 | 34 234 | 3 112 | 31 122 |
| | – | – | – | – | – | – | 7 774 | 238 | 7 536 |
| | – | – | – | (1 421) | (1 421) | – | (1 421) | (1 421) | – |
| | 1 819 | 239 | 1 580 | (223) | 896 | (1 119) | 9 332 | 2 414 | 6 918 |
| | (4 815) | (43) | (4 772) | (185) | (83) | (102) | (21 007) | (209) | (20 798) |
| | (2 895) | (82) | (2 813) | (518) | (23) | (495) | – | – | – |
| | 8 511 | 700 | 7 811 | (51) | (21) | (30) | – | – | – |
| | (1 059) | (300) | (759) | 3 572 | 1 188 | 2 384 | – | – | – |
| | 187 | 20 | 167 | – | – | – | 532 | 19 | 513 |
| | 6 702 | 1 034 | 5 668 | 4 073 | 2 360 | 1 713 | 29 444 | 4 153 | 25 291 |
| | 18 | (12) | 30 | 49 | – | 49 | 7 423 | (60) | 7 483 |
| | 6 720 | 1 022 | 5 698 | 4 122 | 2 360 | 1 762 | 36 867 | 4 093 | 32 774 |

### Specialised and other loans to Clients

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 80 991 | 65 | 80 926 |
| New financial assets originated or purchased | 30 955 | 54 | 30 901 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | (879) | 93 | (972) |
| Final repayments | (25 236) | (34) | (25 202) |
| Transfers to 12-month ECL | 3 323 | 22 | 3 301 |
| Transfers to lifetime ECL (not credit-impaired) | (19 738) | (65) | (19 673) |
| Transfers to lifetime ECL (credit-impaired) | (1 287) | (66) | (1 221) |
| Foreign exchange movements | 1 266 | – | 1 266 |
| Net balances | 69 395 | 69 | 69 326 |
| Total credit and zero balances | – | – | – |
| **Balance at the end of the year** | 69 395 | 69 | 69 326 |

### Term Loans

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 147 094 | 881 | 146 213 |
| New financial assets originated or purchased | 42 352 | 973 | 41 379 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | (37 956) | 2 019 | (39 975) |
| Final repayments | (18 889) | (298) | (18 591) |
| Transfers to 12-month ECL | 5 634 | 109 | 5 525 |
| Transfers to lifetime ECL (not credit-impaired) | (25 595) | (734) | (24 861) |
| Transfers to lifetime ECL (credit-impaired) | (6 081) | (1 884) | (4 197) |
| Foreign exchange movements | 2 801 | 8 | 2 793 |
| Net balances | 109 360 | 1 074 | 108 286 |
| Total credit and zero balances | – | – | – |
| **Balance at the end of the year** | 109 360 | 1 074 | 108 286 |

### Instalment debtors

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 103 297 | 784 | 102 513 |
| New financial assets originated or purchased | 44 486 | 512 | 43 974 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | (15 068) | 1 342 | (16 410) |
| Final repayments | (15 094) | (97) | (14 997) |
| Transfers to 12-month ECL | 8 787 | 151 | 8 636 |
| Transfers to lifetime ECL (not credit-impaired) | (14 186) | (599) | (13 587) |
| Transfers to lifetime ECL (credit-impaired) | (5 622) | (954) | (4 668) |
| Foreign exchange movements | – | – | – |
| Net balances | 106 600 | 1 139 | 105 461 |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | 106 600 | 1 139 | 105 461 |

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 1 503 | 265 | 1 238 | 235 | 80 | 155 | 82 729 | 410 | 82 319 |
| | – | – | – | – | – | – | 30 955 | 54 | 30 901 |
| | – | – | – | (7) | (7) | – | (7) | (7) | – |
| | | | | | | | | | |
| | (2 949) | 533 | (3 482) | 79 | 53 | 26 | (3 749) | 679 | (4 428) |
| | (5 940) | (2) | (5 938) | (231) | (25) | (206) | (31 407) | (61) | (31 346) |
| | (3 316) | (14) | (3 302) | (7) | (8) | 1 | – | – | – |
| | 19 743 | 67 | 19 676 | (5) | (2) | (3) | – | – | – |
| | (57) | (2) | (55) | 1 344 | 68 | 1 276 | – | – | – |
| | – | 1 | (1) | – | 3 | (3) | 1 266 | 4 | 1 262 |
| | 8 984 | 848 | 8 136 | 1 408 | 162 | 1 246 | 79 787 | 1 079 | 78 708 |
| | – | – | – | – | – | – | – | – | – |
| | 8 984 | 848 | 8 136 | 1 408 | 162 | 1 246 | 79 787 | 1 079 | 78 708 |

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 9 922 | 687 | 9 235 | 5 927 | 3 346 | 2 581 | 162 943 | 4 914 | 158 029 |
| | – | – | – | – | – | – | 42 352 | 973 | 41 379 |
| | – | – | – | (3 543) | (3 543) | – | (3 543) | (3 543) | – |
| | | | | | | | | | |
| | (13) | 886 | (899) | 543 | 1 531 | (988) | (37 426) | 4 436 | (41 862) |
| | (4 363) | (46) | (4 317) | (107) | (89) | (18) | (23 359) | (433) | (22 926) |
| | (5 617) | (108) | (5 509) | (17) | (1) | (16) | – | – | – |
| | 26 109 | 788 | 25 321 | (514) | (54) | (460) | – | – | – |
| | (1 784) | (975) | (809) | 7 865 | 2 859 | 5 006 | – | – | – |
| | 72 | – | 72 | 12 | 7 | 5 | 2 885 | 15 | 2 870 |
| | 24 326 | 1 232 | 23 094 | 10 166 | 4 056 | 6 110 | 143 852 | 6 362 | 137 490 |
| | – | – | – | – | – | – | – | – | – |
| | 24 326 | 1 232 | 23 094 | 10 166 | 4 056 | 6 110 | 143 852 | 6 362 | 137 490 |

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 17 897 | 1 314 | 16 583 | 6 509 | 2 661 | 3 848 | 127 703 | 4 759 | 122 944 |
| | – | – | – | – | – | – | 44 486 | 512 | 43 974 |
| | – | – | – | (2 139) | (2 139) | – | (2 139) | (2 139) | – |
| | | | | | | | | | |
| | (2 769) | 849 | (3 618) | (2 360) | 1 440 | (3 800) | (20 197) | 3 631 | (23 828) |
| | (1 205) | (57) | (1 148) | (199) | (44) | (155) | (16 498) | (198) | (16 300) |
| | (7 599) | (119) | (7 480) | (1 188) | (32) | (1 156) | – | – | – |
| | 14 675 | 650 | 14 025 | (489) | (51) | (438) | – | – | – |
| | (4 587) | (1 019) | (3 568) | 10 209 | 1 973 | 8 236 | – | – | – |
| | – | – | – | – | – | – | – | – | – |
| | 16 412 | 1 618 | 14 794 | 10 343 | 3 808 | 6 535 | 133 355 | 6 565 | 126 790 |
| | | | – | | | – | – | – | – |
| | 16 412 | 1 618 | 14 794 | 10 343 | 3 808 | 6 535 | 133 355 | 6 565 | 126 790 |

### Preference shares and debentures

| Rm | Not credit-impaired Subject to 12-month ECL Gross carrying amount | Allowance for ECL | Amortised cost |
|---|---|---|---|
| Balance at the beginning of the year | 12 306 | 57 | 12 249 |
| New financial assets originated or purchased | 4 387 | 23 | 4 364 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | (4 782) | 12 | (4 794) |
| Final repayments | (71) | – | (71) |
| Transfers to 12-month ECL | 75 | – | 75 |
| Transfers to lifetime ECL (not credit-impaired) | (865) | (14) | (851) |
| Transfers to lifetime ECL (credit-impaired) | – | – | – |
| Foreign exchange movements | – | – | – |
| Net balances | 11 050 | 78 | 10 972 |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | 11 050 | 78 | 10 972 |

### Overnight loans

| Rm | Not credit-impaired Subject to 12-month ECL Gross carrying amount | Allowance for ECL | Amortised cost |
|---|---|---|---|
| Balance at the beginning of the year | 10 902 | 11 | 10 891 |
| New financial assets originated or purchased | 12 115 | 4 | 12 111 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | (2 536) | (52) | (2 484) |
| Final repayments | (8 960) | (29) | (8 931) |
| Transfers to 12-month ECL | 4 102 | 92 | 4 010 |
| Transfers to lifetime ECL (not credit-impaired) | (7 661) | (17) | (7 644) |
| Transfers to lifetime ECL (credit-impaired) | (40) | – | (40) |
| Foreign exchange movements | (332) | 1 | (333) |
| Net balances | 7 590 | 10 | 7 580 |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | 7 590 | 10 | 7 580 |

| | Not credit-impaired | | | Credit-impaired | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 76 | 4 | 72 | 197 | 33 | 164 | 12 579 | 94 | 12 485 |
| | – | – | – | – | – | – | 4 387 | 23 | 4 364 |
| | – | – | – | – | – | – | – | – | – |
| | | | | | | | | | |
| | (11) | (4) | (7) | 4 | 34 | (30) | (4 789) | 42 | (4 831) |
| | – | – | – | – | – | – | (71) | – | (71) |
| | (75) | – | (75) | – | – | – | – | – | – |
| | 865 | 14 | 851 | – | – | – | – | – | – |
| | – | – | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – | – | – |
| | 855 | 14 | 841 | 201 | 67 | 134 | 12 106 | 159 | 11 947 |
| | | | – | | | – | – | – | – |
| | 855 | 14 | 841 | 201 | 67 | 134 | 12 106 | 159 | 11 947 |

| | Not credit-impaired | | | Credit-impaired | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 3 276 | 113 | 3 163 | 171 | 13 | 158 | 14 349 | 137 | 14 212 |
| | – | – | – | – | – | – | 12 115 | 4 | 12 111 |
| | – | – | – | – | – | – | – | – | – |
| | | | | | | | | | |
| | (4 200) | 57 | (4 257) | (22) | 34 | (56) | (6 758) | 39 | (6 797) |
| | (637) | (37) | (600) | – | (34) | 34 | (9 597) | (100) | (9 497) |
| | (3 911) | (92) | (3 819) | (191) | – | (191) | – | – | – |
| | 7 661 | 17 | 7 644 | – | – | – | – | – | – |
| | (294) | (11) | (283) | 334 | 11 | 323 | – | – | – |
| | (187) | (21) | (166) | – | (2) | 2 | (519) | (22) | (497) |
| | 1 708 | 26 | 1 682 | 292 | 22 | 270 | 9 590 | 58 | 9 532 |
| | | | – | | | – | – | – | – |
| | 1 708 | 26 | 1 682 | 292 | 22 | 270 | 9 590 | 58 | 9 532 |

**Factoring accounts**

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 6 117 | 10 | 6 107 |
| New financial assets originated or purchased | 760 | 40 | 720 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | (1 671) | 7 | (1 678) |
| Final repayments | 36 | (1) | 37 |
| Transfers to 12-month ECL | 41 | 2 | 39 |
| Transfers to lifetime ECL (not credit-impaired) | (1 450) | (39) | (1 411) |
| Transfers to lifetime ECL (credit-impaired) | (166) | (1) | (165) |
| Foreign exchange movements | – | – | – |
| Net balances | 3 667 | 18 | 3 649 |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | 3 667 | 18 | 3 649 |

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 400 | 8 | 392 | 45 | 15 | 30 | 6 562 | 33 | 6 529 |
| | – | – | – | – | – | – | 760 | 40 | 720 |
| | – | – | – | (2) | (2) | – | (2) | (2) | – |
| | | | | | | | | | |
| | (519) | 41 | (560) | (50) | 8 | (58) | (2 240) | 56 | (2 296) |
| | (20) | (1) | (19) | (12) | (2) | (10) | 4 | (4) | 8 |
| | (25) | (1) | (24) | (16) | (1) | (15) | – | – | – |
| | 1 450 | 39 | 1 411 | – | – | – | – | – | – |
| | (82) | (3) | (79) | 248 | 4 | 244 | – | – | – |
| | – | – | – | – | – | – | – | – | – |
| | 1 204 | 83 | 1 121 | 213 | 22 | 191 | 5 084 | 123 | 4 961 |
| | | | – | | | – | – | – | – |
| | 1 204 | 83 | 1 121 | 213 | 22 | 191 | 5 084 | 123 | 4 961 |

**Financial guarantees and loan commitments**

| | Not credit-impaired | | Credit-impaired | |
|---|---|---|---|---|
| | Subject to 12-month ECL | Subject to lifetime ECL | Subject to lifetime ECL (excluding purchased/originated) | |
| Rm | Allowance for ECL | Allowance for ECL | Allowance for ECL | Allowance for ECL |
| Balance at the beginning of the year | 53 | 63 | 87 | 203 |
| New financial assets originated or purchased | 23 | – | – | 23 |
| Financial assets written off | – | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | 40 | 236 | 215 | 491 |
| Final repayments | (177) | (12) | (28) | (217) |
| Transfers to 12-month ECL | 215 | (151) | (64) | – |
| Transfers to lifetime ECL (not credit-impaired) | (71) | 71 | – | – |
| Transfers to lifetime ECL (credit-impaired) | (1) | (27) | 28 | – |
| Foreign exchange movements | – | – | – | – |
| Net balances | 82 | 180 | 238 | 500 |
| Total credit and zero balances | | | | – |
| **Balance at the end of the year** | 82 | 180 | 238 | 500 |

**2019**

**Loans and advances**

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount[1,2] | Allowance for ECL[1] | Amortised cost |
| Balance at the beginning of the year | 620 991 | 2 608 | 618 383 |
| New financial assets originated or purchased | 225 205 | 2 338 | 222 867 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements[3] | (33 671) | 3 432 | (37 103) |
| Final repayments | (110 472) | (457) | (110 015) |
| Transfers to 12-month ECL | 22 685 | 724 | 21 961 |
| Transfers to lifetime ECL (not credit-impaired) | (44 908) | (2 267) | (42 641) |
| Transfers to lifetime ECL (credit-impaired) | (11 624) | (3 254) | (8 370) |
| Foreign exchange movements | (170) | (3) | (167) |
| Net balances (refer note C2.2) | 668 036 | 3 121 | 664 915 |
| Total credit and zero balances[4] | 6 434 | (45) | 6 479 |
| **Balance at the end of the year** | 674 470 | 3 076 | 671 394 |
| Loans and advances at FVTPL[2] | | | |
| Loans and advances at FVOCI[2,5] | | | |
| Off-balance sheet impairment allowance | | | |
| Fair-value hedge-accounted portfolios | | | |
| ECL credit and other balances | | | |
| **Loans and advances** | | | |

*[1] 2019 restated, refer to note A4: Reclassification for further details*

*[2] Certain categories of loans and advances were reclassified between FVOCI, FVTPL and amortised in 2019. The measurement basis of these instruments has however not changed. Refer to note H1: Consolidated statement of financial position – categories of financial instruments for further details*

*[3] Includes credit risk changes as a result of significant increases in credit risk, changes in credit risk that did not result in a transfer between stages, changes in*
*model inputs and assumptions and changes due to drawdowns of undrawn commitments.*

*[4] Total credit and zero balances throughout this note refer to the loss allowance on balances that became liabilities to the group during the financial year. The group, however, still has credit risk exposure on these facilities*

*[5] Loans and advances at FVOCI was previously included in the loans and advances at amortised cost presentation table. The 2019 balances have been restated to separately disclose FVOCI loans and advances.*

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount[2] | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 67 638 | 3 409 | 64 229 | 22 708 | 8 723 | 13 985 | 711 337 | 14 740 | 696 597 |
| | – | – | – | – | – | – | 225 205 | 2 338 | 222 867 |
| | – | – | – | (5 392) | (3 150) | (2 242) | (5 392) | (3 150) | (2 242) |
| | | | | | | | | | |
| | (2 576) | 1 186 | (3 762) | (3 950) | (413) | (3 537) | (40 197) | 4 205 | (44 402) |
| | (13 779) | (275) | (13 504) | (1 836) | (445) | (1 391) | (126 087) | (1 177) | (124 910) |
| | (21 109) | (594) | (20 515) | (1 576) | (130) | (1 446) | – | – | – |
| | 49 110 | 2 568 | 46 542 | (4 202) | (301) | (3 901) | – | – | – |
| | (8 225) | (2 485) | (5 740) | 19 849 | 5 739 | 14 110 | – | – | – |
| | (503) | 2 | (505) | 3 | 3 | – | (670) | 2 | (672) |
| | 70 556 | 3 811 | 66 745 | 25 604 | 10 026 | 15 578 | 764 196 | 16 958 | 747 238 |
| | 17 | (2) | 19 | 47 | (1) | 48 | 6 498 | (48) | 6 546 |
| | 70 573 | 3 809 | 66 764 | 25 651 | 10 025 | 15 626 | 770 694 | 16 910 | 753 784 |
| | | | | | | | | | 16 391 |
| | | | | | | | | | 255 |
| | | | | | | | | | 943 |
| | | | | | | | | | (48) |
| | | | | | | | | | 815 063 |

### Home loans

| Rm[1] | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 121 587 | 215 | 121 372 |
| New financial assets originated or purchased | 10 754 | 35 | 10 719 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | 5 110 | 458 | 4 652 |
| Final repayments | (8 181) | (13) | (8 168) |
| Transfers to 12-month ECL | 5 566 | 19 | 5 547 |
| Transfers to lifetime ECL (not credit-impaired) | (5 290) | (192) | (5 098) |
| Transfers to lifetime ECL (credit-impaired) | (1 704) | (271) | (1 433) |
| Foreign exchange movements | 312 | 16 | 296 |
| Net balances | 128 154 | 267 | 127 887 |
| Total credit and zero balances | 158 | (1) | 159 |
| **Balance at the end of the year** | 128 312 | 266 | 128 046 |

[1] *Refer to H1: Consolidated statement of financial position – categories of financial instruments*

### Commercial mortgages

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount[1] | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 139 360 | 300 | 139 060 |
| New financial assets originated or purchased | 45 710 | 168 | 45 542 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | (1 331) | (82) | (1 249) |
| Final repayments | (28 689) | (58) | (28 631) |
| Transfers to 12-month ECL | 7 485 | 58 | 7 427 |
| Transfers to lifetime ECL (not credit-impaired) | (7 489) | (35) | (7 454) |
| Transfers to lifetime ECL (credit-impaired) | (1 352) | (130) | (1 222) |
| Foreign exchange movements | (900) | (16) | (884) |
| Net balances | 152 794 | 205 | 152 589 |
| Total credit and zero balances | – | – | – |
| **Balance at the end of the year** | 152 794 | 205 | 152 589 |

[1] *Refer to H1: Consolidated statement of financial position – categories of financial instruments*

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 15 343 | 608 | 14 735 | 6 507 | 1 365 | 5 142 | 143 437 | 2 188 | 141 249 |
| | – | – | – | – | – | – | 10 754 | 35 | 10 719 |
| | – | – | – | (240) | (179) | (61) | (240) | (179) | (61) |
| | (38) | (22) | (16) | (593) | (108) | (485) | 4 479 | 328 | 4 151 |
| | (902) | (30) | (872) | (397) | (96) | (301) | (9 480) | (139) | (9 341) |
| | (5 043) | (16) | (5 027) | (523) | (3) | (520) | – | – | – |
| | 6 486 | 260 | 6 226 | (1 196) | (68) | (1 128) | – | – | – |
| | (1 956) | (281) | (1 675) | 3 660 | 552 | 3 108 | – | – | – |
| | – | 4 | (4) | – | – | – | 312 | 20 | 292 |
| | 13 890 | 523 | 13 367 | 7 218 | 1 463 | 5 755 | 149 262 | 2 253 | 147 009 |
| | 4 | – | 4 | 9 | (1) | 10 | 171 | (2) | 173 |
| | 13 894 | 523 | 13 371 | 7 227 | 1 462 | 5 765 | 149 433 | 2 251 | 147 182 |

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount[1] | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 19 693 | 233 | 19 460 | 2 909 | 434 | 2 475 | 161 962 | 967 | 160 995 |
| | – | – | – | – | – | – | 45 710 | 168 | 45 542 |
| | – | – | – | (13) | (12) | (1) | (13) | (12) | (1) |
| | 3 028 | 86 | 2 942 | 254 | 96 | 158 | 1 951 | 100 | 1 851 |
| | (6 160) | (31) | (6 129) | (584) | (80) | (504) | (35 433) | (169) | (35 264) |
| | (6 896) | (53) | (6 843) | (589) | (5) | (584) | – | – | – |
| | 9 202 | 150 | 9 052 | (1 713) | (115) | (1 598) | – | – | – |
| | (730) | (48) | (682) | 2 082 | 178 | 1 904 | – | – | – |
| | 501 | (3) | 504 | 2 | – | 2 | (397) | (19) | (378) |
| | 18 638 | 334 | 18 304 | 2 348 | 496 | 1 852 | 173 780 | 1 035 | 172 745 |
| | – | – | – | – | – | – | – | – | – |
| | 18 638 | 334 | 18 304 | 2 348 | 496 | 1 852 | 173 780 | 1 035 | 172 745 |

**Properties in possession**

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised Cost |
| Balance at the beginning of the year | – | – | – |
| New financial assets originated or purchased | – | – | – |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | – | – | – |
| Final repayments | – | – | – |
| Transfers to lifetime ECL (credit-impaired) | – | – | – |
| Foreign exchange movements | – | – | – |
| Net balances | | | – |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | – | – | – |

**Credit cards and overdrafts**

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 21 966 | 567 | 21 399 |
| New financial assets originated or purchased | 6 696 | 245 | 6 451 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | 9 864 | 1 018 | 8 846 |
| Final repayments | (7 749) | (98) | (7 651) |
| Transfers to 12-month ECL | 2 172 | 120 | 2 052 |
| Transfers to lifetime ECL (not credit-impaired) | (5 210) | (325) | (4 885) |
| Transfers to lifetime ECL (credit-impaired) | (1 395) | (742) | (653) |
| Foreign exchange movements | 37 | 3 | 34 |
| Net balances | 26 381 | 788 | 25 593 |
| Total credit and zero balances | 6 278 | (42) | 6 320 |
| **Balance at the end of the year** | 32 659 | 746 | 31 913 |

| | Not credit-impaired | | | Credit impaired | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | | | |
| | Gross carrying amount | Allowance for ECL | Amortised Cost | Gross carrying amount | Allowance for ECL | Amortised Cost | Gross carrying amount | Allowance for ECL | Amortised Cost |
| | – | – | – | 91 | 18 | 73 | 91 | 18 | 73 |
| | – | – | – | – | – | – | – | – | – |
| | – | – | – | (4) | (4) | – | (4) | (4) | – |
| | – | – | – | (35) | (6) | (29) | (35) | (6) | (29) |
| | – | – | – | 3 | – | 3 | 3 | – | 3 |
| | – | – | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – | – | – |
| | | | – | 55 | 8 | 47 | 55 | 8 | 47 |
| | | | – | | | – | – | – | – |
| | – | – | – | 55 | 8 | 47 | 55 | 8 | 47 |

| | Not credit-impaired | | | Credit-impaired | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 4 500 | 676 | 3 824 | 2 702 | 1 916 | 786 | 29 168 | 3 159 | 26 009 |
| | – | – | – | – | – | – | 6 696 | 245 | 6 451 |
| | – | – | – | (1 626) | (918) | (708) | (1 626) | (918) | (708) |
| | 1 058 | 46 | 1 012 | (54) | (236) | 182 | 10 868 | 828 | 10 040 |
| | (2 856) | (41) | (2 815) | (234) | (67) | (167) | (10 839) | (206) | (10 633) |
| | (2 078) | (97) | (1 981) | (94) | (23) | (71) | – | – | – |
| | 5 247 | 336 | 4 911 | (37) | (11) | (26) | – | – | – |
| | (851) | (422) | (429) | 2 246 | 1 164 | 1 082 | – | – | – |
| | (66) | 2 | (68) | (4) | (1) | (3) | (33) | 4 | (37) |
| | 4 954 | 500 | 4 454 | 2 899 | 1 824 | 1 075 | 34 234 | 3 112 | 31 122 |
| | 13 | (4) | 17 | 38 | (1) | 39 | 6 329 | (47) | 6 376 |
| | 4 967 | 496 | 4 471 | 2 937 | 1 823 | 1 114 | 40 563 | 3 065 | 37 498 |

### Specialised and other loans to clients

| | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| Rm | Gross carrying amount[1,2] | Allowance for ECL[1] | Amortised cost |
| Balance at the beginning of the year | 75 626 | 69 | 75 557 |
| New financial assets originated or purchased | 25 629 | 48 | 25 581 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | 5 347 | 67 | 5 280 |
| Final repayments | (22 690) | (41) | (22 649) |
| Transfers to 12-month ECL | 289 | 13 | 276 |
| Transfers to lifetime ECL (not credit-impaired) | (2 354) | (43) | (2 311) |
| Transfers to lifetime ECL (credit-impaired) | (150) | (49) | (101) |
| Foreign exchange movements | (706) | 1 | (707) |
| Net balances | 80 991 | 65 | 80 926 |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | 80 991 | 65 | 80 926 |

*[1] 2019 restated, refer to note A4: Reclassification for further details.*

*[2] Certain categories of loans and advances were reclassified between FVOCI, FVTPL and amortised in 2019. The measurement basis of these instruments has however not changed. Refer to note H1: Consolidated statement of financial position – categories of financial instruments for further details.*

### Term loans

| | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| Rm | Gross carrying amount[1] | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 132 153 | 716 | 131 437 |
| New financial assets originated or purchased | 80 875 | 903 | 79 972 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | (38 131) | 1 051 | (39 182) |
| Final repayments | (19 323) | 63 | (19 386) |
| Transfers to 12-month ECL | 2 060 | 15 | 2 045 |
| Transfers to lifetime ECL (not credit-impaired) | (8 380) | (598) | (7 782) |
| Transfers to lifetime ECL (credit-impaired) | (2 510) | (1 268) | (1 242) |
| Foreign exchange movements | 350 | (1) | 351 |
| Net balances | 147 094 | 881 | 146 213 |
| Total credit and zero balances | (2) | – | (2) |
| **Balance at the end of the year** | 147 092 | 881 | 146 211 |

*[1] Refer to H1: Consolidated statement of financial position – categories of financial instruments*

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | – | 165 | (165) | – | 67 | (67) | 75 626 | 301 | 75 325 |
| | – | – | – | – | – | – | 25 629 | 48 | 25 581 |
| | – | – | – | (9) | (8) | (1) | (9) | (8) | (1) |
| | | | | | | | | | |
| | 505 | 273 | 232 | 457 | (217) | 674 | 6 309 | 123 | 6 186 |
| | (1 193) | (2) | (1 191) | (235) | (7) | (228) | (24 118) | (50) | (24 068) |
| | (287) | (3) | (284) | (2) | (10) | 8 | – | – | – |
| | 2 515 | 54 | 2 461 | (161) | (11) | (150) | – | – | – |
| | (35) | (220) | 185 | 185 | 269 | (84) | – | – | – |
| | (2) | (2) | – | – | (3) | 3 | (708) | (4) | (704) |
| | 1 503 | 265 | 1 238 | 235 | 80 | 155 | 82 729 | 410 | 82 319 |
| | | | – | | | – | – | – | – |
| | 1 503 | 265 | 1 238 | 235 | 80 | 155 | 82 729 | 410 | 82 319 |

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount[1] | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 10 723 | 561 | 10 162 | 5 256 | 2 361 | 2 895 | 148 132 | 3 638 | 144 494 |
| | – | – | – | – | – | – | 80 875 | 903 | 79 972 |
| | – | – | – | (1 602) | (1 198) | (404) | (1 602) | (1 198) | (404) |
| | | | | | | | | | |
| | (4 968) | 333 | (5 301) | (1 277) | 269 | (1 546) | (44 376) | 1 653 | (46 029) |
| | (702) | (60) | (642) | (184) | (84) | (100) | (20 209) | (81) | (20 128) |
| | (2 048) | (14) | (2 034) | (12) | (1) | (11) | – | – | – |
| | 8 687 | 638 | 8 049 | (307) | (40) | (267) | – | – | – |
| | (1 542) | (771) | (771) | 4 052 | 2 039 | 2 013 | – | – | – |
| | (228) | – | (228) | 1 | – | 1 | 123 | (1) | 124 |
| | 9 922 | 687 | 9 235 | 5 927 | 3 346 | 2 581 | 162 943 | 4 914 | 158 029 |
| | – | – | – | – | – | – | (2) | – | (2) |
| | 9 922 | 687 | 9 235 | 5 927 | 3 346 | 2 581 | 162 941 | 4 914 | 158 027 |

### Instalment debtors

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 96 940 | 648 | 96 292 |
| New financial assets originated or purchased | 51 049 | 581 | 50 468 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | (18 346) | 1 174 | (19 520) |
| Final repayments | (14 845) | (103) | (14 742) |
| Transfers to 12-month ECL | 2 965 | 50 | 2 915 |
| Transfers to lifetime ECL (not credit-impaired) | (10 484) | (834) | (9 650) |
| Transfers to lifetime ECL (credit-impaired) | (3 981) | (732) | (3 249) |
| Foreign exchange movements | (1) | – | (1) |
| Net balances | 103 297 | 784 | 102 513 |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | 103 297 | 784 | 102 513 |

### Preference shares and debentures

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 14 658 | 2 | 14 656 |
| New financial assets originated or purchased | 2 373 | 17 | 2 356 |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | (4 508) | 47 | (4 555) |
| Final repayments | (71) | – | (71) |
| Transfers to 12-month ECL | 71 | – | 71 |
| Transfers to lifetime ECL (not credit-impaired) | (217) | (9) | (208) |
| Net balances | 12 306 | 57 | 12 249 |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | 12 306 | 57 | 12 249 |

### Overnight loans

| Rm | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 13 090 | 24 | 13 066 |
| New financial assets originated or purchased | 1 486 | 182 | 1 304 |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | 8 170 | (319) | 8 489 |
| Final repayments | (8 960) | (29) | (8 931) |
| Transfers to 12-month ECL | 2 035 | 339 | 1 696 |
| Transfers to lifetime ECL (not credit-impaired) | (5 146) | (166) | (4 980) |
| Transfers to lifetime ECL (credit-impaired) | (512) | (17) | (495) |
| Foreign exchange movements | 739 | (3) | 742 |
| Net balances | 10 902 | 11 | 10 891 |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | 10 902 | 11 | 10 891 |

| Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|
| Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| 16 310 | 1 098 | 15 212 | 4 839 | 2 492 | 2 347 | 118 089 | 4 238 | 113 851 |
| – | – | – | – | – | – | 51 049 | 581 | 50 468 |
| – | – | – | (1 892) | (827) | (1 065) | (1 892) | (827) | (1 065) |
| (2 517) | 171 | (2 688) | (2 332) | (368) | (1 964) | (23 195) | 977 | (24 172) |
| (1 309) | (61) | (1 248) | (193) | (47) | (146) | (16 347) | (211) | (16 136) |
| (2 754) | (45) | (2 709) | (211) | (5) | (206) | – | – | – |
| 11 278 | 892 | 10 386 | (794) | (58) | (736) | – | – | – |
| (3 111) | (741) | (2 370) | 7 092 | 1 473 | 5 619 | – | – | – |
| – | – | – | – | 1 | (1) | (1) | 1 | (2) |
| 17 897 | 1 314 | 16 583 | 6 509 | 2 661 | 3 848 | 127 703 | 4 759 | 122 944 |
| | | – | | | – | – | – | – |
| 17 897 | 1 314 | 16 583 | 6 509 | 2 661 | 3 848 | 127 703 | 4 759 | 122 944 |

| Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|
| Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| 141 | – | 141 | 354 | – | 354 | 15 153 | 2 | 15 151 |
| – | – | – | – | – | – | 2 373 | 17 | 2 356 |
| (203) | – | (203) | (165) | 28 | (193) | (4 876) | 75 | (4 951) |
| – | – | – | – | – | – | (71) | – | (71) |
| (71) | – | (71) | – | – | – | – | – | – |
| 209 | 4 | 205 | 8 | 5 | 3 | – | – | – |
| 76 | 4 | 72 | 197 | 33 | 164 | 12 579 | 94 | 12 485 |
| | | – | | | – | – | – | – |
| 76 | 4 | 72 | 197 | 33 | 164 | 12 579 | 94 | 12 485 |

| Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|
| Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| 774 | 16 | 758 | – | – | – | 13 864 | 40 | 13 824 |
| – | – | – | – | – | – | 1 486 | 182 | 1 304 |
| 595 | 274 | 321 | (204) | 59 | (263) | 8 561 | 14 | 8 547 |
| (637) | (37) | (600) | – | (34) | 34 | (9 597) | (100) | (9 497) |
| (1 896) | (305) | (1 591) | (139) | (34) | (105) | – | – | – |
| 5 148 | 166 | 4 982 | (2) | – | (2) | – | – | – |
| – | – | – | 512 | 17 | 495 | – | – | – |
| (708) | (1) | (707) | 4 | 5 | (1) | 35 | 1 | 34 |
| 3 276 | 113 | 3 163 | 171 | 13 | 158 | 14 349 | 137 | 14 212 |
| | | – | | | – | – | – | – |
| 3 276 | 113 | 3 163 | 171 | 13 | 158 | 14 349 | 137 | 14 212 |

### Factoring accounts

| | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| Rm | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | 5 611 | 10 | 5 601 |
| New financial assets originated or purchased | 633 | 2 | 631 |
| Financial assets written off | – | – | – |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | 153 | 9 | 144 |
| Final repayments | 36 | (1) | 37 |
| Transfers to 12-month ECL | 42 | – | 42 |
| Transfers to lifetime ECL (not credit-impaired) | (338) | (5) | (333) |
| Transfers to lifetime ECL (credit-impaired) | (20) | (5) | (15) |
| Net balances | 6 117 | 10 | 6 107 |
| Total credit and zero balances | | | – |
| **Balance at the end of the year** | 6 117 | 10 | 6 107 |

### Trade, other bills and banker's acceptances

| | Not credit-impaired | | |
|---|---|---|---|
| | Subject to 12-month ECL | | |
| Rm | Gross carrying amount | Allowance for ECL | Amortised cost |
| Balance at the beginning of the year | – | 1 | (1) |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | 1 | – | 1 |
| Foreign exchange movements | (1) | (1) | – |
| Net balances | – | – | – |
| Total credit and zero balances | – | (2) | 2 |
| **Balance at the end of the year** | – | (2) | 2 |

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | 154 | 4 | 150 | 50 | 8 | 42 | 5 815 | 22 | 5 793 |
| | – | – | – | – | – | – | 633 | 2 | 631 |
| | – | – | – | (6) | (4) | (2) | (6) | (4) | (2) |
| | (36) | – | (36) | (1) | 8 | (9) | 116 | 17 | 99 |
| | (20) | (1) | (19) | (12) | (2) | (10) | 4 | (4) | 8 |
| | (36) | – | (36) | (6) | – | (6) | – | – | – |
| | 338 | 5 | 333 | – | – | – | – | – | – |
| | – | – | – | 20 | 5 | 15 | – | – | – |
| | 400 | 8 | 392 | 45 | 15 | 30 | 6 562 | 33 | 6 529 |
| | | | – | | | – | – | – | – |
| | 400 | 8 | 392 | 45 | 15 | 30 | 6 562 | 33 | 6 529 |

| | Not credit-impaired | | | Credit-impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subject to lifetime ECL | | | Subject to lifetime ECL (excluding purchased/originated) | | | Total | | |
| | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost | Gross carrying amount | Allowance for ECL | Amortised cost |
| | – | – | – | – | – | – | – | 1 | (1) |
| | – | – | – | – | – | – | 1 | – | 1 |
| | – | – | – | – | – | – | (1) | (1) | – |
| | – | – | – | – | – | – | – | – | – |
| | – | 2 | (2) | – | 1 | (1) | – | 1 | (1) |
| | – | 2 | (2) | – | 1 | (1) | – | 1 | (1) |

**Financial guarantees and loan commitments**

| | Not credit-impaired | | Credit-impaired | |
|---|---|---|---|---|
| | Subject to 12-month ECL | Subject to lifetime ECL | Subject to lifetime ECL (excluding purchased/originated) | |
| **Rm** | Allowance for ECL | Allowance for ECL | Allowance for ECL | Allowance for ECL |
| Balance at the beginning of the year | 56 | 48 | 62 | 166 |
| New financial assets originated or purchased | 157 | – | – | 157 |
| Repayments net of readvances, capitalised interest, fees and ECL remeasurements | 9 | 25 | 62 | 96 |
| Final repayments | (177) | (12) | (28) | (217) |
| Transfers to 12-month ECL | 110 | (61) | (49) | – |
| Transfers to lifetime ECL (not credit-impaired) | (60) | 63 | (3) | – |
| Transfers to lifetime ECL (credit-impaired) | (40) | (2) | 42 | – |
| Foreign exchange movements | (2) | 2 | 1 | 1 |
| Net balances | 53 | 63 | 87 | 203 |
| Total credit and zero balances | | | | – |
| **Balance at the end of the year** | 53 | 63 | 87 | 203 |

## C2.12 FINANCIAL ASSETS WRITTEN OFF

### KEY ASSUMPTIONS CONCERNING THE FUTURE AND KEY SOURCES OF ESTIMATION

**Writeoff and postwriteoff recoveries**

Loans and advances are written off when the group has no reasonable expectations of recovering the asset partially or in its entirety. This assessment is judgemental and includes both qualitative and quantitative information, including trends based on historical recoveries. Card will write off after a client has had four months with no payment at legal stage, which translates into approximately 12 months in default; Personal Loans will write off after a client has missed the last 12 payments, and MFC will write off after approximately 11 months in default.

Other products are generally considered for writeoff only once the underlying security has been realised fully. The group writes off financial assets, in whole or in part, when practical recovery efforts have been exhausted and the group has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- where enforcement activity is ceased; and
- where the group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The group may write off financial assets that are still subject to enforcement activity when there is no reasonable expectation of recovery.

The write-off periods for the following key products are as follows:
- Card will write-off after a client has had two months with no payment at legal stage, which translates into approximately 12 months in default;
- Personal Loans will write off after a client has missed the last 12 payments; and
- MFC will write off after approximately 11 months in default.

The following contractual amounts outstanding on financial assets were written off during the period, and are still subject to enforcement activity:

| Rm | 2020 | 2019 |
|---|---|---|
| Contractual amount outstanding | **5 758** | 5 141 |

## C2.13 MODIFICATION OF FINANCIAL ASSETS

The group modifies the terms of loans provided to clients due to commercial renegotiations or in cases of distressed loans, with the aim of maximising recovery. Such restructuring activities include extended payment terms, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria that, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition when the modification is not substantial and does not result in derecognition of the original assets. The group monitors the subsequent performance of the assets. The group may determine that the credit risk has significantly improved after restructuring and the assets are then moved from lifetime ECL (stage 2 and stage 3) to 12-month ECL (stage 1). This is the case for assets that have performed in accordance with the new terms for six or more consecutive months.

The group continues to monitor whether there is a subsequent significant increase in credit risk in relation to such assets. The following table includes a summary of financial assets with lifetime ECLs of which the cashflows were modified during the year as part of the group's restructuring activities and their respective effects on the group's financial performance.

Where the modification of a loan did not result in a modification gain or loss being recognised due to the change in the contractual terms and conditions not being considered substantial and the present value of the loan discounted remaining unchanged, as is the case with the majority of the Covid-19 debt relief mechanisms described above, these modifications are not included in the disclosure below.

| Rm | 2020 | 2019 |
|---|---|---|
| **Modification during the year for which the loss allowance reflects lifetime ECL** | | |
| Amortised cost before modification | **2 135** | 2 306 |
| Net modification loss | **330** | 389 |
| **Modification since initial recognition of the financial asset for which the loss allowance has changed during the year to reflect 12-month ECL** | | |
| Gross carrying amount at the end of the year | **593** | 122 |
| Impact of modification on the ECL allowances associated with these assets | **12** | 1 |

## C3 GOVERNMENT AND OTHER SECURITIES

### C3.1 ANALYSIS

| | 2020 Rm | 2019 Rm (Restated)[1] |
|---|---|---|
| Government and government-guaranteed securities[1] | **123 642** | 94 900 |
| Other dated securities[2] | **1 670** | 3 165 |
| Fair-value hedge-accounted portfolios | **6 069** | 1 645 |
| Impairment of government and other securities | **(1)** | (1) |
| | **131 380** | 99 709 |

*[1] 2019 restated, refer to note A4: Reclassification.*

*[2] Includes securitised assets. See note E5.*

### C3.2 SECTORAL ANALYSIS

| | 2020 Rm | 2019 Rm (Restated)[1] |
|---|---|---|
| Financial services, insurance and real estate | **156** | 742 |
| Banks | **121** | 987 |
| Transport, storage and communication | **437** | 567 |
| Government and public sector[1] | **130 666** | 97 402 |
| Other sectors | | 11 |
| | **131 380** | 99 709 |

*[1] 2019 restated, refer to note A4: Reclassification.*

## C4 OTHER SHORT-TERM SECURITIES

### C4.1 ANALYSIS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Negotiable certificates of deposit | **3 015** | 5 152 |
| Treasury bills and other bonds | **24 067** | 37 243 |
| | **27 082** | 42 395 |

### C4.2 SECTORAL ANALYSIS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Banks | **336** | 3 116 |
| Government and public sector | **24 067** | 36 997 |
| Other sectors | **2 679** | 2 282 |
| | **27 082** | 42 395 |

## C5 CREDIT ANALYSIS OF OTHER SHORT-TERM SECURITIES, AND GOVERNMENT AND OTHER SECURITIES

### CREDIT RATINGS

| | Investment grade | | Subinvestment grade | | Not rated | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm |
| Other short-term securities | **25 244** | 40 503 | **1 838** | 1 892 | **–** | – | **27 082** | 42 395 |
| Negotiable certificates of deposit | **2 679** | 4 816 | **336** | 336 | | | **3 015** | 5 152 |
| Treasury bills and other bonds | **22 565** | 35 687 | **1 502** | 1 556 | | | **24 067** | 37 243 |
| Government and other securities | **130 466** | 98 118 | **914** | 1 591 | **–** | – | **131 380** | 99 709 |
| Government and government-guaranteed securities[2] | **123 474** | 94 608 | **168** | 292 | | | **123 642** | 94 900 |
| Other dated securities[1] | **924** | 1 866 | **746** | 1 299 | | | **1 670** | 3 165 |
| Fair-value hedge-accounted portfolios | **6 069** | 1 645 | | | | | **6 069** | 1 645 |
| Impairment of government and other securities | **(1)** | (1) | | | | | **(1)** | (1) |
| | **155 710** | 138 621 | **2 752** | 3 483 | **–** | – | **158 462** | 142 104 |

*[1] Debt securities that are purchased by the group are rated using an internal rating system, being the Nedbank Group Rating (NGR) scale. The group requires that investments be rated on the NGR scale to ensure that credit risk is measured consistently and accurately across the group. This ensures compliance with the group's policy on the rating of investments. The NGR scale has been mapped to the credit-rating scales of external credit-rating agencies. According to the NGR scale, investment grade can be equated to a Standard & Poor's and Fitch rating of at least BB+ and a Moody's rating of at least Ba1. The group's investment grade includes credit ratings from NGR01 to NGR12 and subinvestment grade includes credit ratings from NGR13 to NGR25.*
*[2] 2019 restated, refer to note A4: Reclassification.*

## C6 CASH AND CASH EQUIVALENTS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Coins and banknotes | **6 469** | 6 169 |
| Money at call and short notice | **1 012** | 1 877 |
| Balances with central banks – other than mandatory reserve deposits | **634** | 153 |
| Cash and cash equivalents excluding mandatory reserve deposits with central banks | **8 115** | 8 199 |
| Mandatory reserve deposits with central banks | **24 482** | 21 424 |
| | **32 597** | 29 623 |

Money at call and short notice constitute amounts withdrawable in 32 days or fewer.

## C7 DERIVATIVE FINANCIAL INSTRUMENTS

### ACCOUNTING POLICY

**Derivative financial instruments and hedge accounting**

Derivatives are classified as financial assets when their fair value is positive or as financial liabilities when their fair value is negative, subject to the offsetting principles as described under 'Offsetting financial assets and financial liabilities'. The method of recognising fair-value gains and losses depends on whether derivatives are designated as hedging instruments and the nature of the risks being hedged.

- **Derivatives that qualify for hedge accounting**

The group applies hedge accounting when transactions meet the criteria set out in IAS 39. The group's hedging strategy makes use of fair-value hedges, which are hedges of the change in fair value of recognised assets or liabilities or firm commitments. The group manages its interest rate risk exposure by entering into interest rate swaps. The interest rate risk exposure is frequently updated due to new loans being originated, contractual repayments, and early prepayments made by clients in each period. As a result, the group adopted a macro fair-value hedge strategy to hedge the designated risk profile by designating new swap agreements into the macro fair-value hedge-accounting solution at the beginning of every month. The group uses the macro fair-value hedge to recognise fair value changes related to the interest rate risk to reduce the profit or loss volatility that would otherwise arise from changes in fair value of the interest swaps alone.

- **Fair-value hedges**

Where a hedging relationship is designated as a fair-value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Fair-value gains and losses arising on the measurement of both the hedging instrument and the hedged item are recognised in profit and loss, for so long as the hedging relationship is effective at each testing date. Any hedge ineffectiveness is recognised in profit or loss. The main sources of hedge ineffectiveness in these hedging relationships are the cashflow mismatches between the hedged items and the hedging instruments and the movement in the benchmark overnight index swap curves relative to the designated risk curve.

If the derivative expires, is sold, terminated or exercised, no longer meets the criteria for fair-value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The fair-value adjustment to the hedged item is amortised to profit or loss over the life of the designated relationship in line with accounting standards. The unamortised fair-value adjustment of the hedged items is immediately recognised in profit or loss in the event that the hedged item is repaid or sold.

- **Derivatives that do not qualify for hedge accounting**

All gains and losses from changes in the fair value of derivatives that are not designated as being subject to hedge accounting are recognised immediately in non-interest revenue.

**Embedded derivatives**

Derivatives in a host contract that is a financial or non-financial instrument, such as an equity conversion option in a convertible bond, are separated from the host contract when all of the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.
- The combined contract is not measured at fair value, with changes in fair value recognised in profit or loss.

The host contract is accounted for:
- under IFRS 9 if it is a financial instrument; and
- in accordance with other appropriate accounting standards if it is not a financial instrument.

If an embedded derivative is required to be separated from its host contract, but it is not possible to measure the fair value of the embedded derivative separately, either at acquisition or at a subsequent financial reporting date, the entire hybrid instrument is categorised as at FVTPL and measured at fair value.

### Principal types of derivatives

These transactions have been entered into in the normal course of business and are carried at fair value. The principal types of derivative contracts into which the group enters are swaps, options, futures and forwards.

### Collateral

The group may require collateral in respect of the credit risk present in derivative transactions. The amount of credit risk is principally the positive fair value of the contract. Collateral may be in the form of cash or in the form of a lien over a client's assets, entitling the group to make a claim for current and future liabilities.

## C7.1 TOTAL CARRYING AMOUNT OF DERIVATIVE FINANCIAL INSTRUMENTS

| | 2020<br>Rm | 2019<br>Rm |
|---|---|---|
| Gross carrying amount of assets | 79 933 | 34 923 |
| Gross carrying amount of liabilities | (64 649) | (27 621) |
| **Net carrying amount** | **15 284** | 7 302 |

A detailed breakdown of the carrying amount (fair value) and notional principal of the various types of derivative financial instruments held by the group is presented in the following tables in notes C7.2 – C7.3.

## C7.2 NOTIONAL PRINCIPAL OF DERIVATIVE FINANCIAL INSTRUMENTS

This represents the gross notional amounts of all outstanding contracts at year-end. This gross notional amount is the sum of the absolute amount of all purchases and sales of derivative instruments. The notional amounts do not represent amounts exchanged by the parties and therefore represent only the measure of involvement by the group in derivative contracts and not its exposure to market or credit risks arising from such contracts. The amounts actually exchanged are calculated on the basis of the notional amounts and other terms of the derivative, which relate to interest rates, exchange rates, securities or commodity prices or financial and other indices.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| Rm | Notional principal | Positive value | Negative value | Notional principal | Positive value | Negative value |
| **Equity derivatives** | 17 692 | 9 237 | 8 455 | 25 053 | 13 302 | 11 751 |
| Options written | 8 346 | | 8 346 | 10 291 | | 10 291 |
| Options purchased | 8 334 | 8 334 | | 11 416 | 11 416 | |
| Futures[2] | 1 012 | 903 | 109 | 3 346 | 1 886 | 1 460 |
| **Commodity derivatives** | 5 004 | 2 962 | 2 042 | 4 283 | 1 750 | 2 533 |
| Options written | 269 | | 269 | 2 533 | | 2 533 |
| Options purchased | 2 733 | 2 733 | | 1 503 | 1 503 | |
| Swaps | 38 | 19 | 19 | [1] | | [1] |
| Futures | 1 964 | 210 | 1 754 | 247 | 247 | |
| **Exchange rate derivatives** | 742 430 | 396 225 | 346 205 | 564 765 | 267 689 | 297 076 |
| Forwards | 393 236 | 220 030 | 173 206 | 395 906 | 209 877 | 186 029 |
| Futures | 8 336 | 2 516 | 5 820 | 2 278 | 1 218 | 1 060 |
| Currency swaps | 214 021 | 106 627 | 107 394 | 81 769 | 14 440 | 67 329 |
| Options purchased | 67 052 | 67 052 | | 42 154 | 42 154 | |
| Options written | 59 785 | | 59 785 | 42 658 | | 42 658 |
| **Interest rate derivatives** | 6 638 734 | 3 368 673 | 3 270 061 | 5 081 477 | 3 496 773 | 1 584 704 |
| Interest rate swaps | 4 805 911 | 2 447 772 | 2 358 139 | 2 806 066 | 2 331 904 | 474 162 |
| Forward rate agreements | 1 783 393 | 903 164 | 880 229 | 2 244 600 | 1 149 600 | 1 095 000 |
| Futures | 2 326 | | 2 326 | 284 | 210 | 74 |
| Caps | 16 189 | 6 576 | 9 613 | 11 560 | 4 905 | 6 655 |
| Floors | 5 208 | 1 422 | 3 786 | 5 194 | 2 872 | 2 322 |
| Credit default swaps | 14 525 | 6 629 | 7 896 | 3 581 | 3 246 | 335 |
| Total return swaps | 11 182 | 3 110 | 8 072 | 10 192 | 4 036 | 6 156 |
| **Total notional principal** | 7 403 860 | 3 777 097 | 3 626 763 | 5 675 578 | 3 779 514 | 1 896 064 |

*[1] Represents amounts less than R1m.*

*[2] Includes contracts for difference with positive notionals of R899m (2019: R880m) and negative notionals of R0m (2019: R247m). The equity forward agreement has positive notionals of R4m (2019: R1 006m) and negative notionals of R109m (2019: R1 213m).*

## C7.3 CARRYING AMOUNT OF DERIVATIVE FINANCIAL INSTRUMENTS

The amounts disclosed represent the fair value of all derivative instruments held at year-end. The fair value of a derivative financial instrument is the amount at which it could be exchanged in an orderly transaction between market participants at the measurement date, other than a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted-cashflow models and market-accepted option-pricing models.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| Rm | Net carrying amount | Carrying amount of assets | Carrying amount of liabilities | Net carrying amount | Carrying amount of assets | Carrying amount of liabilities |
| **Equity derivatives** | **1 459** | **3 554** | **2 095** | (49) | 785 | 834 |
| Options written | (1 962) | | 1 962 | (793) | | 793 |
| Options purchased | 3 377 | 3 377 | | 613 | 613 | |
| Futures[1] | 44 | 177 | 133 | 131 | 172 | 41 |
| **Commodity derivatives** | **158** | **586** | **428** | 423 | 713 | 290 |
| Options written | (322) | | 322 | (135) | – | 135 |
| Options purchased | 492 | 492 | | 172 | 172 | |
| Swaps | 31 | 94 | 63 | 52 | 109 | 57 |
| Futures | (43) | | 43 | 334 | 432 | 98 |
| **Exchange rate derivatives** | **7 236** | **29 514** | **22 278** | 3 842 | 17 511 | 13 669 |
| Forwards | 4 720 | 18 133 | 13 413 | 2 333 | 10 471 | 8 138 |
| Futures | 106 | 661 | 555 | (44) | 29 | 73 |
| Currency swaps | 2 409 | 7 623 | 5 214 | 1 331 | 5 848 | 4 517 |
| Options purchased | 3 097 | 3 097 | | 1 163 | 1 163 | |
| Options written | (3 096) | | 3 096 | (941) | | 941 |
| **Interest rate derivatives** | **6 431** | **46 279** | **39 848** | 3 086 | 15 914 | 12 828 |
| Interest rate swaps | 5 478 | 42 498 | 37 020 | 2 650 | 14 428 | 11 778 |
| Forward rate agreements | 623 | 2 700 | 2 077 | 214 | 844 | 630 |
| Futures | (16) | | 16 | 28 | 28 | |
| Caps | (22) | 24 | 46 | (24) | 26 | 50 |
| Floors | 21 | 79 | 58 | 15 | 32 | 17 |
| Credit default swaps | (18) | 170 | 188 | 24 | 145 | 121 |
| Total return swaps | 365 | 808 | 443 | 179 | 411 | 232 |
| **Total carrying amount** | **15 284** | **79 933** | **64 649** | 7 302 | 34 923 | 27 621 |

*[1] Includes contracts for difference and an equity forward agreement. The fair value of the contracts for difference is zero as the variation margin is settled at the end of every day.*

## C7.4 ANALYSIS OF DERIVATIVE FINANCIAL INSTRUMENTS

| Rm | Equity derivatives | Commodity derivatives | Exchange rate derivatives | Interest rate derivatives | Total |
|---|---|---|---|---|---|
| **Derivative assets** | | | | | |
| **2020** | | | | | |
| **Maturity analysis** | | | | | |
| Under one year | **2 835** | **556** | **23 591** | **5 108** | **32 090** |
| One to five years | **719** | **30** | **3 759** | **14 329** | **18 837** |
| Over five years | | | **2 164** | **26 842** | **29 006** |
| | **3 554** | **586** | **29 514** | **46 279** | **79 933** |
| **2019** | | | | | |
| **Maturity analysis** | | | | | |
| Under one year | 462 | 695 | 12 123 | 1 389 | 14 669 |
| One to five years | 323 | 18 | 2 955 | 3 817 | 7 113 |
| Over five years | | | 2 433 | 10 708 | 13 141 |
| | 785 | 713 | 17 511 | 15 914 | 34 923 |
| **Derivative liabilities** | | | | | |
| **2020** | | | | | |
| **Maturity analysis** | | | | | |
| Under one year | **1 590** | **397** | **18 732** | **4 564** | **25 283** |
| One to five years | **505** | **31** | **2 185** | **12 019** | **14 740** |
| Over five years | | | **1 361** | **23 265** | **24 626** |
| | **2 095** | **428** | **22 278** | **39 848** | **64 649** |
| **2019** | | | | | |
| **Maturity analysis** | | | | | |
| Under one year | 598 | 283 | 9 853 | 1 038 | 11 772 |
| One to five years | 231 | 7 | 2 424 | 2 976 | 5 638 |
| Over five years | 5 | | 1 392 | 8 814 | 10 211 |
| | 834 | 290 | 13 669 | 12 828 | 27 621 |
| **Notional principal of derivatives** | | | | | |
| **2020** | | | | | |
| **Maturity analysis** | | | | | |
| Under one year | **10 773** | **4 987** | **593 627** | **4 323 669** | **4 933 056** |
| One to five years | **6 919** | **17** | **100 885** | **1 565 538** | **1 673 359** |
| Over five years | | | **47 918** | **749 527** | **797 445** |
| | **17 692** | **5 004** | **742 430** | **6 638 734** | **7 403 860** |
| **2019** | | | | | |
| **Maturity analysis** | | | | | |
| Under one year | 18 034 | 4 283 | 493 854 | 2 998 223 | 3 514 394 |
| One to five years | 5 813 | | 54 064 | 1 500 801 | 1 560 678 |
| Over five years | 1 206 | | 16 847 | 582 453 | 600 506 |
| | 25 053 | 4 283 | 564 765 | 5 081 477 | 5 675 578 |

*The maturity analysis in this note is prepared based on contractual maturities.*

## C7.5 DERIVATIVES DESIGNATED AS FAIR-VALUE HEDGES IN TERMS OF THE GROUP'S FAIR-VALUE HEDGE ACCOUNTING SOLUTION

As part of the group's hedging activities it enters into transactions that are designated as fair-value hedge transactions.

Fair-value hedges are used by the group to mitigate the risk of changes in the fair value of financial instruments due to movements in market interest rates. Derivatives that are designated by the group to form part of these fair-value hedge transactions principally consist of interest rate swaps. The corresponding hedged items forming part of these fair-value hedges, designated into the fair-value hedge-accounting solution, primarily consist of fixed-rate government bonds, loans, deposits and capital market issuances.

For qualifying fair-value hedges all changes in the fair value of the derivative and in the fair value of the hedged item, in relation to the risk being hedged, are recognised in profit or loss on a monthly basis if the hedge-accounting criteria are met.

IAS 39 does not specify a single method for assessing hedge effectiveness. The method an entity adopts for assessing hedge effectiveness depends on its risk management strategy. The group considers the linear regression method as the appropriate hedge effectiveness test to be used for prospective and retrospective hedge effectiveness testing. Linear regression is a statistical method that investigates the strength of the statistical relationship between the hedged item and the hedging instrument.

Linear-regression analysis involves determining a 'line of best fit' (slope) and then assessing the 'goodness of fit' (R-square) of this line. It provides a means of expressing, in a systematic fashion, the extent to which one variable, 'the dependent', will vary with changes in another variable, 'the independent'. In the context of assessing hedge effectiveness it establishes whether changes in the hedged item and hedging instrument are highly correlated.

The total day-to-day movement of the hedged item (due to the hedged risk) is regressed against the total day-to-day movement of the designated external swaps to calculate the hedge effectiveness, ie the degree of offset between the movements in the external swap and the hedged item (due to hedged risk).

Given the respective methodologies applied to perform retrospective and prospective hedge effectiveness testing, the number of data points considered for linear regression will not be consistent between retrospective and prospective testing and will not remain constant for all retrospective tests performed. This is in line with the requirements of IAS39 as it proves hedge effectiveness retrospectively throughout the reporting periods for which the hedge was designated (IAS39.99 paragraphs 89 to 102) and prospectively up to the next possible rebalancing date as documented as part of the risk management strategy for this particular hedging relationship (IAS39.99 paragraphs 89 to 102). The hedged risk is designated on the first day of the month for prospective testing purposes and designated for the remainder of the month and with the retrospective run at month-end. The hedged risk is re-designated on a monthly basis to reflect the changes in the underlying risk as a result of new or matured deals, early settlements and early withdrawals since the previous risk designation.

Nedbank is exposed to the global Interbank Offered Rate (IBOR) reform of major currency benchmark reference rates and is currently in the process of ensuring the bank's readiness and ability to handle the spectrum of current proposed replacement rates as well as a range of conventions of calculation. A detailed IBOR reform programme has been developed in the bank's key impact areas for this regulatory reform with a focus on ensuring system, legal, pricing, valuation and interest calculations are all successfully migrated.

During 2019 SARB established the Market Practitioners Group (MPG). This is a joint public and private sector body whose primary purpose is to facilitate decisions on the choice of interest rate benchmarks to be used as reference interest rates for financial and derivative contracts, as well as provide input to SARB and the Financial Sector Conduct Authority (FSCA) on the operationalisation of the benchmark proposals. Five workstreams were established in this regard:

- Unsecured reference interest rate.
- Risk free reference interest rate.
- Data collection and infrastructure.
- Transition.
- Governance.

SARB,after extensive consultation with the MPG and its various workstreams, released a draft statement of methodology and the policies governing the SARB- administered interest rate benchmarks in June 2020. This technical specification paper (TSP) detailed five interest rate benchmarks:

- South African Rand Interbank Overnight Rate (ZARIBOR).
- South African Secured Overnight Financing Rate (ZASFR).
- South African Rand Overnight Index Average (ZARONIA).
- Term Wholesale Financial Corporate Fixed Deposit Benchmark Rate.
- Term Wholesale Non-Financial Corporate Fixed Deposit Benchmark Rate.

Four of these benchmarks are new, with ZARONIA serving as a replacement for the current South African Benchmark Overnight Rate (SABOR).

SARB has articulated that the number of proposed interest rate benchmarks is not definitive and the ultimate outcome of reform will likely feature the coexistence of several interest rate benchmarks to fulfil different market and policy purposes. JIBAR is unaffected by the TSP. SARB has provided guidance that endeavourto strengthen JIBAR and adds to its credibility are underway. JIBAR, with its enhancements will remain the interim solution until an alternative reference rate is fully operational.

The results of the SARB public consultation process regarding the TSP and JIBAR reform are expected in due course. Nedbank continues to stay abreast of the changes and will assess impacts once the changes have been finalised.

The following table contains details of the hedged banking book exposures covered by the group's macro fair-value hedge accounting:

| Rm | Notional amount of hedged items | | Accumulated amount of fair-value adjustments on the hedged item | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| **2020** | | | | |
| Loans and advances | **82 479** | | **4 163** | |
| Government and other securities | **50 200** | | **6 069** | |
| Amounts owed to depositors | | **114 218** | | **(1 415)** |
| **Total** | **132 679** | **114 218** | **10 232** | **(1 415)** |
| **2019** | | | | |
| Loans and advances[1] | 77 340 | | 941 | |
| Government and other securities[1] | 40 270 | | 1 644 | |
| Amounts owed to depositors[1] | | 138 430 | | (326) |
| **Total** | 117 610 | 138 430 | 2 585 | (326) |

*[1] 2019 restated, refer to note A4: Reclassification. In addition, the presentation has been provided based on the same classes of financial instruments used on the statement of financial position.*

Hedge effectiveness testing was performed monthly and evaluated against the effectiveness range of 80% to 125%. For the periods where the hedge effectiveness results were outside of the effectiveness range, the full fair-value movement of the hedging instruments on those hedging portfolios was recorded in profit and loss without recognising the ineffective portion of the designated risk in profit and loss. The table below contains the fair-value change of the hedged item and hedging instrument per month recognised in profit and loss.

| Rm | 2020 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Change in the fair value of hedged items | **964** | **(264)** | **(2 340)** | **2 617** | **2 857** | **665** | **32** | **(377)** | **538** | **219** | **(161)** | **1 808** |
| Change in the fair value of the hedging instruments | **(860)** | **248** | **3 086** | **(2 598)** | **(2 960)** | **(652)** | **(30)** | **255** | **(461)** | **(245)** | **(140)** | **(1 699)** |
| **Net fair-value change** | **104** | **(16)** | **746** | **19** | **(103)** | **13** | **2** | **(122)** | **77** | **(26)** | **(301)** | **109** |

| Rm | 2019 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Change in the fair value of hedged items | 678 | (125) | 83 | (83) | 588 | 743 | (349) | 906 | (418) | (530) | (112) | 714 |
| Change in the fair value of the hedging instruments | (601) | 112 | (81) | 80 | (589) | (722) | 334 | (881) | 401 | 515 | 113 | (692) |
| **Net fair-value change** | 77 | (13) | 2 | (3) | (1) | 21 | (15) | 25 | (17) | (15) | 1 | 22 |

The following table contains the impact on profit or loss:

| Rm | 2020 | 2019 |
|---|---|---|
| Profit on hedged items | **6 558** | 2 095 |
| Profit on hedging instruments | **(6 056)** | (2 011) |
| **Movement in fair value that was recognised in profit or loss[1]** | **502** | 84 |

[1] *Included in non-interest revenue.*

# SECTION D: CORE BANKING LIABILITIES

## D1 AMOUNTS OWED TO DEPOSITORS

### ACCOUNTING POLICY

Refer to Section H: Financial instruments for the group's accounting policies regarding financial assets and liabilities.

### D1.1 CLASSIFICATIONS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Current accounts | **89 850** | 78 554 |
| Savings deposits | **12 392** | 10 744 |
| Other deposits and loan accounts | **696 350** | 625 528 |
| Call and term deposits | **323 349** | 308 468 |
| Fixed deposits | **60 571** | 63 436 |
| Cash management deposits | **109 941** | 74 225 |
| Other deposits and loan accounts | **202 489** | 179 399 |
| Foreign currency liabilities | **20 654** | 25 281 |
| Negotiable certificates of deposit | **96 833** | 115 515 |
| Deposits received under repurchase agreements[1] | **12 267** | 25 349 |
| Macro fair-value hedge-accounted portfolios | **1 415** | 326 |
| | **929 761** | 881 297 |
| Comprises: | | |
| – Amounts owed to depositors | **882 162** | 824 935 |
| – Amounts owed to banks | **47 599** | 56 362 |
| | **929 761** | 881 297 |

*[1]The group has pledged government and other securities (note C3) and negotiable certificates of deposit (note C4) amounting to R12 477m (2019: R25 551m) as collateral for deposits received under repurchase agreements, of which R7 233m (2019: 12 611m) relates to sell-/buybacks. These amounts represent assets that have been transferred, but that do not qualify for derecognition under IFRS 9. The associated liabilities of R12 267m (2019: R25 349m), of which R5 034m (2019: R12 734m) relates to sell-/buybacks, are disclosed in note D1.*

Deposit products include current accounts, savings accounts, call and notice deposits, fixed deposits and negotiable certificates of deposit. Term deposits vary from six months to five years in both the wholesale and retail markets.

Foreign currency liabilities are either matched by advances to clients or hedged against exchange rate fluctuations.

See note D1.3 for a breakdown of amounts owed to depositors by geographical analysis.

### D1.2 SECTORAL ANALYSIS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Banks | **47 599** | 56 362 |
| Government and public sector | **71 106** | 77 827 |
| Individuals | **236 642** | 226 659 |
| Business sector | **574 414** | 520 449 |
| | **929 761** | 881 297 |

## D1.3 GEOGRAPHICAL ANALYSIS

| | 2020 Rm | 2019 Rm[1] |
|---|---|---|
| SA | **882 544** | 801 194 |
| Rest of Africa | **11 784** | 10 843 |
| Europe | **31 117** | 37 147 |
| Asia | **3 617** | 6 204 |
| United States of America | **454** | 1 504 |
| Rest of World[1] | **245** | 24 405 |
| | **929 761** | 881 297 |

*[1]During the year, the group reviewed the amounts owed to depositors geographical analysis. As a result of this review, the analysis has been enhanced by providing the Rest of world category. To provide comparability, the prior-year balances have been restated (R24bn moved from SA to Rest of world category). Management is of the view that this enhancement provides more relevant information to users.*

## D2 LONG-TERM DEBT INSTRUMENTS

| Instrument type | Maturity dates | Interest rates | 2020 Rm | 2019 Rm |
|---|---|---|---|---|
| **Subordinated debt**[1] | | | | |
| Callable notes (rand-denominated – floating) | 16 January 2020 to 1 July 2020 | JIBAR plus 2,75% to 3,50% | | 1 895 |
| Callable notes (rand-denominated – fixed) | 1 July 2020 | 11,29% | | 430 |
| **Basel III subordinated debt**[2] | | | | |
| Callable notes (rand-denominated – floating) | 22 December 2026 to 2 July 2030 | JIBAR plus 2,40 % to 4,00% | **13 665** | 11 615 |
| **Securitised liabilities**[3] | | | | |
| Callable notes (rand-denominated – floating) | 25 November 2029 to 25 November 2053 | JIBAR plus 1,24% to 10,00% | **2 084** | 3 152 |
| **Senior unsecured debt**[4] | | | | |
| Senior unsecured notes – fixed | 1 June 2020 to 19 November 2027 | 8,79% to 11,15% | **15 271** | 17 512 |
| Senior unsecured notes – floating | 12 February 2020 to 1 August 2029 | JIBAR plus 1,10% to 2,25% | **23 857** | 22 272 |
| Senior unsecured green bonds | 29 April 2022 to 30 April 2026 | JIBAR plus 1,10% to 1,41% | **2 683** | 2 699 |
| Unsecured debentures | 30 November 2029 | Zero coupon | **43** | 37 |
| **Total long-term debt instruments in issue** | | | **57 603** | 59 612 |

*[1] During 2020, three subordinated debt instruments were repaid.*

*[2] During 2020 one Basel III subordinated debt instrument was issued. R2,05bn was issued at JIBAR plus 3,85% and is redeemable on 2 July 2025. A further R2,0bn subordinated debt that was issued on 30 June 2020 (at JIBAR plus 2,80%) is disclosed as part of the intergroup loan.*

*[3] During 2020 one securitised liability was issued and six were repaid.*

*[4] During 2020 six senior unsecured debt instruments were repaid and three senior unsecured debt instruments were issued. A sum of R3,1bn was issued at variable interest rates ranging between JIBAR plus 1,11% and JIBAR plus 1,33%, repayable between 24 February 2023 and 24 February 2027.*

### D2.1 MOVEMENT IN CARRYING AMOUNT

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Balance at the beginning of the year** | **59 612** | 55 410 |
| Changes arising from cash movements | **(6 634)** | (1 114) |
| Issue of long-term debt instruments | **5 189** | 12 895 |
| Redemption of long-term debt instruments | **(7 039)** | (8 737) |
| Interest paid | **(4 784)** | (5 272) |
| Changes arising from non-cash movements | **4 625** | 5 316 |
| Accrued interest and unwinding of premiums/discount | **4 625** | 5 316 |
| **Balance at the end of the year** | **57 603** | 59 612 |

## D3 CONTRACTUAL MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

| Rm | Statement of financial position amount | <3 months | >3 months <6 months | >6 months <1 year |
|---|---|---|---|---|
| **2020** | | | | |
| Long-term debt instruments | **57 603** | **3 323** | **3 875** | **4 935** |
| Amounts owed to depositors | **929 761** | **638 146** | **82 562** | **82 015** |
| Current accounts | **89 850** | **89 851** | | |
| Savings deposits | **12 392** | **12 392** | | |
| Other deposits and loan accounts | **696 350** | **490 849** | **53 706** | **58 155** |
| Foreign currency liabilities | **20 654** | **18 150** | **149** | **1 471** |
| Negotiable certificates of deposit | **96 833** | **14 624** | **28 707** | **22 389** |
| Deposits received under repurchase agreements | **12 267** | **12 280** | | |
| Macro fair-value hedge-accounted portfolios | **1 415** | | | |
| Derivative financial instruments – liabilities | **64 649** | **10 918** | **7 181** | **7 183** |
| Lease liabilities | **1 987** | **224** | **206** | **412** |
| Provisions and other liabilities | **13 409** | **129** | | **387** |
| | **1 067 409** | **652 740** | **93 824** | **94 932** |
| **Contingent liabilities, undrawn facilities and commitments** | | | | |
| Financial guarantees on behalf of clients | | **28 941** | | |
| Letters of credit and discounting transactions | | **7 958** | | |
| Irrevocable unutilised facilities and other | | **149 723** | | |
| | **–** | **186 622** | **–** | **–** |
| **2019** | | | | |
| Long-term debt instruments | 59 612 | 1 843 | 1 615 | 6 852 |
| Amounts owed to depositors | 881 297 | 570 921 | 81 000 | 116 539 |
| Current accounts | 78 554 | 78 605 | | |
| Savings deposits | 10 744 | 10 765 | | |
| Other deposits and loan accounts | 625 528 | 424 407 | 50 535 | 63 822 |
| Foreign currency liabilities | 25 281 | 16 545 | 3 388 | 4 293 |
| Negotiable certificates of deposit | 115 515 | 15 220 | 27 077 | 48 424 |
| Deposits received under repurchase agreements | 25 349 | 25 379 | | |
| Macro fair-value hedge-accounted portfolios | 326 | | | |
| Derivative financial instruments – liabilities | 27 621 | 6 789 | 2 031 | 2 952 |
| Lease liabilities | 2 290 | 268 | 245 | 441 |
| Provisions and other liabilities | 14 271 | | | 42 |
| | 985 091 | 579 821 | 84 891 | 126 826 |
| **Contingent liabilities, undrawn facilities and commitments** | | | | |
| Financial guarantees on behalf of clients | | 23 220 | | |
| Letters of credit and discounting transactions | | 6 702 | | |
| Irrevocable unutilised facilities and other | | 145 183 | | |
| | – | 175 105 | – | – |

Provisions and other liabilities are included in this table to provide a reconciliation with the statement of financial position and also include current and deferred taxation liabilities and long-term employee benefit liabilities. Derivatives are not profiled on an undiscounted basis.

| | >1 year < 5years | >5 years | Non-determinable maturity | Total |
|---|---|---|---|---|
| | **41 813** | **22 435** | | **76 381** |
| | **97 409** | **12 933** | **29 842** | **942 907** |
| | | | | **89 851** |
| | | | | **12 392** |
| | **59 801** | **11 391** | **29 842** | **703 744** |
| | **883** | | | **20 653** |
| | **35 310** | **1 542** | | **102 572** |
| | | | | **12 280** |
| | **1 415** | | | **1 415** |
| | **14 741** | **24 626** | | **64 649** |
| | **1 159** | **63** | | **2 064** |
| | | **8 407** | **4 487** | **13 410** |
| | **155 123** | **68 464** | **34 329** | **1 099 411** |
| | | | | **28 941** |
| | | | | **7 958** |
| | | | | **149 723** |
| | **–** | **–** | **–** | **186 622** |
| | 43 685 | 26 830 | | 80 825 |
| | 98 234 | 11 385 | 26 133 | 904 212 |
| | | | | 78 605 |
| | | | | 10 765 |
| | 62 223 | 11 385 | 26 133 | 638 505 |
| | 1 265 | | | 25 491 |
| | 34 420 | | | 125 141 |
| | | | | 25 379 |
| | 326 | | | 326 |
| | 5 638 | 10 211 | | 27 621 |
| | 1 598 | 38 | | 2 590 |
| | | 9 847 | 4 382 | 14 271 |
| | 149 155 | 58 311 | 30 515 | 1 029 519 |
| | | | | 23 220 |
| | | | | 6 702 |
| | | | | 145 183 |
| | – | – | – | 175 105 |

## SECTION E: INVESTMENTS

### E1 INVESTMENT SECURITIES

#### ACCOUNTING POLICY

Refer to Section H: Financial instruments for the group's accounting policies regarding financial assets and liabilities and Section E.2 for the group's accounting policies on investments in associate companies.

| | Carrying amount | | Dividends received | | Cumulative gains/(losses) | |
|---|---|---|---|---|---|---|
| | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm |
| Private-equity investments | **7 049** | 7 075 | **59** | 378 | **(651)** | (438) |
| Private-equity associates – Property Partners | **1 842** | 1 885 | **15** | 10 | **31** | 6 |
| Private-equity associates – Investment Banking | **850** | 703 | | 7 | **(134)** | (148) |
| Private-equity (unlisted) – Property Partners | **1 339** | 1 559 | **3** | 10 | **17** | 37 |
| Private-equity (unlisted) – Investment Banking | **3 018** | 2 928 | **41** | 351 | **(565)** | (333) |
| Listed investments | **118** | 876 | **15** | | **(211)** | (13) |
| Unlisted investments | **1 102** | 1 056 | **9** | 9 | **6** | – |
| Strate Limited | **143** | 143 | **9** | 8 | | |
| Other | **959** | 913 | | 1 | **6** | |
| **Total listed and unlisted investments** | **8 269** | 9 007 | **83** | 387 | **(856)** | (451) |

Refer to note H2.2.1 for the classification of investment securities in terms of the fair-value hierarchy.

The group has designated two (2019: two) investments at FVOCI as these investments are held with strategic intent. The fair value of these investments was R311m at 31 December 2020 (31 December 2019: R433m). There was no dividend income recgnised in current year, in 2019 R1m was recognised as dividend income that related to these investments. No equity investments designated at FVOCI have been derecognised in the current year.

## E2 INVESTMENTS IN ASSOCIATE COMPANIES

### ACCOUNTING POLICY

**Associates**

An associate is an entity over which the group has the ability to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the entity. This is generally demonstrated by the group holding in excess of 20%, but no more than 50%, of the voting rights. The group accounts for its investments in associate companies (other than investments in associate companies designated at FVTPL) using the equity accounting method, ie cost plus the group's share of postacquisition changes in net asset value.

The group's share of postacquisition profit or loss and postacquisition movements in OCI are recognised in the income statement and OCI respectively. The group applies the equity method of accounting from the date on which significant influence commences until the date on which significant influence ceases (or the associate is classified as held for sale), ie when the group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil, inclusive of any long-term debt outstanding. The recognition of further losses is discontinued, except to the extent that the group has incurred legal or constructive obligations, or guaranteed obligations, in respect of the associate.

In applying the equity method the investor should use the financial statements of the associate as of the same date as the financial statements of the investor unless it is impracticable to do so. If it is impracticable, the most recent available financial statements of the associate or joint venture should be used, with adjustments made for the effects of any significant transactions or events occurring between the ends of accounting periods. However, the difference between the reporting date of the associate and that of the investor cannot be longer than three months.

Where an entity in the group transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the associate, but only to the extent that there is no evidence of impairment.

At each reporting date the group determines whether there is objective evidence that the investments in associates are impaired. Objective evidence of impairment for an associate investment includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the associate investment may not be recovered. The carrying amounts of such investments are then reduced to recognise any impairment by applying the impairment methodology described in note F.

Investments in associates that are held with the intention of disposing thereof within 12 months are accounted for and classified as non-current assets held for sale in accordance with the methodology described in H2.

**Associate companies and joint ventures held by venture capital divisions**

Where the group has an investment in an associate or joint-venture company held by a venture capital division, whose primary business is to purchase and dispose of minority stakes in entities, the investment is classified as designated as FVTPL, as the divisions are managed on a fair-value basis. Changes in the fair value of these investments are recognised in non-interest revenue in profit or loss in the period in which they occur.

### E2.1 MOVEMENT IN CARRYING AMOUNT

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Carrying amount at the beginning of the year | **1 229** | 786 |
| Share of associate companies' gains/(losses) after taxation for the year | **115** | 121 |
| Acquisitions/(Disposals) of investments in associate companies | **(266)** | 342 |
| Other movements | **(41)** | (20) |
| **Carrying amount at the end of the year** | **1 037** | 1 229 |

### E2.2 ANALYSIS OF CARRYING AMOUNT

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Associate investments – on acquisition: Net asset value | **819** | 1 085 |
| Share of retained earnings since acquisition | **293** | 178 |
| Other movements | **(75)** | (34) |
| | **1 037** | 1 229 |

## E2.3 ANALYSIS OF INVESTMENTS IN ASSOCIATE COMPANIES

| | | Percentage holding | |
|---|---|---|---|
| | Nature of activities | 2020 % | 2019 % |
| Private equity: Tracker Technology Holdings Proprietary Limited[2] | Vehicle tracking | **17,7%** | 17,7% |
| Private equity: other investments | Various | | |
| Other strategic investments | Various | | |

*[1] Includes on-balance-sheet and off-balance-sheet exposure.*

*[2] The group has significant influence over Tracker Technology Holdings Proprietary Limited due to its representation on the board of directors.*

Unless otherwise stated above, all entities are domiciled and incorporated in SA. The group has the same proportion of voting rights as its proportion of ownership interest, unless stated otherwise, and has not incurred any contingent liabilities with regard to the associates listed above.

| | | | | Group | | | |
|---|---|---|---|---|---|---|---|
| | | | | Carrying amount | | Net exposure to/(from) associates[1] | |
| | Measurement method | Acquisition date | Year-end | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm |
| | Equity-accounted | November 2018 | June | **570** | 549 | **774** | 874 |
| | Equity-accounted | | | **76** | 310 | | |
| | Equity-accounted | | | **391** | 370 | | |
| | | | | **1 037** | 1 229 | **774** | 874 |

## E3 INVESTMENTS IN SUBSIDIARY COMPANIES AND RELATED DISCLOSURE

### ACCOUNTING POLICY

**Subsidiary undertakings and consolidated structured entities**

Subsidiary undertakings are those entities, including unincorporated entities such as trusts and partnerships, that are controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The group is considered to have power over an entity when it has existing rights that give it the current ability to direct the relevant activities of the entity. The group is exposed, or has rights, to variable returns from its involvement with the entity when the investor's returns from its involvement have the potential to vary as a result of the entity's performance. The group considers all facts and circumstances relevant to its involvement with an entity to evaluate whether control exists. The group assesses any changes to the facts and circumstances relevant to the entity and reassesses the consolidation requirements on a continuous basis.

The consolidated financial statements include the assets, liabilities and results of the company plus subsidiaries, including consolidated structured entities from the date control is established until the date that control ceases.

Intragroup balances, transactions, income and expenses, and profits and losses are eliminated in preparation of the consolidated financial statements. Unrealised losses are not eliminated to the extent that they provide objective evidence of impairment.

Subsidiaries include structured entities that are designed so that their activities are not governed by way of voting rights. In assessing whether the group has power over such investees, in which it has an interest, the group considers factors such as the purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee.

**Sponsored entities**

Where the group does not have an interest in an unconsolidated structured entity, the group will assess whether it sponsors the specific structured entity. The group will sponsor such an entity by assessing whether the group led the formation of the entity, the name of the group is associated with the name of the entity or it provides certain implicit guarantees to the entity in question.

**Common control transactions**

Transactions in which combining entities are controlled by the same party or parties before and after the transaction, and where that control is not transitory, are referred to as common control transactions. The group's accounting policy for the acquiring entity is to account for the transaction at book values as reflected in the consolidated financial statements of the selling entity. The excess of the cost of the transaction over the acquirer's proportionate share of the net assets value acquired in common control transactions, will be allocated to the common control reserve in equity.

**Company**

Investments in group companies are accounted for at cost less impairment losses in the separate financial statements. The carrying amounts of these investments are reviewed annually and impaired, when necessary, by applying the impairment methodology described in note F.

**Acquisitions and disposals of stakes in group companies**

Acquisitions of subsidiaries (entities acquired) and businesses (assets and liabilities acquired) are accounted for using the acquisition method. The cost of a business combination is measured as the aggregate of the fair values (at the acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, that asset or liability is measured at the acquisition date fair value. Subsequent changes in such fair values are accounted for either in profit or loss or OCI. Changes in the fair value of a contingent consideration that has been classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3: Business Combinations are recognised at their fair value at the date of acquisition, except for:

- deferred taxation assets or liabilities, which are recognised and measured in accordance with IAS 12: Income Taxes, and liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 19: Employee Benefits;
- liabilities or equity instruments that relate to the replacement, by the group, of an acquiree's share-based payment awards, which are measured in accordance with IFRS 2: Share-based Payments; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5: Non-current Assets Held for Sale and discontinued operations, which are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Where provisional amounts were reported, these are adjusted during the measurement period (see below). Additional assets or liabilities are recognised to reflect any new information obtained about the facts and circumstances that existed at the date of acquisition, which, if known, would have affected the amounts recognised on that date.

## ACCOUNTING POLICY

The measurement period is the period from the date of acquisition to the date the group receives complete information about the facts and circumstances that existed at the acquisition date. This measurement period is subject to a maximum of one year after the acquisition date.

Where a business combination is achieved in stages, the group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date on the date the group attains control, and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree before the acquisition date, which previously have been recognised in OCI, are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. The interest of non-controlling shareholders is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to the acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.

The difference between the proceeds from the disposal of a subsidiary, the fair value of any retained investment and its carrying amount at the date of disposal, including the cumulative amount of any exchange differences recognised in the statement of changes in equity that relate to the subsidiary, is recognised as a gain or loss on the disposal of the subsidiary in the group profit or loss for the period.

All changes in the group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). Any difference between the amount by which the non-controlling interests are increased or decreased and the fair value of the consideration paid or received is recognised directly in equity and attributed to the group.

### Investments in foreign operations

Nedbank Group Limited's presentation currency is SA rand. The assets and liabilities, including goodwill and fair-value adjustments, of group entities (including equity-accounted associates) that have functional currencies other than that of the company (SA rand) are translated at the closing exchange rate. Income and expenses are translated using the average exchange rate for the period. The differences that arise on translation of these entities are recognised in OCI in the statement of comprehensive income. The cumulative exchange differences are recognised as a separate component of equity and are represented by the balance in the foreign currency translation reserve.

On disposal of a foreign operation the cumulative amount in the foreign currency translation reserve related to that operation is transferred to profit or loss for the period when the gain or loss on the disposal of the foreign operation is recognised.

The primary and major determinants for non-rand functional currencies are the economic factors that determine the sales price for goods and services as well as costs. Additional supplementary factors to be considered are funding, autonomy and cashflows.

## E3.1 ANALYSIS OF INVESTMENTS IN SUBSIDIARY COMPANIES

| | Issued capital | | Effective holding | |
|---|---|---|---|---|
| | **2020 Rm** | 2019 Rm | **2020 %** | 2019 % |
| **Non-banking companies[2]** | | | | |
| Depfin Investments Proprietary Limited | [1] | [1] | **100** | 100 |
| Ned Investment Trust | [1] | [1] | **100** | 100 |
| Boe Private Equity Investments Limited | [1] | [1] | **100** | 100 |
| Pyraned Limited | [1] | 6 | **100** | 100 |

*[1] Represents amounts less than R1m.*

*[2] These entities are free of any restrictions imposed on the distribution of funds, save for compliance with any local regulations.*

Unless otherwise stated:
- All entities are domiciled in SA;
- The financial statements of the subsidiaries used in the preparation of consolidated financial statements are as of the same date or same period as those of the consolidated financial statements; and
- There are no significant restrictions (eg statutory, contractual and regulatory restrictions) on the group's ability to access or use the assets and settle the liabilities of the group.

### Headline earnings from subsidiaries (after eliminating intercompany transactions)

| | **2020 Rm** | 2019 Rm |
|---|---|---|
| Aggregate headline earnings attributable to equity holders | **4 315** | 10 478 |
| Aggregate headline losses attributable to equity holders | **(40)** | (96) |
| **Total headline earnings** | **4 275** | 10 382 |

General information required in terms of the Companies Act, 71 of 2008, is detailed in respect of only those subsidiaries where the financial position or results are material to the group. It is considered that the disclosure in these statements of such information in respect of the remaining subsidiaries would entail expenses out of proportion to the value to members. Other subsidiaries consist of nominees, property-owning and financial holding companies acquired in the course of lending activities.

Nedbank Group Limited will ensure that, except in the case of political risk and unless specifically excluded by public notice in a country where a subsidiary is domiciled, its banking subsidiaries and its principal non-banking subsidiaries are able to meet their contractual liabilities.

## E4 INTERESTS IN STRUCTURED CONSOLIDATED ENTITIES

### E4.1 Consolidated structured entities

The group holds certain interests in consolidated structured entities to ring-fence certain risks and/or achieve specific objectives. Structured entities are entities that have been designed so that voting rights are not the predominant factor in deciding who controls the entity.

The group has identified the following consolidated structured entities:

- Securitisation vehicles (refer to note E5)
  - Greenhouse Funding III (RF) Limited
  - Greenhouse 5 Funding (RF) Limited
  - Precinct Funding 2 (RF) Limited

The following judgements have been applied in determining that the group has control over the following structured entities:

### Securitisation

The group sponsors the formation of structured entities primarily for the purpose of securitising financial assets for funding diversification purposes and to add flexibility in mitigating structural liquidity risk. Where it is difficult to determine whether the group controls a structured entity, the group makes judgements in terms of IFRS about whether it has power over the entity, exposure, or rights, to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of its returns. In arriving at judgement, these factors are considered both jointly and separately.

These securitisation structures include the following:

Securitisation vehicles consist of the residential mortgage-backed securitisation programmes Greenhouse Funding 5 (RF) Limited and Greenhouse Funding III (RF) Limited and the commercial mortgage-backed securitisation programmes Precinct Funding 2 (RF) Limited. The activities of these vehicles are pre-determined and restricted in terms of the programme documentation established at its inception. The group does, however, exercise some discretion in its decision making which includes the selection and transfer of assets and the management of defaulted assets. Through the provision of administration services, the interest rate hedge and credit enhancement, Nedbank Limited has rights to the residual return of the vehicle.

The group has set up securitisation vehicles that acquire the rights, title, interest and related security of commercial and residential mortgage bonds from Nedbank Limited. The creation of these vehicles facilitated the group having appropriately collateralised instruments that can be pledged against the group's committed liquidity facility provided by SARB, if required. The group has concluded that it controls these entities.

Refer to note E5 for further information on the securitisation activities of the group.

## E5 SECURITISATIONS

The group securitises various consumer and commercial financial assets, generally resulting in the sale of these assets to structured entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches or other residual interests (retained interests).

### Active securitisation transactions

Nedbank Limited uses securitisation primarily to diversify funds and to add flexibility in mitigating structural liquidity risk. The group currently has two active and one matured traditional securitisation transactions:

- Greenhouse Funding III (RF) Limited (Greenhouse III), a residential-mortgage-backed securitisation programme.
- Greenhouse Funding 5 (RF) Limited (Greenhouse 5), a residential-mortgage-backed securitisation programme.
- Precinct Funding 2 (RF) Limited (Precinct Funding 2), a commercial-mortgage-backed securitisation programme.

### Greenhouse Funding III (RF) Limited (Greenhouse III)

Greenhouse III was a securitisation vehicle through which the rights, title, interest and related security in respect of residential home loans were acquired from Nedbank Limited under a segregated-series medium-term-note programme.

Greenhouse III was a residential-mortgage-backed securitisation programme implemented during 2014. Greenhouse III securitised R2bn worth of home loans originated by Nedbank Limited through the issuance of senior notes to the capital market and subordinated notes and a subordinated loan provided by Nedbank Limited. The notes issued by Greenhouse III were listed on the JSE and were rated by Moody's. The home loans transferred to Greenhouse III were recognised as financial assets held by Nedbank Limited.

Greenhouse III made use of an internal risk management policy, and used the Nedbank Group credit risk monitoring process to govern lending activities to external parties.

Nedbank Limited provided Greenhouse III with an interest-bearing subordinated loan at the commencement of the programme to provide part of the initial funding. Interest was payable quarterly as part of the priority of payments.

The maturity of the Greenhouse III securitisation transaction occurred on 25 February 2020. As a result all the outstanding notes held by external investors that were orginally issued by Greenhouse III, have been redeemed in full.

### Greenhouse Funding 5 (RF) Limited (Greenhouse 5)

Greenhouse 5 is a securitisation vehicle through which the rights, title, interest and related security in respect of residential home loans were acquired from Nedbank Limited under a segregated-series medium-term-note programme.

Greenhouse 5 is a residential-mortgage-backed securitisation programme implemented during 2019. Greenhouse 5 securitised R1,7bn worth of home loans originated by Nedbank Limited through the issuance of senior notes to the capital market and subordinated notes and a subordinated loan provided by Nedbank Limited. The notes issued by Greenhouse 5 are listed on the JSE and rated by Moody's. The home loans transferred to Greenhouse 5 continue to be recognised as financial assets held by Nedbank Limited.

Greenhouse 5 has been structured as a revolving structure, having the ability to issue new notes and purchase additional mortgage loans.

Greenhouse 5 makes use of an internal risk management policy and uses the Nedbank Group credit risk monitoring process to govern lending activities to external parties.

Nedbank Limited provided Greenhouse 5 with an interest-bearing subordinated loan at the commencement of the programme to provide part of the initial funding. Interest is payable quarterly as part of the priority of payments. The full capital amount outstanding plus any accrued interest will be payable in full on the final maturity date, provided that all outstanding notes have been redeemed in full and all secured creditors have been settled.

In the Greenhouse 5 structure Nedbank Limited holds the class B and class C note, amounting to R150m. These notes are subordinated to the higher-ranking notes in terms of the priority of payments.

### Precinct Funding 2 (RF) Limited (Precinct Funding 2)

Precinct Funding 2 is a commercial-mortgage-backed securitisation (CMBS) programme. The originator, seller and servicer of the commercial-property mortgage loan portfolio is Nedbank CIB Property Finance, the market leader in commercial property finance in SA.

The Precinct Funding 2 CMBS programme was implemented during 2017. Precinct Funding 2 securitised R1bn worth of commercial property-mortgage loans originated by Nedbank Limited through the issuance of senior notes to the capital market and subordinated notes and a subordinated loan provided by Nedbank Limited. The notes issued by Precinct Funding 2 are listed on the JSE and rated by Moody's. The class A and class B notes were placed with third-party investors and the junior notes and subordinated loan retained by Nedbank Limited. The commercial property mortgage loans transferred to Precinct Funding 2 continue to be recognised as financial assets held by Nedbank Limited.

The Precinct Funding 2 structure allows for more flexibility to replace loans. However, loan replacements are subject to certain portfolio covenants and eligibility criteria.

Precinct Funding 2 makes use of an internal risk management policy and uses the Nedbank Group credit risk monitoring process to govern lending activities to external parties. The primary measures used to identify, monitor and report on the level of exposure to credit risk include individual loan and loan portfolio ageing and performance analysis, analysis of impairment adequacy ratios, analysis of loss ratio trends and analysis of loan portfolio profitability. The maximum credit exposure to credit risk in respect of the mortgage loans is the balance of outstanding advances before taking into account the value of collateral held as security against such exposures and impairments raised. The collateral held as security for the mortgage asset exposure is in the form of first indemnity bonds over fixed commercial property.

Nedbank Limited provided Precinct Funding 2 with an interest-bearing subordinated loan at the commencement of the programme to provide part of the initial funding. Interest is payable quarterly as part of the priority of payments. The full capital amount outstanding plus any accrued interest will be payable in full on the final maturity date, provided that all outstanding notes have been redeemed in full and all secured creditors have been settled.

Nedbank Limited holds the class C and class D notes of Precinct Funding 2 amounting to R80m. These notes are subordinated to the higher-ranking notes in terms of the priority of payments.

The following table shows the carrying amount of securitised assets, stated at the amount of the group's continuing involvement, where appropriate, together with the associated liabilities, for each category of asset in the statement of financial position:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| Rm | Carrying amount of assets | Associated liabilities | Carrying amount of assets | Associated liabilities |
| **Loans and advances to clients:** | | | | |
| - Residential mortgage loans | **1 592** | **1 540** | 2 129 | 2 448 |
| Less: Impairments | **(4)** | | (7) | |
| - Commercial mortgage loans | **592** | **543** | 784 | 705 |
| Less: Impairments | **(1)** | | (1) | |
| **Total** | **2 179** | **2 083** | 2 905 | 3 153 |

This table presents the gross balances within the securitisation schemes and does not reflect any eliminations of intercompany and cash balances held by the various securitisation vehicles.

## E6 RELATED PARTIES

### E6.1 Relationship with significant investors

Following Old Mutual plc's managed-separation process, the group no longer has a parent (controlling shareholder) as Old Mutual Limited unbundled its direct shareholding in the group to approximately 19,9% on 15 October 2018. At 31 December 2020, Old Mutual Limited held 21,96% (31 December 2019: 24,09%) of Nedbank Group Limited's ordinary shares. The above shareholding is inclusive of funds held on behalf of other beneficial owners. Old Mutual Limited remains a related party of the group due to its significant shareholding in the group.

Material subsidiaries of the group are identified in note E3.1 and associate companies of the group are identified in note E2.3.

### E6.2 Key management personnel compensation

Key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, including all directors of the company and its parent, as well as members of the executive committee who are not directors.

Compensation paid to the board of directors and to other key management personnel, as well as the number of share instruments held, are shown below:

| | Directors | Key management personnel | Total |
|---|---|---|---|
| **Compensation (Rm)** | | | |
| **2020** | | | |
| Directors' fees | **22** | | **22** |
| Remuneration – paid by subsidiaries | **50** | **110** | **160** |
| Short-term employee benefits | **39** | **86** | **125** |
| Gain on exercise of share instruments | **11** | **24** | **35** |
| | **72** | **110** | **182** |
| **2019** | | | |
| Directors' fees | 22 | | 22 |
| Remuneration – paid by subsidiaries | 91 | 185 | 276 |
| Short-term employee benefits | 46 | 98 | 144 |
| Gain on exercise of share instruments | 45 | 87 | 132 |
| | 113 | 185 | 298 |

| | Directors | Key management personnel | Total |
|---|---|---|---|
| **Number of share instruments** | | | |
| **2020** | | | |
| Outstanding at the beginning of the year | **470 183** | **831 156** | **1 301 339** |
| Granted | **294 913** | **565 325** | **860 238** |
| Forfeited | **(165 050)** | **(12 292)** | **(177 342)** |
| Exercised | **(160 984)** | **(246 160)** | **(407 144)** |
| Transferred[1] | **109 926** | **(91 231)** | **18 695** |
| **Outstanding at the end of the year** | **548 988** | **1 046 798** | **1 595 786** |
| **2019** | | | |
| Outstanding at the beginning of the year | 504 485 | 879 454 | 1 383 939 |
| Granted | 171 625 | 321 096 | 492 721 |
| Forfeited | | (8 536) | (8 536) |
| Exercised | (205 927) | (314 454) | (520 381) |
| Transferred[1] | | (46 404) | (46 404) |
| **Outstanding at the end of the year** | 470 183 | 831 156 | 1 301 339 |

*[1] Represents the net movement in share instruments of members appointed to and resigning from Group Exco.*

### E6.3 Related-party transactions

Transactions between Nedbank Group Limited and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between Nedbank Group Limited and its other related parties are disclosed below. All of these transactions were entered into in the normal course of business.

| | Due from/(Owing to) | |
|---|---|---|
| **Outstanding balances (Rm)** | **2020** | 2019 |
| **Old Mutual group** | | |
| Deposits owing to Old Mutual group | **(15 942)** | (16 897) |
| Bank balances owing to Old Mutual group | **(8 019)** | (7 810) |
| Loan due from Old Mutual group | **409** | 622 |
| Bonds, derivatives and other financial instruments (owing to)/due from Old Mutual group | **(2 808)** | (2 031) |
| **Fellow subsidiaries of Nedbank Group Limited** | | |
| Loans owing to Nedgroup Securities Proprietary Limited | **(5 515)** | 1 764 |
| Loans due from/(owing to) Nedbank Malawi Limited | | 39 |
| Loans due/(owing to) from Nedbank Group fellow subsidiaries | **(4 583)** | (1 703) |
| Bank balances due from Nedgroup Securities Proprietary Limited | | (2) |
| Deposits owing to Syfrets Securities Limited | **(5)** | (1) |
| Deposits due from/(owing to) other fellow subsidiaries | **(75)** | 1 038 |
| Bank balances owing to Nedbank Group fellow subsidiaries | **(2 282)** | (2 324) |
| Equity derivatives with Nedbank Group fellow subsidiaries | **(1 304)** | 263 |
| Forward exchange rate contracts with various Nedbank Group fellow subsidiaries | **48** | (216) |
| Interest rate contracts with various Nedbank Group fellow subsidiaries | **203** | 278 |
| **Associate companies** | | |
| Loans due from associate companies | **2 707** | 2 844 |
| Deposits owing to associate companies | **(1 438)** | (209) |
| Bank balances due from/(owing to) associates | **(4)** | (52) |
| **Key management personnel** | | |
| Mortgage bonds due from key management personnel | **22** | 17 |
| Deposits owing to key management personnel | **(32)** | (18) |
| Bank balances due from key management personnel | **1** | 3 |
| Bank balances owing to key management personnel | **(8)** | (4) |
| Key management personnel – directors | **(8)** | (39) |
| Key management personnel – other | **(35)** | (83) |
| **Share-based payments reserve** | **(43)** | (122) |
| **Long-term employee benefit plans** | | |
| Bank balances owing to Nedgroup Medical Aid Fund | **(16)** | (4) |
| Bank balances owing to Nedgroup Pension Fund | **(13)** | (26) |
| Bank balances and deposits owing to other funds | **(1 833)** | (1 095) |

| Transactions (Rm) | Income/(Expense) 2020 | Income/(Expense) 2019 |
|---|---|---|
| **Old Mutual group** | | |
| Interest income from Old Mutual group | **686** | 486 |
| Interest expense to Old Mutual group | **(2 086)** | (2 031) |
| Insurance premiums to Old Mutual Insure Limited | **(147)** | (157) |
| Claims recovered from Old Mutual Insure Limited | **74** | 73 |
| Commission income from Old Mutual Insure Limited | **26** | 28 |
| Management fee income from Old Mutual group | **185** | 107 |
| Management fee expense to Old Mutual group | **(58)** | (7) |
| Fees received for provision of information technology services | **228** | 273 |
| Rent paid to Old Mutual group | **(18)** | (18) |
| **Fellow subsidiaries of Nedbank Group Limited** | | |
| Dividend declared to Nedbank Group Limited | | (2 800) |
| Interest income from Nedbank Group fellow subsidiaries | **316** | 174 |
| Interest income from Nedgroup Securities Proprietary Limited | **174** | 202 |
| Interest expense to Syfrets Securities Limited | | (386) |
| Interest expense to other Nedbank Group fellow subsidiaries | **(1 534)** | (141) |
| Interest expense to Nedgroup Securities Proprietary Limited | **(358)** | (182) |
| Management fee income from Nedbank Group fellow subsidiaries | **537** | 292 |
| Management fee expense to Nedbank Group fellow subsidiaries | **(197)** | (118) |
| **Associate companies** | | |
| Interest income from associate companies | **59** | 5 |
| Interest expense to associate companies | **(41)** | (17) |
| **Key management personnel** | | |
| Interest income from key management personnel | **1** | 3 |
| Interest expense to key management personnel | **(2)** | (3) |
| | | |
| Key management personnel – directors | **(2)** | (8) |
| Key management personnel – other | **3** | 7 |
| **Share-based payments expense (included in staff costs)** | **1** | (1) |

| | Income/(Expense) | |
|---|---|---|
| | **2020** | 2019 |
| **Long-term employee benefit plans** | | |
| Interest expense to Nedgroup Pension Fund | **(1)** | (2) |
| Interest expense to other funds | **(54)** | (66) |
| The Nedbank Group Pension Fund has an insurance policy (Optiplus policy) with Old Mutual Life Assurance Company (SA) Limited in respect of its pension plan obligations. Nedbank Limited has an insurance policy (Symmetry policy) with Old Mutual Life Assurance Company (SA) Proprietary Limited in respect of its postretirement medical aid obligations. The group has an interest in the OMART cell captive in respect of its disability plan obligations. The value of this policy and this interest are shown as reimbursement rights, with a corresponding liability. In the case of the interest in the cell captive the group recognises the surplus in the cell captive. The amounts included in the financial statements in respect of this policy and this interest are as follows: | | |
| – Optiplus policy reimbursement right | **721** | 753 |
| – Symmetry policy reimbursement right | **1 121** | 1 139 |
| – OMART policy reimbursement right | **689** | 632 |
| **Included in long-term employee benefit assets** | **2 531** | 2 524 |
| Optiplus policy obligation | **(721)** | (753) |
| Postretirement medical aid obligation | **(949)** | (1 023) |
| Disability obligation | **(689)** | (632) |
| **Included in long-term employee benefit liabilities** | **(2 359)** | (2 408) |

## SECTION F: GENERIC ASSETS

### ACCOUNTING POLICY

**Impairment (all assets other than financial assets, deferred taxation assets and investment property)**

The group assesses all assets (other than financial assets, deferred taxation assets and investment property) for indications of impairment or the reversal of a previously recognised impairment at each reporting date. These impairments (where the carrying amount of an asset exceeds its recoverable amount), or the reversal of a previously recognised impairment, are recognised in profit or loss for the period. Intangible assets not yet available for use are tested, at least annually, for impairment.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its VIU. The fair value less cost to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing VIU, the expected future pretax cashflows from the asset are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset, the cashflows of which are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

A previously recognised impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of these assets. Qualifying assets are assets that necessarily take a substantial period of time to prepare for their intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are complete.

All other borrowing costs are expensed in the period in which they are incurred.

Borrowing costs capitalised are disclosed in the notes by asset category and are calculated at the group's average funding cost, except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred, less any investment income on the temporary investment of those borrowings, are capitalised.

## F1 PROPERTY AND EQUIPMENT

### ACCOUNTING POLICY

Items of property and equipment are initially recognised at cost if it is probable that any future economic benefits associated with the items will flow to the group and they have a cost that can be measured reliably.

Subsequent expenditure is capitalised to the carrying amount of items of property and equipment if it is measurable and it is probable that it increases the future economic benefits associated with the asset. All other expenses are recognised in profit or loss as an expense when incurred.

Subsequent to initial recognition, computer equipment, vehicles and furniture and other equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Land and buildings, the fair values of which can be reliably measured, are carried at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation increases are credited directly to other comprehensive income and presented in equity under the heading 'Revaluation reserve'. However, revaluation increases are recognised in profit or loss to the extent that they reverse a revaluation decrease of the same asset previously recognised in profit or loss. Revaluation decreases are recognised in profit or loss. However, decreases are debited directly to equity to the extent of any credit balance existing in the revaluation surplus in respect of the same asset. Land and buildings are revalued on the same basis as investment properties.

**Depreciation**

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Items of property and equipment that are classified as held for sale in terms of IFRS 5: Non-current Assets Held for Sale and Discontinued Operations are not depreciated. The depreciable amounts of property and equipment are recognised in profit or loss on a straight-line basis over the estimated useful lives of the items of property and equipment, unless they are included in the carrying amount of another asset. The useful lives, residual values and depreciation methods for property and equipment are assessed and adjusted (where required) on an annual basis.

On revaluation, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the item concerned and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount and residual values.

Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred taxation, between the revaluation reserve and retained earnings as the property is utilised. Land is not depreciated.

The maximum initial estimated useful lives are as follows:

| | |
|---|---|
| Computer equipment | 5 years |
| Motor vehicles | 6 years |
| Fixtures and furniture | 10 years |
| Leasehold property | 20 years |
| Significant leasehold property components | 10 years |
| Freehold property | 50 years |
| Significant freehold property components | 5 years |

**Derecognition**

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. On derecognition any surplus in the revaluation reserve in respect of an individual item of property and equipment is transferred directly to retained earnings in the statement of changes in equity.

Compensation from third parties for items of property and equipment that were impaired, lost or given up is included in profit or loss when the compensation becomes receivable.

**Leases**

**The company as lessee**

The group is party to the following type of lease contracts:

- ATMs;
- Branches;
- Campus sites;
- Office space; and
- Computer and office equipment.

**Contract assessment and allocation of consideration**

The group assesses at the inception of a new contract, whether the contract is, or contains, a lease. In assessing whether a contract conveys the right to control the use of an identified asset, the group considers whether:

## ACCOUNTING POLICY

- The contract involves the use of an asset explicitly or implicitly identified in the contract. This asset must be physically distinct or represents substantially all the capacity of the asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use.
- The company has the right to direct the use of the asset, i.e. to direct how and for what purpose the asset is used.

At inception or on reassessment of a modified contract that contains a lease component, the group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices and the aggregate standalone price of the non-lease components. Non-lease components are recognised as an expense in profit or loss in the period in which they arise.

**Lease term**

The group determines the lease term as the non-cancellable period of a lease, together with both:

- Periods covered by an option to extend the lease if the group is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the group is reasonably certain not to exercise that option.

In assessing whether the group is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the group considers all relevant facts and circumstances that create an economic incentive for the group to exercise the option to extend the lease, or not to exercise the option to terminate the lease. Lease terms are on average three years for ATMs, five years for branches, and 13 years for office blocks.

**Right-of-use asset (initial and subsequent measurement)**

The right-of-use asset is initially measured at cost, which comprises:

- The initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date;
- Less any lease incentives received;
- Plus, any initial direct costs incurred; and
- An estimate of costs to dismantle and remove the underlying asset or to restore the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses, adjusted for certain remeasurements of the lease liability. Impairment losses are determined in accordance with IAS 36: Impairment of Assets.

If the lease transfers ownership of the underlying asset to the group by the end of the lease term or if the cost of the right-of-use asset reflects that it is reasonably certain that the group will exercise a purchase option, the group depreciates the right-of-use asset over the useful life. Otherwise, the group depreciates the right-of-use asset over the shorter of the useful life and the lease term. The group's principles governing estimating useful lives of the right-of-use assets are determined using the same principles as those ascribed for property and equipment.

**Onerous leases (impairment assessment)**

Onerous leases are dealt with in IAS 36: Impairment of Assets, except for short-term leases, low-value leases and leases that became onerous before commencement date of lease which are dealt with in IAS 37: Provisions, Contingent Liabilities and Contingent Assets.

The company assesses for impairment indicators in the right-of-use asset considering a combination of the following factors:

- A significant decline in expected economic benefits from the full operational effects of the lease contract has occurred;
- When the leased asset is underutilised, renounced, relinquished or abandoned; and
- Combined with an array of factors to conclude on the presences of an onerous lease.

Each case is assessed and weighed based on its prevailing merits, facts and circumstances.

Impairment losses reduce the right-of-use asset and are recognised in profit and loss. In most cases, an onerous lease does not discharge or extinguish the existing lease liability at time of occurrence of the impairment event. Any additional penalties to cancel the lease are present-valued and included as part of the lease liability in accordance with IFRS 16.

Disclosure for lease liabilities are done in note J1.

**The company as lessor**

The group determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the group assesses whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying assets. In this case the lease is classified as a finance lease, otherwise it is classified as an operating lease. If the arrangement contains lease and non-lease components, the group allocates the consideration in the contract to each component on the basis of their relative standalone prices.

**Operating leases**

Assets leased out under operating leases are included under property and equipment in the statement of financial position. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income. Leased assets are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income, net of any incentives given to lessees, is recognised on a straight-line basis over the term of the lease. When another systematic basis is more representative of the time pattern of the user's benefit, then that method is used.

## F1.1 PROPERTY AND EQUIPMENT

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Property and equipment (owned) (note F1.2) | **8 096** | 8 534 |
| Right-of-use assets (leased) (note G1.3) | **1 565** | 1 869 |
| **Property and equipment** | **9 661** | 10 403 |

## F1.2 PROPERTY AND EQUIPMENT (OWNED)

| | Land | | Buildings | |
|---|---|---|---|---|
| | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm |
| **Gross carrying amount** | | | | |
| Balance at 1 January | **806** | 744 | **6 979** | 6 630 |
| Acquisitions | | 45 | **144** | 319 |
| Increases/(decreases) arising from revaluations[1] | **(12)** | 11 | **(92)** | 58 |
| Transfers from non-current assets held for sale[2] | | 7 | | 45 |
| Disposals | | (1) | **(161)** | (255) |
| Writeoff of accumulated depreciation on revaluations | | | | |
| Transfers between assets | | | **(1)** | 182 |
| Effect of movements in foreign exchange rates and other movements | | | | |
| **Balance at 31 December** | **794** | 806 | **6 868** | 6 979 |
| **Accumulated depreciation and impairment losses** | | | | |
| Balance at 1 January | | | **2 175** | 1 896 |
| Depreciation charge for the year | | | **392** | 421 |
| Impairment losses | | | | 148 |
| Writeoff of accumulated depreciation on revaluations | | | **(51)** | |
| Transfers to non-current assets held for sale | | | | |
| Disposals | | | **(122)** | (126) |
| Transfers between assets | | | **(1)** | |
| Effect of movements in foreign exchange rates and other movements | | | | (164) |
| **Balance at 31 December** | **–** | – | **2 393** | 2 175 |
| **Carrying amount** | | | | |
| At 1 January | **806** | 744 | **4 804** | 4 734 |
| **At 31 December** | **794** | 806 | **4 475** | 4 804 |

*[1] Gains on property revaluations are recognised in profit or loss to the extent that they reverse a revaluation decrease of the same asset previously recognised in profit or loss.*
*[2] Land and buildings transferred from non-current assets held for sale to property and equipment as the sale was no longer highly probable.*

Equipment (principally computer equipment, motor vehicles, fixtures and furniture) is stated at cost less accumulated depreciation and impairment losses. Land and buildings are recognised at the revalued amount, which is based on external valuations obtained every three years on a rotation basis for all properties in accordance with the group's accounting policy. The valuers are members or associates of the Institute of Valuers (SA) or a local equivalent in the case of foreign subsidiaries. An annual internal review is also done on those properties not subject to external valuation. The carrying amount of properties is the fair value as determined by the valuers less subsequent accumulated depreciation and impairment losses. Adjustments in the valuation of the properties are recorded in the revaluation reserve, which is amortised over the remaining useful life of the property. In determining the fair value of properties the following factors are considered:

| | Computer equipment | | Furniture and other equipment | | Vehicles | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm |
| | **6 245** | 5 669 | **3 140** | 3 063 | **25** | 25 | **17 195** | 16 131 |
| | **650** | 869 | **288** | 400 | **2** | 2 | **1 085** | 1 635 |
| | | | | | | | **(104)** | 69 |
| | | | | | | | **–** | 52 |
| | **(629)** | (290) | **(159)** | (142) | **(2)** | (2) | **(951)** | (690) |
| | | | | | | | **–** | – |
| | **1** | | | (182) | | | **–** | – |
| | **1** | (3) | **3** | 1 | | | **4** | (2) |
| | **6 269** | 6 245 | **3 273** | 3 140 | **25** | 25 | **17 229** | 17 195 |
| | **4 394** | 3 966 | **2 072** | 1 884 | **20** | 18 | **8 661** | 7 764 |
| | **693** | 710 | **316** | 317 | **2** | 3 | **1 404** | 1 451 |
| | | | | | | | **–** | 148 |
| | **1** | | **(4)** | | | | **(53)** | – |
| | | | | | | | **–** | – |
| | **(611)** | (281) | **(147)** | (130) | **(2)** | (1) | **(882)** | (538) |
| | **1** | | | | | | **–** | – |
| | **1** | (1) | **3** | 1 | | | **3** | (164) |
| | **4 479** | 4 394 | **2 240** | 2 072 | **21** | 20 | **9 133** | 8 661 |
| | **1 851** | 1 703 | **1 068** | 1 179 | **5** | 7 | **8 534** | 8 367 |
| | **1 789** | 1 851 | **1 033** | 1 068 | **5** | 5 | **8 096** | 8 534 |

## F1.2 PROPERTY AND EQUIPMENT (OWNED)

| | | | | Land | | Buildings | |
|---|---|---|---|---|---|---|---|
| Type of property | Valuation method | Significant inputs | Parameters | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm |
| Commercial property | Market-comparable approach and discounted cashflow | Income capitalisation rates | 6,67 - 4,42% (2019: 8,0 -12,0% ) | **794** | 801 | **4 475** | 4 794 |
| Residential property | Market-comparable approach and replacement value | Price per square metre | | | 5 | | 10 |
| **Total land and buildings** | | | | **794** | 806 | **4 475** | 4 804 |

In accordance with IFRS 13: Fair Value Measurement the measurement of the group's properties is considered to be recurring. Recurring fair-value measurements are those that IFRS requires or permits to be recognised in the statement of financial position at the end of each reporting period. Furthermore, the group classifies its properties measured at fair value into level 3 of the fair-value hierarchy. Level 3 fair-value measurements are those that include the use of significant unobservable inputs.

In respect of certain properties there are restrictions of title in terms of regulatory restrictions such as servitudes. This does not have a material effect on the ability of the group to transfer these properties. No material plant and equipment have been pledged as security for liabilities.

If land and buildings were carried under the cost and not the revaluation model, the carrying amount would have been R3 200m (2019: R3 441m).

## F1.3 RIGHT – OF USE ASSETS (LEASED)

### Right-of-use assets reconciliation

| | **2020 Rm** | 2019 Rm |
|---|---|---|
| Balance at the beginning of the year | **1 869** | 2 060 |
| Depreciation charge for the year | **(824)** | (806) |
| Additions | **304** | 188 |
| Lease modifications | **367** | 464 |
| Impairment losses[2] | **(152)** | (33) |
| Derecognition | | (4) |
| Effect of movements in foreign exchange rates and other movements[1] | **1** | [1] |
| **Balance at the end of the year** | **1 565** | 1 869 |

*[1] Represents amount less than R1m*
*[2] The impairment indicator is due to the group's plans to implement new ways of work, which results in leased office space becoming redundant. When an impairment indicator is present, the right of use asset is tested for impairment by comparing its recoverable amount with its carrying amount. Where the recoverable amount of the right of use asset is lower than its carrying value, the right of use is impaired.*

### Depreciation charge by class of right-of-use assets

| | **2020 Rm** | 2019 Rm |
|---|---|---|
| Property (ATMs, branches, offices and campus sites) | **(736)** | (727) |
| Office equipment | **(88)** | (79) |
| | **(824)** | (806) |

### Closing balances by class of right-of-use assets

| | **2020 Rm** | 2019 Rm |
|---|---|---|
| Property (ATMs, branches, offices and campus sites) | **1 316** | 1 711 |
| Office equipment | **249** | 158 |
| | **1 565** | 1 869 |

## F2 INTANGIBLE ASSETS

### ACCOUNTING POLICY

**Goodwill**

Goodwill arises on the acquisition of subsidiaries and is recognised as an asset on the date that control is acquired, being the acquisition date. Goodwill represents the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net fair value of the identifiable net assets recognised. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred plus the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any), this excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised, but is tested for impairment at least once a year. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, the goodwill attributable to the subsidiary is included in the determination of the profit or loss on disposal.

**Goodwill impairment**

Goodwill is allocated to one or more CGUs, being the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is allocated to the CGUs in which the synergies from the business combinations are expected. Each CGU containing goodwill is tested annually for impairment. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses that are recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis. However, the carrying amount of these other assets may not be reduced below the highest of its fair value less costs to sell, its VIU and zero.

**Impairment testing procedures**

The recoverable amount of a CGU is the higher of its fair value less cost to sell and its VIU. The fair value less cost to sell is determined by ascertaining the current market value of an asset (or the CGU) and deducting any costs related to the realisation of the asset.

In assessing VIU, the expected future cashflows from the CGU are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the particular CGU.

Impairment losses relating to goodwill are not reversed and all impairment losses are recognised in capital and non-trading items for the period.

**Computer software and development costs (not yet commissioned)**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, and expenditure on internally generated goodwill and brands are recognised as an expense in profit or loss for the period.

If costs can be measured reliably and future economic benefits are available, expenditure on computer software and other development activities, where set procedures and processes are applied to a project for the production of new or substantially improved products and processes, is capitalised if the computer software and other developed products or processes are technically and commercially feasible and the group has intention and sufficient resources to complete development. The expenditure capitalised includes the cost of materials and directly attributable employee and other direct costs. Computer development expenditure is amortised only once the relevant software is available for use in the manner intended by management. Capitalised software is stated at cost less accumulated amortisation and impairment losses.

Amortisation of computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, which do not exceed 10 years and are reviewed annually. Subsequent expenditure relating to computer software is capitalised only when it increases the future economic benefits embodied in the specific asset, in its current condition, to which it relates. All other subsequent expenditure is recognised as an expense in the period in which it is incurred. The profit or loss on the disposal of computer software is recognised in non-trading and capital items (in profit or loss). The profit or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

The amortisation methods and residual values of these intangible assets are reviewed annually.

**Contractual client relationships**

Contractual client relationships, including the present value of inforce business in insurance businesses, acquired in a business combination are recognised at fair value at the date of acquisition. The contractual client relationships have a finite useful life and are carried at cost less accumulated amortisation. The useful lives and residual values of these client relationships are reviewed on an annual basis. Amortisation is calculated using the straight-line method over the expected life of the client relationship.

## KEY ASSUMPTIONS CONCERNING THE FUTURE AND KEY SOURCES OF ESTIMATION

**Goodwill impairment**

Management considers at least annually whether the current carrying value of goodwill is to be impaired. The first step of the impairment review process requires the identification of independent CGUs, by segmenting the group business into as many largely independent income streams as is reasonably practicable. The goodwill is then allocated to these independent units. The first element of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second element reflects the allocation of the net assets acquired and the difference between the consideration paid for those net assets and their fair value. This allocation is reviewed following business reorganisation. The carrying value of the unit, including the allocated goodwill, is compared with its fair value or VIU to determine whether any impairment exists. If the recoverable amount of a unit is less than its carrying value, goodwill will be impaired.

Detailed calculations may need to be carried out, taking into consideration changes in the market in which a business operates (eg competitive activity and regulatory change). In the absence of readily available market price data this calculation is based on discounting expected pretax cashflows at a risk-adjusted interest rate appropriate to the operating unit. The determination of both of these requires the exercise of judgement. The estimation of pretax cashflows is sensitive to the periods for which detailed forecasts are available and to assumptions regarding the long-term sustainable cashflows. While forecasts are compared with actual performance and external economic data, expected cashflows naturally reflect management's view of future performance.

**Intangible assets other than goodwill**

An internally generated intangible asset, specifically internally developed software generated during the development phase, is recognised as an asset if certain conditions are met. These conditions include technical feasibility, intention to complete the development, ability to use the asset under development and demonstration of how the asset will generate probable future economic benefits.

The cost of a recognised internally generated intangible asset comprises all costs directly attributable to making the asset capable of being used as intended by management. Conversely, all expenditure arising during the research phase is expensed as incurred.

The decision to recognise internally generated intangible assets requires significant judgement, particularly in the following areas:

- Evaluation of whether or not activities should be considered research activities or development activities.
- Assumptions about future market conditions, client demand and other developments.
- Assessment of whether completing an asset is technically feasible. The term 'technical feasibility' is not defined in the accounting standards, and therefore requires a group-specific and necessarily judgemental approach.
- Evaluation of the future ability to use or sell the intangible asset arising from the development and the assessment of probability of future benefits from sale or use.
- Evaluation of whether or not a cost is directly or indirectly attributable to an intangible asset and whether or not a cost is necessary for completing a development.

All intangible assets of the group have finite useful lives. Consequently, the depreciable amount of the intangible assets is allocated on a systematic basis over their useful lives. Judgement is applied to the following:

- Determining the useful life of an intangible asset, based on estimates regarding the period over which the intangible asset is expected to produce economic benefits to the group.
- Determining the appropriate amortisation method. Accounting standards require that the straight-line method be used, unless management can determine reliably the pattern in which the future economic benefits of the asset are expected to be consumed by the group.

Both the amortisation period and the amortisation method have an impact on the amortisation expenses recorded in each period.

In making impairment assessments for the group's intangible assets, management uses certain complex assumptions and estimates about future cashflows, which require significant judgement and assumptions about future developments. These assumptions are affected by various factors, including changes in the group's business strategy, internal forecasts and estimation of the group's weighted-average cost of capital. Due to these factors, actual cashflows and values could vary significantly from the forecast future cashflows and related values derived using the discounted-cashflow method.

## F2.1 MOVEMENT IN CARRYING AMOUNT

| Rm | Goodwill | Software | Development costs (not yet commissioned) | Total |
|---|---|---|---|---|
| **2020** | | | | |
| **Cost** | | | | |
| Balance at the beginning of the year | **1 617** | **15 159** | **1 858** | **18 634** |
| Acquisitions | | **436** | **1 868** | **2 304** |
| Development costs commissioned to software | | **1 945** | **(1 945)** | **–** |
| Disposals and retirements | | **(4 210)** | | **(4 210)** |
| Foreign currency translation and other movements | | | | **–** |
| **Balance at the end of the year** | **1 617** | **13 330** | **1 781** | **16 728** |
| **Accumulated amortisation and impairment losses** | | | | |
| Balance at the beginning of the year | **224** | **8 763** | **139** | **9 126** |
| Amortisation charge | | **1 399** | | **1 399** |
| Impairment losses[1] | | **156** | **51** | **207** |
| Disposals and retirements | | **(4 209)** | | **(4 209)** |
| Foreign currency translation and other movements | | **(21)** | **1** | **(20)** |
| **Balance at the end of the year** | **224** | **6 088** | **191** | **6 503** |
| **Carrying amount** | | | | |
| At the beginning of the year | **1 393** | **6 396** | **1 719** | **9 508** |
| **At the end of the year** | **1 393** | **7 242** | **1 590** | **10 225** |

| Rm | Goodwill | Software | Development costs (not yet commissioned) | Total |
|---|---|---|---|---|
| **2019** | | | | |
| **Cost** | | | | |
| Balance at the beginning of the year | 1 617 | 13 349 | 1 924 | 16 890 |
| Acquisitions | | 336 | 2 004 | 2 340 |
| Development costs commissioned to software | | 2 070 | (2 070) | – |
| Disposals and retirements | | (596) | | (596) |
| Transfers to property and equipment (note F1) | | | | – |
| Foreign currency translation and other movements | | | | – |
| **Balance at the end of the year** | 1 617 | 15 159 | 1 858 | 18 634 |
| **Accumulated amortisation and impairment losses** | | | | |
| Balance at the beginning of the year | 224 | 8 124 | 4 | 8 352 |
| Amortisation charge | | 1 139 | | 1 139 |
| Impairment losses[1] | | 99 | 132 | 231 |
| Disposals and retirements | | (596) | | (596) |
| Foreign currency translation and other movements | | (3) | 3 | – |
| **Balance at the end of the year** | 224 | 8 763 | 139 | 9 126 |
| **Carrying amount** | | | | |
| At the beginning of the year | 1 393 | 5 225 | 1 920 | 8 538 |
| **At the end of the year** | 1 393 | 6 396 | 1 719 | 9 508 |

*[1] Impaired intangible assets consist of projects mainly within the Nedbank Retail and Business Banking Cluster. The main indicators of the impairment of a project are the decommissioning of the project and/or the project not reaching full functionality. When one of these indicators is present, the project is tested for impairment by comparing its recoverable amount with its carrying amount. Where the recoverable amount of a project is lower than its carrying value, the project is impaired.*

## F2.2 ANALYSIS OF GOODWILL BY CGU

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Nedbank Corporate and Investment Banking | **757** | 757 |
| Nedbank Retail and Business Banking | **629** | 629 |
| Other | **7** | 7 |
| | **1 393** | 1 393 |

Goodwill is allocated to individual CGUs based on business activity. Impairment testing is done on a regular basis by comparing the net carrying value of the CGUs with the estimated VIU. The VIU is determined by discounting estimated future cashflows of each CGU. The discounted-cashflow calculations have been performed using Nedbank's cost of equity, which is calculated using the Capital Asset Pricing Model. No impairments resulting from impairment testing have been effected for the reporting periods presented.

The VIU of the various CGUs was based on the following assumptions:

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Risk-free rate range (%)[1] | **9,6** | 9,02 |
| Beta range[1] | **1,02** | 0,73–0,88 |
| Equity risk premium (%)[1] | **5** | 6,10 |
| Terminal growth rate range (%)[2] | **4,5** | 1,54 |
| Cashflow projection (years) | **3–5** | 3 |
| Discount rate range (%)[3] | **14,60-15,45** | 13,48–14,37 |

[1] *Management determined these key assumptions using information provided by the Nedbank Economic Unit, Balance Sheet Management Unit and reputable external sources.*

[2] *Based on management estimates of sustainable growth rates.*

[3] *Discount rates are based on weighted-average cost of capitals of the respective CGUs.*

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Goodwill on a geographical basis relates to SA in total and is as follows: | | |
| – Carrying amount | **1 393** | 1 393 |
| – Estimated recoverable amount | **101 098** | 81 284 |

# SECTION G: OTHER ASSETS

## G1 LONG-TERM EMPLOYEE BENEFITS

### ACCOUNTING POLICY

The group operates a number of postemployment defined-benefit and defined-contribution plans for eligible employees. The assets of these plans are generally held in separate trustee-administered funds. These benefits are accounted for in accordance with IAS 19: Employee Benefits.

**Defined-benefit plans**

The liability recognised in the statement of financial position in respect of defined-benefit pension plans is the present value of the defined-benefit obligation at the reporting date less the fair value of plan assets.

The defined-benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined-benefit obligation is determined by discounting the estimated future cash outflows using yields for government bonds that have maturity dates approximating the terms of the group's obligations.

Gains or losses resulting from remeasurements are recognised immediately in OCI. Remeasurements include actuarial gains and losses, return on plan assets, excluding amounts included in net interest, and the asset ceiling, excluding amounts included in net interest.

Current service costs and net interest on the defined-benefit liability are recognised immediately as an expense in profit or loss. Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date the group recognises related restructuring costs.

Plan assets are only offset against plan liabilities where they are assets held by long-term employee benefit funds or qualifying insurance policies. Qualifying insurance policies exclude any policies held by the group's holding or subsidiary companies.

**Defined-contribution plans**

Contributions to defined-contribution plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

**Postemployment benefit plans**

The group provides postretirement medical benefits and disability cover for eligible employees. The non-pension postemployment benefits are accounted for, in accordance with their nature, as either a defined-contribution plan or a defined-benefit plan. Similarly, the expected costs associated with such benefits are accounted for in a manner consistent with their classification.

**Short-term employee benefits**

Short term employee benefits include salaries, accumulated leave payments, bonuses and non-monetary benefits such as medical aid contributions.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount to be paid under short-term cash bonus plans or accumulated leave if the group has a present, legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

### KEY ASSUMPTIONS CONCERNING THE FUTURE AND KEY SOURCES OF ESTIMATION

The group provides pension plans for employees. Arrangements for employees retirement benefits vary from country to country and are made in accordance with local regulations and custom.

For defined-benefit schemes, including postretirement medical aid schemes, actuarial valuation of each of the scheme's obligations using the projected-unit credit method and the fair valuation of each of the scheme's assets are performed annually in accordance with the requirements of IAS 19: Employee Benefits.

The actuarial valuation is dependent on a series of assumptions (note G1.1.2), the key ones being interest rates, mortality, investment returns and inflation. Mortality estimates are based on standard industry and national mortality tables, adjusted where appropriate to reflect the group's own experience. The returns on fixed-interest investments are set to market yields at the valuation date (less an allowance for risk) to ensure consistency with the asset valuation. The returns on equities are based on the long-term outlook for global equities at the calculation date, having regard to current market yields and dividend growth expectations.

The inflation assumption reflects long-term expectations of both earnings and retail price inflation.

## POSTEMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The group has a number of defined-benefit and defined-contribution plans in terms of which it provides pension, postretirement medical aid and long-term disability benefits to employees and their dependants on retirement, death or disability. All eligible employees and former employees are members of trustee-administered or underwritten schemes within the group, financed by company and employee contributions. All SA retirement plans are governed by the Pension Funds Act 24 of 1956. The defined-benefit funds are actuarially valued using the projected-unit credit method. Any deficits are funded to ensure the ongoing financial soundness of the funds.

The benefits provided by the defined-benefit schemes are based on years of membership and/or salary levels. These benefits are provided from contributions by employees, the group, and income from the assets of these schemes. The benefits provided by the defined-contribution schemes are determined by the accumulated contributions and investment earnings.

At the dates of the latest valuations, the defined-benefit plans were in a sound financial position in terms of section 16 of the Pension Funds Act. The funds that constitute the assets and liabilities that the group has recognised in the statement of financial position in respect of its defined-benefit plans are listed below. The latest actuarial valuations were performed at 31 December 2020.

### POSTEMPLOYMENT BENEFITS

#### Defined-benefit pension funds

Nedgroup Pension Fund (including the Optiplus policy).
Nedbank UK Pension Fund.

#### Defined-benefit medical aid schemes

Nedgroup Medical Aid Scheme for Nedbank employees and pensioners.
Nedgroup Medical Aid Scheme for past BoE employees and pensioners.

### Other long-term employee benefits

#### Disability fund

Nedbank Group Disability Fund (including the OMART policy).

#### Insurance policies held with related parties

Optiplus (Nedgroup Pension Fund), OMART (Nedbank Group Disability Fund) and PRMA (Symmetry) annuity policies are insurance policies, the proceeds of which can be used only to pay or fund the employee benefits under the specific funds. However, these policies are not qualifying insurance policies in terms of IAS 19: Employee Benefits since they are held with related parties. These rights to reimbursement are therefore recognised as separate assets and in all other respects are treated in the same way as other plan assets.

## G1.1 ANALYSIS OF LONG-TERM EMPLOYEE BENEFIT ASSETS AND LIABILITIES

| Rm | Notes | Assets | Liabilities |
|---|---|---|---|
| **2020** | | | |
| Postemployment benefits[1] | G1.1.1 | **5 020** | **(1 677)** |
| Other long-term employee benefits - disability fund | | **689** | **(689)** |
| | | **5 709** | **(2 366)** |
| **2019** | | | |
| Postemployment benefits | G1.1.1 | 4 873 | (1 769) |
| Other long-term employee benefits - disability fund | | 632 | (632) |
| | | 5 505 | (2 401) |

*[1] In terms of IAS 19, the postemployment benefits asset refers to the sum of pension and provident funds with a net positive fund value of R2343m (2019: R2 171m), non-qualifying insurance policies taken on the funds of R721m (2019: R753m), the medical aid fund net asset refers to non-qualifying insurance policies taken on the fund of R1120m (2019: R1 140m) and the contribution asset R829m (2019: R816m).*

### G1.1.1 Net asset/(liability) recognised (Rm)

| Rm | Pension and provident funds | Medical aid funds | Contribu-tion asset | Total |
|---|---|---|---|---|
| **2020** | | | | |
| Present value of defined-benefit obligation | **(3 304)** | **(949)** | | **(4 253)** |
| Fair value of plan assets | **5 750** | **1 120** | **829** | **7 699** |
| Funded status[1] | **2 446** | **171** | **829** | **3 446** |
| Unrecognised due to paragraph 65 limit | **(103)** | | | **(103)** |
| | **2 343** | **171** | **829** | **3 343** |
| **2019** | | | | |
| Present value of defined-benefit obligation | (3 579) | (1 023) | | (4 602) |
| Fair value of plan assets | 5 870 | 1 140 | 816 | 7 826 |
| Funded status | 2 291 | 117 | 816 | 3 224 |
| Unrecognised due to paragraph 65 limit | (120) | | | (120) |
| | 2 171 | 117 | 816 | 3 104 |

*[1] In terms of IAS 19: Employee Benefits insurance policies issued by related parties of the reporting entity are excluded from the definition of qualifying insurance policies. The fair value of plan assets includes non-qualifying insurance policies for pension funds to the value of R721m (2019: R753m) and for medical aid to the value of R1120m (2019: R1 140m).*

### G1.1.2 Postemployment benefits

| Rm | Present value of obligation | Fair value of plan asset | Surplus/ (Deficit) | Unrecognis-ed due to paragraph 65 limit | Net asset/ (liability) |
|---|---|---|---|---|---|
| **Analysis of postemployment benefit assets and liabilities** | | | | | |
| **2020** | | | | | |
| Pension funds | **3 304** | **5 750** | **2 446** | **(103)** | **2 343** |
| Nedgroup Fund | **2 835** | **5 178** | **2 343** | | **2 343** |
| Nedbank UK Fund | **469** | **572** | **103** | **(103)** | |
| Medical aid funds | **949** | **1 120** | **171** | **–** | **171** |
| Nedgroup scheme for Nedbank employees | **888** | **1 047** | **159** | | **159** |
| Nedgroup scheme for BoE employees | **61** | **73** | **12** | | **12** |
| Contribution asset | | **829** | **829** | | **829** |
| **Total** | **4 253** | **7 699** | **3 446** | **(103)** | **3 343** |
| **2019** | | | | | |
| Pension funds | 3 579 | 5 870 | 2 291 | (120) | 2 171 |
| Nedgroup Fund | 3 181 | 5 353 | 2 172 | | 2 172 |
| Nedbank UK Fund | 398 | 517 | 119 | (120) | (1) |
| Medical aid funds | 1 023 | 1 140 | 117 | – | 117 |
| Nedgroup scheme for Nedbank employees | 956 | 1 064 | 108 | | 108 |
| Nedgroup scheme for BoE employees | 67 | 76 | 9 | | 9 |
| Contribution asset | | 816 | 816 | | 816 |
| **Total** | 4 602 | 7 826 | 3 224 | (120) | 3 104 |

| Rm | Pension and provident funds | Medical aid funds | Contribu-tion asset | Total |
|---|---|---|---|---|
| **2020** | | | | |
| Balance at the beginning of the year | **3 579** | **1 023** | | **4 602** |
| Current service cost | **(5)** | | | **(5)** |
| Interest cost | **294** | **94** | | **388** |
| Contributions by plan participants | **4** | | | **4** |
| Actuarial losses[1] | **(227)** | **(81)** | | **(308)** |
| Benefits paid | **(391)** | **(87)** | | **(478)** |
| Impact of foreign currency exchange rate changes | **50** | | | **50** |
| **Balance at the end of the year** | **3 304** | **949** | **–** | **4 253** |
| **2019** | | | | |
| Balance at the beginning of the year | 4 074 | 1 429 | | 5 503 |
| Current service cost | 19 | 1 | | 20 |
| Interest cost | 340 | (257) | | 83 |
| Contributions by plan participants | 4 | | | 4 |
| Actuarial losses[1] | (414) | (65) | | (479) |
| Benefits paid | (451) | (85) | | (536) |
| Impact of foreign currency exchange rate changes | 7 | | | 7 |
| **Balance at the end of the year** | 3 579 | 1 023 | – | 4 602 |

### G1.1.2 Postemployment benefits

| Rm | Pension and provident funds | Medical aid funds | Contribu-tion asset | Total |
|---|---|---|---|---|
| **2020** | | | | |
| Balance at the beginning of the year | **5 870** | **1 140** | **816** | **7 826** |
| Expected return on plan assets | **503** | **106** | **13** | **622** |
| Actuarial gains/(losses)[1] | **(291)** | **(38)** | | **(329)** |
| Contributions by the employer | **8** | | | **8** |
| Contributions by plan participants | **4** | | | **4** |
| Benefits paid | **(391)** | **(88)** | | **(479)** |
| Scheme-settled administration costs | **(7)** | | | **(7)** |
| Impact of foreign currency exchange rate changes | **54** | | | **54** |
| **Balance at the end of the year** | **5 750** | **1 120** | **829** | **7 699** |
| **2019** | | | | |
| Balance at the beginning of the year | 5 767 | 1 148 | 774 | 7 689 |
| Expected return on plan assets | 493 | 106 | 38 | 637 |
| Actuarial gains/(losses)[1] | 40 | (28) | | 12 |
| Contributions by the employer | 24 | | | 24 |
| Contributions by plan participants | 5 | | | 5 |
| Benefits paid | (451) | (86) | | (537) |
| Scheme-settled administration costs | (6) | | | (6) |
| Impact of foreign currency exchange rate changes | (2) | | 4 | 2 |
| **Balance at the end of the year** | 5 870 | 1 140 | 816 | 7 826 |

*[1] The negative R64m (2019: R421m) recognised in OCI is the sum of the actuarial loss on the plan liabilities and the actuarial gain/loss on plan assets before taxation, before the IAS 19 paragraph 65 limit.*

| Rm | Pension and provident funds | Medical aid funds | Contribu-tion asset | Total |
|---|---|---|---|---|
| **2020** | | | | |
| Current service cost | **5** | | | **5** |
| Interest (received)/cost | **(206)** | **(11)** | **(13)** | **(230)** |
| Scheme-settled plan administration costs | **7** | | | **7** |
| Past service cost – vested benefit | **2** | | | **2** |
| Effect of application of asset ceiling | **(1)** | | | **(1)** |
| | **(193)** | **(11)** | **(13)** | **(217)** |
| **2019** | | | | |
| Current service cost | 19 | | | 19 |
| Interest (received)/cost | (153) | (363) | (36) | (552) |
| Scheme-settled plan administration costs | 7 | | | 7 |
| Past service cost – vested benefit | 4 | | | 4 |
| Effect of application of asset ceiling | 3 | | | 3 |
| | (120) | (363) | (36) | (519) |

| Rm | Pension and provident funds | Medical aid funds | Contribu-tion asset | Total |
|---|---|---|---|---|
| **2020** | | | | |
| Balance at the beginning of the year | **2 171** | **117** | **816** | **3 104** |
| Net income recognised in the statement of comprehensive income | **192** | **11** | **13** | **216** |
| Net remeasurements – debit for the year | **(64)** | **43** | | **(21)** |
| Scheme-settled plan administration costs | **7** | | | **7** |
| Contributions paid by the employer | **7** | | | **7** |
| Impact of foreign currency exchange rate changes | **11** | | | **11** |
| Asset ceiling | **19** | | | **19** |
| **Balance at the end of the year** | **2 343** | **171** | **829** | **3 343** |
| **2019** | | | | |
| Balance at the beginning of the year | 1 623 | (281) | 774 | 2 116 |
| Net income recognised in the statement of comprehensive income | 120 | 363 | 38 | 521 |
| Net remeasurements – debit for the year | 421 | 37 | | 458 |
| Contributions paid by the employer | 25 | | | 25 |
| Impact of foreign currency exchange rate changes | (7) | (2) | 4 | (5) |
| Asset ceiling | (11) | | | (11) |
| **Balance at the end of the year** | 2171 | 117 | 816 | 3104 |

| | Pension and provident funds | Medical aid funds |
|---|---|---|
| **Distribution of plan assets (%)** | | |
| **2020** | | |
| Equity instruments | **25,46** | **48,00** |
| Debt instruments | **28,40** | |
| Property | | **4,00** |
| Cash | **0,03** | |
| International | **29,81** | **27,00** |
| Other | **16,30** | **21,00** |
| | **100,00** | **100,00** |
| **2019** | | |
| Equity instruments | 26,34 | 49,00 |
| Debt instruments | 31,40 | 19,00 |
| Property | 3,65 | 5,00 |
| Cash | 0,32 | 18,00 |
| International | | 6,00 |
| Other | 38,29 | 3,00 |
| | 100,00 | 100,00 |
| **Actual return on plan assets** | | |
| 2020 | **212** | **68** |
| 2019 | 534 | 78 |

| Principal actuarial assumptions (%) | Pension and provident funds | Medical aid funds |
|---|---|---|
| **2020** | | |
| Discount rates | **1,20 – 9,90** | **9,80** |
| Expected rates of return on plan assets | **1,20 – 9,90** | **9,80** |
| Inflation rate | **2,35 – 4,70** | **4,80** |
| Expected rates of salary increases | **5,70 – 5,70** | **4,80** |
| Pension increase allowance | **0,00 – 4,70** | |
| Annual increase to medical aid subsidy | | **6,80** |
| Average expected retirement age (years) | **60 – 65** | |
| **2019** | | |
| Discount rates | 1,90 – 9,50 | 9,60 |
| Expected rates of return on plan assets | 1,90 – 9,50 | 9,60 |
| Inflation rate | 2,00 – 4,90 | 5,20 |
| Expected rates of salary increases | 5,90 – 5,90 | 5,20 |
| Pension increase allowance | 0,00 – 4,90 | |
| Annual increase to medical aid subsidy | | 7,20 |
| Average expected retirement age (years) | 60 – 65 | |

## Sensitivity analysis

### Defined-benefit obligation

The defined-benefit obligation has been recalculated to show the effect of the discount rate and inflation rate assumptions on the defined-benefit obligation by adding and subtracting one percent to each assumption. This sensitivity analysis is for the Nedgroup Pension Fund.

### 2020

| Rm | Main result | Discount rate plus 1% | Discount rate minus 1% | Inflation rate plus 1% | Inflation rate minus 1% |
|---|---|---|---|---|---|
| Defined-benefit obligation | **2 835** | **2 646** | **3 061** | **3 045** | **2 636** |
| Change(%) | | **(6,7)** | **8,0** | **7,4** | **(7,0)** |

### 2019

| Rm | Main result | Discount rate plus 1% | Discount rate minus 1% | Inflation rate plus 1% | Inflation rate minus 1% |
|---|---|---|---|---|---|
| Defined-benefit obligation | 3 186 | 3 168 | 3 206 | 3 454 | 2 957 |
| Change(%) | | (0,6) | 0,6 | 8,4 | (7,2) |

**Medical aid accrued liability**

The sensitivity analysis provided below shows the impact of changes to these assumptions on the accrued liability value at 31 December 2020.

**2020**

| Rm | Main result | Medical subsidy rate plus 1% | Medical subsidy rate minus 1% | Discount rate plus 0.5% | Discount rate minus 0.5% |
|---|---|---|---|---|---|
| Medical aid accrued liability | **949** | **1 027** | **881** | **912** | **989** |
| Change(%) | | **8,2** | **(7,2)** | **(3,9)** | **4,2** |

**2019**

| Rm | Main result | Medical subsidy rate plus 1% | Medical subsidy rate minus 1% | Discount rate plus 0.5% | Discount rate minus 0.5% |
|---|---|---|---|---|---|
| Medical aid accrued liability | 1 023 | 1 110 | 927 | 964 | 1 063 |
| Change(%) | | 8,5 | (9,4) | (5,8) | 3,9 |

**Pension funds**

The expected long-term return is a function of the expected long-term returns on equities, cash and bonds. In setting these assumptions, the asset splits at the latest available date were used and adjustments were made to reflect the effect of expenses.

| Weighted-average assumptions (%) | 2020 | 2019 |
|---|---|---|
| – Discount rate | **9,03%** | 8,83% |
| – Expected return on plan assets | **9,03%** | 8,83% |
| – Future salary increases | **4,47%** | 5,90% |
| – Future pension increases | **4,70%** | 4,47% |

**Medical aid funds**

The overall expected long-term rate of return on plan assets is 9.8%. The expected rate of return is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation. The expected rate of return is based on the expected performance of the entire portfolio.

| Rm | Pension and provident funds | Medical aid funds | Contribution asset | Total |
|---|---|---|---|---|
| **Experience adjustments on present value of defined-benefit obligations for the past five years** | | | | |
| **2020** | **(227)** | **(81)** | | **(308)** |
| 2019 | (95) | 65 | | (30) |
| 2018 | (291) | (142) | | (433) |
| 2017 | (48) | 163 | | 115 |
| 2016 | (76) | (97) | | (173) |
| 2015 | (89) | 113 | | 24 |
| **Experience adjustments on fair value of plan assets for the past five years** | | | | |
| **2020** | | **(38)** | | **(38)** |
| 2019 | | (28) | | (28) |
| 2018 | | (216) | | (216) |
| 2017 | | (24) | | (24) |
| 2016 | | (40) | | (40) |
| 2015 | | (14) | | (14) |
| **Estimate of future contributions** | | | | |
| Contributions expected for ensuing year | **16** | | | **16** |

**Fund surplus/(deficit) for the past five years**

| | Present value of obligation | Fair value of plan asset | Surplus / (Deficit) |
|---|---|---|---|
| **Pension funds** | | | |
| 2020 | **3 304** | **5 750** | **2 446** |
| 2019 | 3 580 | 5 871 | 2 291 |
| 2018 | 4 074 | 5 767 | 1 693 |
| 2017 | 4 616 | 7 780 | 3 164 |
| 2016 | 4 751 | 7 280 | 2 529 |
| **Medical aid funds** | | | |
| 2020 | **949** | **1 120** | **171** |
| 2019 | 1 023 | 1 140 | 117 |
| 2018 | 1 429 | 1 148 | (281) |
| 2017 | 2 203 | 1 441 | (762) |
| 2016 | 2 133 | 1 343 | (790) |

## G2 NON-CURRENT ASSETS HELD FOR SALE

### ACCOUNTING POLICY

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount will be recovered principally through sale rather than use.

Immediately before classification as held for sale, all assets and liabilities are remeasured in accordance with the group's accounting policies. Non-current assets (or disposal groups) held for sale are measured at the lower of the carrying amount and fair value less incremental, directly attributable, cost to sell (excluding taxation and finance charges) and are not depreciated.

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Non-current assets held for sale** | | |
| Properties sold not yet transferred[1] | **69** | 90 |
| | **69** | 90 |

*[1] Commitments for the sale of properties have commenced and are anticipated to be concluded within the following 12 months. Transfer of the properties is expected to take place during the following 12 months.*

## G3 OTHER ASSETS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Sundry debtors and other accounts | **10 414** | 10 559 |
| Impairment of other assets | **(7)** | (15) |
| | **10 407** | 10 544 |

## SECTION H: FINANCIAL INSTRUMENTS

### ACCOUNTING POLICY

Financial instruments recognised in the statement of financial position include all financial assets and financial liabilities, including derivative instruments, but excluding investments in subsidiaries, associate companies and joint arrangements (other than investments held by venture capital divisions), employee benefit assets and liabilities, and leases. Financial instruments are accounted for under IAS 32: Financial Instruments – Presentation, IAS 39: Financial Instruments – Recognition and Measurement (Hedging), IFRS 9: Financial Instruments, IFRS 7: Financial Instruments – Disclosures and IFRS 13: Fair Value Measurement.

**FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

#### Measurement basis of financial instruments

There are two bases of measurement, namely amortised cost and fair value.

#### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual terms of the instrument. Regular-way purchase and sales of financial assets are recognised on trade date on the date on which the group commits to purchase or sell the asset.

At initial recognition the group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets or financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an expense being recognised in profit or loss.

#### Amortised cost and effective interest rate

The amortised cost of a financial instrument is the amount at which the financial instrument is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective-interest-rate method of any difference between the initial contractual amount and the maturity amount, less any cumulative impairment losses.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (ie its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider ECLs and includes transaction costs, premiums or discounts, fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets (assets that are credit-impaired at initial recognition) the group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of the ECLs in estimated future cashflows.

When the group revises the estimates of future cashflows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate, and discounted using the original effective interest rate. Any changes are recognised in profit or loss.

#### Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- purchased or originated credit-impaired financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (ie net of the ECL allowance).

#### Fair value

The fair value of a financial instrument is the amount that would be received on selling the asset or paid on transferring a liability in an orderly transaction between market participants at the measurement date.

The fair value of instruments that are quoted in an active market is determined using quoted prices where they represent those at which regularly and recently occurring transactions take place.

The group uses valuation techniques to establish the fair value of instruments where quoted prices in active markets are not available. For a detailed discussion of the fair value of financial instruments refer to note H2.

#### Financial assets

**(i) Classification and measurement**

The group applies IFRS 9 and classifies its financial assets in the following measurement categories:

- FVTPL.
- FVOCI.
- Amortised cost.

## ACCOUNTING POLICY

The classification requirements of investments in debt and equity instruments are described below:

**Debt instruments**

The classification of investments in debt instruments depends on:

- the business model within which the financial assets are held and managed; and
- the contractual cashflow characteristics of the financial assets, ie whether the cashflows represent 'solely payments of principal and interest'.

Financial assets are measured at amortised cost if they are held within a business model of which the objective is to hold those assets for the purpose of collecting contractual cashflows and those cashflows comprise solely payments of principal and interest (ie "hold to collect" business model).

Financial assets are measured at FVOCI if they are held within a business model of which the objective is achieved by both collecting contractual cashflows and selling financial assets and those contractual cashflows comprise solely payments of principal and interest (ie 'hold to collect and sell' business model). Movements in the carrying amount of these financial assets are taken through OCI, except for impairment gains or losses, interest revenue and foreign exchange gains or losses, which are recognised in profit or loss.

Where the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The remaining financial assets are measured at FVTPL. All derivative instruments that are either financial assets or financial liabilities are classified as mandatory at fair value and measured at FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cashflows are solely payments of principal and interest.

The group reclassifies debt investments when, and only when, its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

**Investments in equity instruments**

For equity investments that are held neither for trading nor for contingent consideration the group may irrevocably elect to present subsequent changes in the fair value of these equity investments in OCI. Where the equity investment is derecognised, the cumulative gain or loss previously recognised in OCI is not reclassified from equity to profit or loss. However, it may be reclassified in equity.

Alternatively, where the group does not make the above-mentioned election, fair-value changes are recognised in profit or loss. This election is made on an investment-by-investment basis. On initial recognition the group may irrevocably designate a financial asset otherwise meeting the requirements for measurement at amortised cost or FVOCI, or as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### (ii) Impairments

Impairments in terms of IFRS 9 are determined based on an ECL model.
The ECL model applies to financial assets measured at amortised cost and debt instruments at FVOCI, lease receivables and certain loan commitments, as well as financial guarantee contracts.

Under IFRS 9 loss allowances are measured on either of the following bases:

- Twelve-month ECLs: These are ECLs that result from possible default events within 12 months from the reporting date.
- Lifetime ECLs: These are ECLs that result from all possible default events over the expected life of a financial instrument.

The group is required to recognise an allowance for either 12-month or lifetime ECLs, depending on whether there has been an SICR since initial recognition. Indicators of an SICR in the retail portfolio may include any of the following:

- Short-term forbearance.
- Direct debit cancellation.
- Extension to the terms granted.
- Previous arrears within the past months.

Indicators of an SICR in the wholesale portfolio may include any of the following:

- Significant increase in the credit spread.
- Significant adverse changes in business, financial and/or economic conditions in which the client operates.
- Actual or expected forbearance or restructuring.
- Significant change in collateral value.
- Early signs of liquidity and cashflow problems, such as a delay in the servicing of trade creditors/loans.

**Measurement of ECLs**

The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the entity's best available forward-looking information. The above-mentioned probability-weighted outcome considers the possibility of a credit loss occurring and the possibility of no credit loss occurring, even if the possibility of a credit loss occurring is low. Credit losses are measured as the present value of all cash shortfalls (ie the difference between the cashflows due to the entity in accordance with the contract and the cashflows that the group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

The assessment of the ECL of a financial asset or portfolio of financial assets entails estimations of the likelihood of defaults occurring and of default correlations between counterparties. The group measures ECL using PD, EAD and LGD.

## ACCOUNTING POLICY

These three components are multiplied together and adjusted for the likelihood of default. The calculated ECL is then discounted using the original effective interest rate of the financial asset.

The assessment of an SICR and the calculation of ECL both incorporate forward-looking information. The group has performed historical analyses and identified the key economic variables impacting credit risk and ECL for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. The Nedbank Group Economic Unit provides a forecast of economic variables and an overview of the economy quarterly or more often if necessary. Significant judgement and estimates are applied in this process of incorporating forward-looking information into the SICR assessment and ECL calculation.

**Credit-impaired financial assets**

At each reporting date the group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cashflows of the financial asset have occurred. The group's definition of credit-impaired is aligned with its internal definition of default.

**Presentation of impairment**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets, and the amortised cost is presented on the face of the statement of financial position.

For debt securities at FVOCI the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset. For off-balance-sheet exposures, such as financial guarantee contracts, the loss allowance is presented in 'Provisions and other liabilities' on the face of the statement of financial position.

### (iii) Modification of loans

The group may renegotiate or otherwise modify the contractual cashflows of loans to clients. When this happens, the group assesses whether the new terms are substantially different from the original terms. In the normal course of business restructures a combination of qualitative and quantitative factors needs to be considered to establish whether the change to the contractual cashflows is substantial. However, in a distressed restructure the group needs to determine whether it is merely attempting to recover the original cashflows in the most optimal manner, and as such the original cashflows have not expired, or whether the risks and rewards associated with the cashflows have been altered fundamentally enough for the original instrument to be derecognised.

The group is of the view that the abovementioned principle can be applied by type of modification for retail exposures, as we assume there is a homogenous business process and objective underlying each type of modification. The application to wholesale exposures should be dealt with on a case-by-case basis through consultation by the business unit with the group's IFRS Advisory Division, as it may be necessary to take into account whether the modification is considered substantial based on the unique facts and circumstances.

Should the terms be substantially different, the group derecognises the original financial asset and recognises a 'new' financial asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes and for determining whether a significant increase in credit risk has occurred. However, the group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

Should the terms not be substantially different, the renegotiation or modification does not result in derecognition, and the group recalculates the gross carrying amount based on the revised cashflows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cashflows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

### Revolving products

A revolving credit facility (RCF) may be seen as financial instrument that is either:

- one continuous instrument, with one origination date that could be many years in the past; or
- a series of one-year instruments, each of which would have a different origination date.

With respect to revolving credit facilities, the key consideration of whether the issuing of a new card, change in credit limit, or conducting a credit review results in derecognition of the loan or facility is the robustness of the process followed and the resulting impact on credit risk management. Where the process is not considered to be sufficiently robust, ie it is purely procedural in nature, the original RCF will not be derecognised and the date of origination will remain the date at which the facility was first contractually extended (or was subject to a robust process that resulted in derecognition). If the process is considered to be robust, the date of origination would be the date of derecognition of the previous facility or loan.

The group considers the following factors to determine whether a review (annual or otherwise) is robust, ie would result in derecognition:

- The effectiveness of the review in mitigating or managing credit risk until the next scheduled review;
- Evidence that specific action is taken as a result of the outcome of the review, for example:
  - changes in facility limits;
  - repricing of the facility;
  - changes in required collateral or security;
  - changes to the terms and conditions of the facility; or
  - withdrawal of the facility.
- Whether the review is performed at a facility or client level (or client group).
- The review is done holistically, taking into account the income derived from the facility and the other income generated from the client in comparison to the risk taken.
- Increased monitoring or scrutiny of the facility, for example additional controls and/or approvals, is put in place until the next review.

## ACCOUNTING POLICY

#### (iv) Derecognition other than a modification

The group derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial assets) when, and only when:

- the contractual rights to the cashflows arising from the financial asset have expired;
- the group transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or
- the group transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retaining control of the asset.

The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in non-interest revenue for the period.

The group enters into transactions where it retains the contractual rights to receive cashflows from assets but assumes a contractual obligation to pay those cashflows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition when the group:

- has no obligation to make payments unless it collects equivalent amounts from the assets;
- is prohibited from selling or pledging the assets; and
- has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the group retains a subordinated residual interest.

### Financial liabilities

#### (i) Classification and measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- financial liabilities at FVTPL: This classification is applied to derivative financial liabilities and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated as FVTPL are presented partially in OCI (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability).
- financial liabilities arising from the transfer of financial assets that did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the group recognises any expenses incurred on the financial liability; and
- financial guarantee contracts and loan commitments.

#### (ii) Derecognition

A financial liability (or part of a financial liability) is derecognised when, and only when, the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired.

**Sale and repurchase agreements and lending of securities**

Securities sold subject to linked repurchase agreements are retained in the financial statements, as the group retains all risks and rewards of ownership of the securities. The securities are recorded as trading or investment securities and the counterparty liability is included in amounts owed to depositors, deposits from banks, or other money market deposits. Securities purchased under agreements to resell are recorded as loans and advances to banks or clients. The difference between the sale and repurchase price is treated as interest and recognised over the duration of the agreements using the effective-interest-rate method.

Securities lent to counterparties are also retained in the financial statements and any interest earned is recognised in profit or loss using the effective-interest-rate method. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in non-interest revenue. The obligation to return them is recorded at fair value as a trading liability.

### Acceptances

Acceptances comprise undertakings by the group to pay bills of exchange drawn on clients. The group expects most acceptances to be settled simultaneously with the reimbursement from clients. Acceptances are recorded as liabilities within amounts owed to depositors, with the corresponding asset recorded in the statement of financial position within loans and advances.

### Cash and cash equivalents

Cash and cash equivalents represent cash on hand and demand deposits and cash equivalents that are short term (ie with a maturity of less than 90 days from acquisition), highly liquid investments that are readily convertible to known amounts of cash, and that are subject to an insignificant risk of changes in value. Cash and cash equivalents therefore include cash and balances with central banks that can be withdrawn on demand (except where a specific minimum balance required to be maintained at the end of the day), other eligible bills and amounts due from banks.

## ACCOUNTING POLICY

### Investment contract liabilities

Liabilities for unit-linked and market-linked contracts are reported at fair value. For unit-linked contracts the fair value is calculated as the account value of the units, ie the number of units held multiplied by the bid price value of the assets in the underlying fund (adjusted for taxation). For market-linked contracts the fair value of the liability is determined with reference to the fair value of the underlying assets. This fair value is calculated in accordance with the financial soundness valuation basis, except that negative rand reserves arising from the capitalisation of future margins are not permitted. The fair value of the liability, at a minimum, reflects the initial deposit of the client, which is repayable on demand.

Investment contract liabilities (other than unit-linked and market-linked contracts) are measured at amortised cost.

#### Contribution income relating to investment contracts

Contribution income includes lump sums received in respect of linked businesses with retirement funds and are accounted for when due.

The contribution income is set off directly against the liability under investment contracts.

#### Benefits relating to investment contracts

Policyholder benefits are accounted for when claims are intimated directly against the liability under investment contracts.

### FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment, and where the group cannot identify the ECLs separately on the undrawn commitment component from those on the loan component, the ECLs on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, the ECLs are recognised as a provision.

## KEY ASSUMPTIONS CONCERNING THE FUTURE AND KEY SOURCES OF ESTIMATION

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

Certain of the group's financial instruments are carried at FVTPL, such as those designated by management under the fair-value option.

Other non-derivative financial assets may be designated as FVOCI. FVOCI financial investments are initially recognised at fair value and are subsequently held at fair value. Gains and losses arising from changes in fair value of such assets are included as a separate component of OCI and presented in equity.

The fair value of a financial instrument is the amount that would be received on selling the asset or paid on transferring the liability in an orderly transaction at the measurement date between knowledgeable and willing parties, other than in a forced or liquidation sale. Financial instruments entered into as trading transactions, together with any associated hedging, are measured at fair value and the resultant profits and losses are included in net trading income, along with interest and dividends arising from long and short positions and funding costs relating to trading activities. Assets and liabilities resulting from gains and losses on financial instruments held for trading are reported gross in trading portfolio assets and liabilities or derivative financial instruments, reduced by the effects of netting agreements where there is an intention to settle net with counterparties.

Details of the processes, procedures and assumptions used in the determination of fair value are discussed in note I2. In particular, the areas that involve the greatest amount of judgement and complexity include the following:

- Assessing whether instruments are trading with sufficient frequency and volume that they can be considered liquid.
- The inclusion of a measure of the counterparties non-performance risk in the fair value measurement of loans and advances, which involves the modelling of dynamic credit spreads.
- The inclusion of credit valuation adjustment (CVA) and funding valuation adjustments (FVA) in the fair-value measurement of derivative instruments.
- The inclusion of own credit risk in the calculation of the fair value of financial liabilities.

These concepts are developing and evolving continuously within the context of the SA market and therefore changes in these assumptions will arise as the market develops.

## H1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CATEGORIES OF FINANCIAL INSTRUMENTS

| | | | At FVTPL | |
|---|---|---|---|---|
| | Notes | Total Rm | Mandatory at fair value Rm | Designated[1] Rm |
| **2020** | | | | |
| **Assets** | | | | |
| Cash and cash equivalents | C6 | 8 115 | | |
| Other short-term securities | C4 | 27 082 | 27 082 | |
| Derivative financial instruments | C7 | 79 933 | 79 933 | |
| Government and other securities | C3 | 131 380 | 54 232 | |
| Loans and advances | C1.1 | 835 568 | 66 633 | 11 432 |
| Other assets | G3 | 10 407 | | |
| Current taxation assets | | 75 | | |
| Investment securities | E1 | 8 269 | 7 925 | |
| Non-current assets held for sale | G2 | 69 | | |
| Investments in associate companies | E2 | 1 037 | | |
| Deferred taxation assets | B7.3 | 346 | | |
| Investment property | | | | |
| Property and equipment | F1 | 9 661 | | |
| Long-term employee benefit assets | G1.1 | 5 709 | | |
| Mandatory reserve deposits with central banks | C6 | 24 482 | | |
| Intangible assets | F2 | 10 225 | | |
| **Total assets** | | 1 152 358 | 235 805 | 11 432 |
| **Equity and liabilities** | | | | |
| Ordinary share capital | B3.1 | 28 | | |
| Ordinary share premium | | 20 073 | | |
| Reserves | | 53 512 | | |
| **Total equity attributable to ordinary equity holders** | | 73 613 | | |
| Preference share capital and premium | B3.2 | 3 561 | | |
| Holders of participating preference shares | | (58) | | |
| Holders of additional tier 1 capital instruments | B4 | 7 822 | | |
| Non-controlling interest attributable to ordinary shareholders | | 11 | | |
| **Total equity** | | 84 949 | – | – |
| Derivative financial instruments | C7 | 64 649 | 64 649 | |
| Amounts owed to depositors | D1 | 929 761 | 36 417 | |
| Provisions and other liabilities | J1.1 | 12 359 | | |
| Current taxation liabilities | | 516 | | |
| Deferred taxation liabilities | B7.3 | 155 | | |
| Long-term employee benefit liabilities | G1.1 | 2 366 | | |
| Long-term debt instruments | D2 | 57 603 | | |
| **Total liabilities** | | 1 067 409 | 101 066 | – |
| **Total equity and liabilities** | | 1 152 358 | 101 066 | – |

[1] *Refer to note H4 in respect of financial instruments designated at FVTPL.*

| | FVOCI | | | |
|---|---|---|---|---|
| | Debt instruments Rm | Equity instruments Rm | Financial instruments at amortised cost Rm | Non-financial assets, liabilities and equity Rm |
| | | | 8 115 | |
| | | | | |
| | | | 77 148 | |
| | 17 821 | | 739 682 | |
| | | | 9 131 | 1 276 |
| | | | | 75 |
| | | 311 | | 33 |
| | | | | 69 |
| | | | | 1 037 |
| | | | | 346 |
| | | | | |
| | | | | 9 661 |
| | | | | 5 709 |
| | | | 24 482 | |
| | | | | 10 225 |
| | 17 821 | 311 | 858 558 | 28 431 |
| | | | | |
| | | | | 28 |
| | | | | 20 073 |
| | | | | 53 512 |
| | | | | 73 613 |
| | | | | 3 561 |
| | | | | (58) |
| | | | | 7 822 |
| | | | | 11 |
| | – | – | – | 84 949 |
| | | | | |
| | | | 893 340 | 4 |
| | | | 1 472 | 10 887 |
| | | | | 516 |
| | | | | 155 |
| | | | | 2 366 |
| | | | 57 603 | |
| | – | – | 952 415 | 13 928 |
| | – | – | 952 415 | 98 877 |

| | | | At FVTPL | |
|---|---|---|---|---|
| | Notes | Total Rm | Mandatory at fair value Rm | Designated[1] Rm |
| **2019** | | | | |
| **Assets** | | | | |
| Cash and cash equivalents | C6 | 8 199 | | |
| Other short-term securities | C4 | 42 395 | 33 055 | |
| Derivative financial instruments | C7 | 34 923 | 34 923 | |
| Government and other securities[2] | C3 | 99 709 | 35 317 | |
| Loans and advances[2] | C1.1 | 815 063 | 34 415 | 9 323 |
| Other assets | G3 | 10 544 | | |
| Current taxation assets | | 213 | | |
| Investment securities | E1 | 9 007 | 8 547 | |
| Non-current assets held for sale | G2 | 90 | | |
| Investments in associate companies | E2 | 1 229 | | |
| Deferred taxation assets | B7.3 | 42 | | |
| Investment property | | 56 | | |
| Property and equipment | F1 | 10 403 | | |
| Long-term employee benefit assets | G1.1 | 5 505 | | |
| Mandatory reserve deposits with central banks | C6 | 21 424 | | |
| Intangible assets | F2 | 9 508 | | |
| **Total assets** | | 1 068 310 | 146 257 | 9 323 |
| **Equity and liabilities** | | | | |
| Ordinary share capital | B3.1 | 28 | | |
| Ordinary share premium | | 19 182 | | |
| Reserves[3] | | 53 582 | | |
| **Total equity attributable to ordinary equity holders** | | 72 792 | – | – |
| Preference share capital and premium | B3.2 | 3 561 | | |
| Holders of preference shares | | 7 | | |
| Holders of additional tier 1 capital instruments | B4 | 6 850 | | |
| Non-controlling interest attributable to ordinary shareholders | | 9 | | |
| **Total equity** | | 83 219 | – | – |
| Derivative financial instruments | C7 | 27 621 | 27 621 | |
| Amounts owed to depositors | D1 | 881 297 | 33 772 | |
| Provisions and other liabilities | J1.1 | 13 473 | 879 | |
| Current taxation liabilities | | 42 | | |
| Deferred taxation liabilities | B7.3 | 645 | | |
| Long-term employee benefit liabilities | G1.1 | 2 401 | | |
| Long-term debt instruments | D2 | 59 612 | | |
| **Total liabilities** | | 985 091 | 62 272 | – |
| **Total equity and liabilities** | | 1 068 310 | 62 272 | – |

[1] *Refer to note H4 in respect of financial instruments designated at FVTPL.*
[2] *2019 figures restated, refer to note A4: Reclassification.*
[3] *During the year the group reviewed the presentation of reserves. As a result of this review, the reserves have been enhanced to reflect the total balance in the Non-financial assets, liabilities and equity column. Management is of the view that this enhancement provides more relevant information to users.*

During the year, the group reviewed the classification of loans and advances. As a result of the review, it was identified that certain loans and advances that are held for trading were disclosed as amortised cost. The correct classification of these loans and advances is FVTPL. An amount of R6bn previously incorrectly disclosed as amortised cost is now disclosed correctly as fair value at 31 December 2019. The loans and advances were correctly measured at fair value and there is no impact on profit or loss.

It was also identified that certain loans and advances in a group securitisation vehicle were incorrectly disclosed as FVTPL. The correct classification is amortised cost based on the business model and cashflow characteristics of the loans and advances. An amount of R1,9bn previously incorrectly disclosed as fair value is now disclosed correctly as amortised cost at 31 December 2019. The loans and advances were correctly measured at amortised cost and there is no impact on expected credit losses.

In addition, it was identified that certain loans and advances were incorrectly disclosed as amortised cost. The correct classification for these loans and advances is fair value. An amount of R801m previously incorrectly disclosed as amortised cost is now disclosed correctly as FVOCI (R519m) and FVTPL (R282m) at 31 December 2019. The loans and advances were correctly measured at fair value and there is no impact on profit or loss.

The combined impact of the errors is an amount of R4,9bn previously incorrectly disclosed as amortised cost, but now disclosed correctly as fair value at 31 December 2019. There is no impact on the group's statement of financial position at 31 December 2019, statement of comprehensive income, statement of changes in equity and statement of cashflow for the year ended 31 December 2019.

| | FVOCI | | | |
|---|---|---|---|---|
| | Debt instruments Rm | Equity instruments Rm | Financial instruments at amortised cost Rm | Non-financial assets, liabilities and equity Rm |
| | | | 8 199 | |
| | | | 9 340 | |
| | | | | |
| | | | 64 392 | |
| | 16 391 | | 754 928 | 5 |
| | | | 9 294 | 1 250 |
| | | | | 213 |
| | | 433 | | 27 |
| | | | | 90 |
| | | | | 1 229 |
| | | | | 42 |
| | | | | 56 |
| | | | | 10 403 |
| | | | | 5 505 |
| | | | 21 424 | |
| | | | | 9 508 |
| | 16 391 | 433 | 867 577 | 28 328 |
| | | | | |
| | | | | 28 |
| | | | | 19 182 |
| | | | | 53 582 |
| | – | – | – | 72 792 |
| | | | | 3 561 |
| | | | | 7 |
| | | | | 6 850 |
| | | | | 9 |
| | – | – | – | 83 219 |
| | | | | |
| | | | 847 515 | 10 |
| | | | 2 502 | 10 092 |
| | | | | 42 |
| | | | | 645 |
| | | | | 2 401 |
| | | | 59 612 | |
| | – | – | 909 629 | 13 190 |
| | – | – | 909 629 | 96 409 |

## H2 FAIR-VALUE MEASUREMENT — FINANCIAL INSTRUMENTS

### H2.1 VALUATION OF FINANCIAL INSTRUMENTS

#### BACKGROUND

Information obtained from the valuation of financial instruments is used by the group to assess the performance of the business and, in particular, provides assurance that the risk and return measures that the business has taken are accurate and complete. It is important that the valuation of financial instruments accurately represent the financial position of the group while complying with the requirements of the applicable accounting standards.

The fair value of a financial instrument is the amount that would be received on selling the asset or paid on transferring a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale.

#### CONTROL ENVIRONMENT

**Validation and approval**

The business unit entering into the transaction is responsible for the initial determination and recording of the fair value of the transaction. There are normalised review protocols for the independent review and validation of fair values separate from the business unit entering into the transaction. These include, but are not limited to:

- daily controls over the profit or loss recorded by trading and treasury front-office traders;
- specific controls to ensure consistent pricing policies and procedures are adhered to;
- independent valuation of structures, products and trades; and
- periodic review of all elements of the modelling process.

The review of the modelling process includes the approval of model revisions, the vetting of model inputs, the review of model results and more specifically the verification of risk calculations. All valuation techniques are validated and reviewed by qualified senior employees and are calibrated and backtested for validity by using prices from any observable current market transaction in the same instrument (ie without modification or repackaging) or based on any observable market data. The group obtains market data consistently in the same market where the instrument was originated or purchased.

If the fair-value calculation deviates from the quoted market value due to inaccurate observed market data, these deviations in the valuation are documented and presented at a review committee, which is independent of both the business unit and the specialist team. The committee will need to consider both the regulatory and accounting requirements in arriving at an opinion on whether the deviation is acceptable.

The group refines and modifies its valuation techniques as markets and products develop and as the pricing for individual products becomes more or less readily available. While the group believes its valuation techniques are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions may result in different estimates of fair value at the different reporting dates.

**Stress testing and sensitivity measures**

Comprehensive stress testing is conducted by the group, in which the following, at a minimum, are considered:

- Anticipated future projected trading positions.
- Historical events.
- Scenario testing to evaluate plausible future events.
- Specific testing to supplement the value-at-risk (VaR) methodology (ie one-day holding period and 99% confidence interval).

For further discussion in respect of stress testing and sensitivity measures refer to note H2.7

#### VALUATION METHODOLOGIES

The objective of a fair-value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair-value measurement includes, but is not limited to, consideration of the following:

- The particular asset or liability that is being measured (consistently with its unit of account).
- The principal (or most advantageous) market for the asset or liability.
- The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair-value hierarchy within which the inputs are categorised.

#### Quoted price

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The appropriate quoted market price for an asset held or a liability to be issued is usually the current bid price and, for an asset to be acquired or a liability held, the asking price.

The objective of determining fair value is to arrive at the transaction price of an instrument on the measurement date (ie without modifying or repackaging the instrument) in the principal (or most advantageous) active market to which the business has immediate access.

The existence of published price quotations in an active market is the most reliable evidence of fair value and, when they exist, they are used without adjustment to measure the financial asset or financial liability. A market is considered to be active if transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

These quoted prices would generally be classified as level 1 in terms of the fair-value hierarchy prescribed by IFRS 13: Fair Value Measurement.

## VALUATION TECHNIQUES

If the market for a financial instrument is not active, the group establishes fair value by using various valuation techniques. These valuation techniques may include:

- using recent arm's-length market transactions between knowledgeable, willing parties;
- making reference to the current fair value of another instrument that is substantially the same in nature;
- making reference to the value of the net asset of the underlying business;
- considering earnings multiples;
- using discounted-cashflow analysis; and
- applying various option pricing models**.**

If there is a valuation technique that is commonly used by market participants to price the financial instrument and that technique has been demonstrated to provide reasonable estimates of prices obtained in actual market transactions, the group will use that technique. In applying valuation techniques, and to the extent possible, the group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's-length exchange and motivated by normal business considerations. In applying valuation techniques the group uses estimates and assumptions that are consistent with available information about the estimates and assumptions that market participants would use in setting a price for the financial instrument.

Fair value is therefore estimated on the basis of the results of a valuation technique that makes use of market inputs and relies as little as possible on entity-specific inputs. A valuation technique would be expected to arrive at a realistic estimate of the fair value if:

- it reasonably as possible reflects how the market could be expected to price the instrument; and
- the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

**Therefore, a valuation technique:**

- will incorporate all relevant factors that market participants would consider in determining a price and
- is consistent with accepted economic methodologies for pricing financial instruments.

If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the various component parts.

If a rate (rather than a price) is quoted in an active market, the group uses that market-quoted rate as an input into a valuation technique to determine fair value. If the market-quoted rate does not include credit risk or other factors that market participants would include in valuing the instrument, the group adjusts for these factors.

Valuation techniques applied by the group would generally be classified as level 2 or level 3 in terms of the fair-value hierarchy prescribed by IFRS 13: Fair Value Measurement. The determination of whether an instrument is classified as level 2 or level 3 is dependent on the significance of observable inputs versus unobservable inputs in relation to the fair value of the instrument.

## OBSERVABLE MARKETS

Quoted market prices in active markets are the best evidence of fair value and are used as the basis of measurement, if available. A determination of what constitutes 'observable market data' will necessitate significant judgement. It is the group's belief that 'observable market data' comprises, in the following hierarchical order:

- Prices or quotes from an exchange or listed markets in which there are sufficient liquidity and activity.
- Proxy observable market data that is proven to be highly correlated and has a logical, economic relationship with the instrument that is being valued.
- Other direct and indirect market inputs that are observable in the marketplace.

Data is considered by the group to be observable if the data is:

- verifiable;
- readily available;
- regularly distributed;
- from multiple independent sources;
- transparent; and
- not proprietary.

Data is considered by the group to be market-based if the data is:

- reliable;
- based on consensus within reasonably narrow, observable ranges;
- provided by sources that are actively involved in the relevant market; and
- supported by actual market transactions.

It is not intended to imply that all of the above characteristics must be present to conclude that the evidence qualifies as observable market data. Judgement is applied based on the strength and quality of the available evidence.

### INPUTS TO VALUATION TECHNIQUES

An appropriate valuation technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. Inputs are selected on a basis that is consistent with the characteristics of the instrument that market participants would take into account in a transaction for that instrument. Principal inputs to valuation techniques applied by the group include, but are not limited to, the following:

- Discount rate: Where discounted-cashflow techniques are used, estimated future cashflows are based on management's best estimates and the discount rate used is a market rate at the reporting date for an instrument with similar terms and conditions.
- The time value of money: The business may use well-accepted and readily observable general interest rates, such as the JIBAR, London Interbank Offered Rate (UK) or an appropriate swap rate, as the benchmark rate to derive the present value of a future cashflow.
- Credit risk: Credit risk is the risk of loss associated with a counterparty's failure or inability to fulfil its contractual obligations. The valuation of the relevant financial instrument takes into account the effect of credit risk on fair value by including an appropriate adjustment for the risk taken.
- Foreign currency exchange prices: Active currency exchange markets exist for most major currencies, and prices are quoted daily on various trading platforms and in financial publications.
- Commodity prices: Observable market prices are available for those commodities that are actively traded on exchanges in SA, London, New York, Chicago and other commercial exchanges.
- Equity prices: Prices (and indices of prices) of traded equity instruments are readily observable on the JSE or any other recognised international exchange.  Present-value techniques may be used to estimate the current market price of equity instruments for which there are no observable prices.
- Volatility: Measures of the volatility of actively traded items can be reasonably estimated by the implied volatility in current market prices. The shape and skew of the volatility curve is derived from a combination of observed trades and doubles in the market. In the absence of an active market a methodology to derive these volatilities from observable market data will be developed and utilised.
- Recovery rates/LGD: These are used as an input to valuation models as an indicator of the severity of losses on default. Recovery rates are primarily sourced from market data providers or inferred from observable credit spreads.
- Prepayment risk and surrender risk: Expected repayment patterns for financial assets and expected surrender patterns for financial liabilities can be estimated on the basis of historical data.
- Servicing costs: If the cost of servicing a financial asset or financial liability is significant and other market participants would face comparable costs, the issuer would consider them in determining the fair value of that financial asset or financial liability.
- Dividends: Consistent consensus dividend forecasts adjusted for internal investment analysts' projections can be applied to each share. Forecasts are usually available for the current year plus one additional year. Thereafter, a constant growth rate would be applied to the specific dates into the future for each individual share.
- Inception profit (day one gain or loss): The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique, the variables of which include data from observable markets only.

### VALUATION ADJUSTMENTS

To estimate a reliable fair value, where appropriate, the group applies certain valuation adjustments to the pricing information derived from the above sources. In making appropriate adjustments, the group considers certain adjustments to the modelled price that market participants would make when pricing that instrument. Factors that would be considered include, but are not limited to, the following:

- Own credit on financial liabilities: The carrying amount of financial liabilities held at fair value is adjusted to reflect the effect of changes in the group's own credit spreads. As a result, the carrying value of issued bonds and subordinated-debt instruments that have been designated as FVTPL is adjusted by reference to the movement in the appropriate spreads. The effect of changes relating to the group's own credit risk is recognised in OCI and the remaining gain or loss is recognised in profit or loss in the consolidated statement of comprehensive income.
- Counterparty credit spreads: Adjustments are made to market prices when the creditworthiness of the counterparty differs from that of the assumed counterparty in the market price (or parameter).

## VALUATION TECHNIQUES BY INSTRUMENT

### Other short-term securities and government and other securities

The fair value of these instruments is based on quoted market prices from an exchange dealer, broker, industry group or pricing service, when available. When they are unavailable, the fair value is determined by reference to quoted market prices for similar instruments, adjusted, as appropriate, for the specific circumstances of the instruments.

Where these instruments include corporate bonds, the bonds are valued using observable active quoted prices or recently executed transactions, except where observable price quotations are not available. Where price quotations are not available, the fair value is determined based on cashflow models, where significant inputs may include yield curves and bond or single-name credit default swap spreads.

### Derivative financial instruments

Derivative contracts can be traded either through an exchange or over the counter and are valued using market-standard models and quoted parameter inputs. Parameter inputs are obtained from pricing services, consensus pricing services and recently occurring transactions in active markets, whenever possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices through model calibration procedures. Other inputs are not observable, but can generally be estimated from historical data or other sources.

## Loans and advances

Loans and advances include mortgage loans (home loans and commercial mortgages), other asset-based loans, including collaterised debt obligations, and other secured and unsecured loans.

In the absence of an observable market for these instruments, the fair value is determined by using internally developed models that are specific to the instrument and that incorporate all available observable inputs. These models involve discounting the contractual cashflows by using an at-inception credit-adjusted zero-coupon curve. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance.

## Investment securities

Investment securities include private-equity investments, listed investments and unlisted investments.

The fair value of listed investments is determined with reference to quoted bid prices at the close of business on the relevant securities exchange.

Where private-equity investments are involved, the exercise of judgement is required due to uncertainties inherent in estimating the fair value. The fair value of private equity is determined using appropriate valuation methodologies that, depending on the nature of the investment, may include an analysis of the investee's financial position and results, risk profiles and prospects, discounted-cashflow analysis, enterprise value comparisons with similar companies, price/earnings comparisons and earnings multiples. For each investment the relevant methodology is applied consistently over time and may be adjusted for changes in market conditions relative to that instrument.

The fair value of unlisted investments is determined using appropriate valuation techniques that may include, but are not limited to, discounted-cashflow analysis, net-asset-value calculations and directors' valuations.

## Other assets

Short positions or long positions in equities arise in trading activities where equity shares not owned by the group are sold in the market to third parties. The fair value of these instruments is determined by reference to the gross short/long position valued at the offer rate.

Investments in instruments that do not have a quoted market price in an active market and of which the fair value cannot be reliably measured, as well as derivatives that are linked to and have to be settled by delivery of such unquoted equity instruments, are measured at fair value, using models considered to be appropriate by management.

## Amounts owed to depositors

Amounts owed to depositors include deposits under repurchase agreements, negotiable certificates of deposit and other deposits. These instruments incorporate all market risk factors, including a measure of the group's credit risk relevant for that financial liability when designated as FVTPL.

The fair value of these financial liabilities is determined by discounting the contractual cashflows using a Nedbank Group Limited-specific credit-adjusted yield curve that reflects the level at which the group would issue similar instruments at the reporting date. The market risk parameters are valued consistently to similar instruments held as assets.

The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. When the fair value of a financial liability cannot be reliably determined, the liability is recorded at the amount due. Fair value is considered reliably measurable if:

- the variability in the range of reasonable fair-value estimates is not significant for that instrument; or
- the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

## Investment contract liabilities

The fair value of investment contract liabilities is determined by reference to the fair value of the underlying assets.

## Long-term debt instruments

The fair value of long-term debt instruments is determined by reference to published market values on the relevant exchange, when they are:

- available; and
- considered to be trading with sufficient volume and frequency.

When the above conditions are not met, the fair value is determined using models considered to be appropriate by management. As far as possible inputs to these models will leverage observable inputs for similar instruments with similar coupons and maturities.

### Complex instruments

These instruments are valued by using internally developed models that are specific to the instrument and that have been calibrated to market prices. In less-active markets ,data is obtained from less frequent market transactions and broker quotes, and through extrapolation and interpolation techniques. Where observable prices or inputs are not available, other relevant sources of information such as historical data, fundamental analysis of the economics of the transaction and proxy information from similar transactions are used. These models are reviewed and assessed continually to ensure that the best available data is being used in the determination of fair value.

### Other liabilities

Short positions or long positions in equities arise in trading activities where equity shares, not owned by the group, are sold in the market to third parties. The fair value of these instruments is determined by reference to the gross short/long position valued at the offer rate.

Where the group has assets and liabilities with offsetting market risks, it may use middle-market prices as a basis for establishing fair values for the offsetting of risk positions and apply the bid or asking price to the net open position, as appropriate.

## SUMMARY OF PRINCIPAL VALUATION TECHNIQUES – LEVEL 2 INSTRUMENTS

The following table sets out the group's principal valuation techniques used in determining the fair value of financial assets and financial liabilities classified as level 2 in the fair-value hierarchy:

| | VALUATION TECHNIQUE | KEY INPUTS |
|---|---|---|
| **Assets** | | |
| Derivative financial instruments | Discounted-cashflow model<br>Black-Scholes model<br>Multiple valuation techniques | Discount rates<br>Risk-free rates and volatilities<br>Valuation multiples |
| Government and other securities | Discounted-cashflow model | Discount rates |
| Loans and advances | Discounted-cashflow model | Interest rate curves |
| Investment securities | Discounted-cashflow models<br>Adjusted net asset value<br>Dividend yield method | Money market rates and interest rates<br>Underlying price of market-traded instruments<br>Dividend growth rates |
| **Liabilities** | | |
| Derivative financial instruments | Discounted-cashflow model<br>Black-Scholes model<br>Multiple valuation techniques | Discount rates<br>Risk-free rates and volatilities<br>Valuation multiples |
| Amounts owed to depositors | Discounted-cashflow model | Discount rates |
| Provisions and other liabilities | Discounted-cashflow model | Discount rates |
| Investment contract liabilities | Adjusted net asset value | Underlying price of market-traded instruments |

## SUMMARY OF PRINCIPAL VALUATION TECHNIQUES – LEVEL 3 INSTRUMENTS

The summary of the valuation techniques applicable to those financial assets and financial liabilities classified as level 3 in the fair-value hierarchy is set out in note H2.2.

## H2.2 FAIR-VALUE HIERARCHY

### H2.2.1 FINANCIAL ASSETS

| | | | | | At FVTPL | | |
|---|---|---|---|---|---|---|---|
| | | **Total financial assets** | **Total financial assets recognised at amortised cost** | **Total financial assets recognised at fair value** | **Mandatorily at fair value** | | |
| **Rm** | **Note** | | | | **Level 1** | **Level 2** | **Level 3** |
| **2020** | | **1 123 927** | **858 559** | **265 368** | **47 053** | **181 843** | **6 908** |
| Cash and cash equivalents | **C6** | **32 597** | **32 597** | **–** | **–** | **–** | **–** |
| Other short-term securities | **C4** | **27 082** | **–** | **27 082** | **–** | **27 082** | **–** |
| Derivative financial instruments | **C7** | **79 933** | **–** | **79 933** | **9** | **79 924** | **–** |
| Government and other securities | **C3** | **131 380** | **77 149** | **54 231** | **46 926** | **7 305** | **–** |
| Loans and advances | **C1** | **835 568** | **739 682** | **95 886** | **–** | **66 633** | **–** |
| Other assets | **G3** | **9 131** | **9 131** | **–** | **–** | **–** | **–** |
| Investment securities | **E1** | **8 236** | **–** | **8 236** | **118** | **899** | **6 908** |

| | | | | | At FVTPL | | |
|---|---|---|---|---|---|---|---|
| | | Total financial assets | Total financial assets recognised at amortised cost | Total financial assets recognised at fair value | Mandatorily at fair value | | |
| **Rm** | Note | | | | Level 1 | Level 2 | Level 3 |
| **2019** | | 1 039 982 | 867 577 | 172 405 | 33 331 | 105 910 | 7 016 |
| Cash and cash equivalents | C6 | 29 623 | 29 623 | – | | | |
| Other short-term securities | C4 | 42 395 | 9 340 | 33 055 | | 33 055 | |
| Derivative financial instruments | C7 | 34 923 | | 34 923 | 61 | 34 862 | |
| Government and other securities[1] | C3 | 99 709 | 64 392 | 35 317 | 32 599 | 2 718 | – |
| Loans and advances[1,2] | C1 | 815 058 | 754 928 | 60 130 | – | 34 415 | – |
| Other assets | G3 | 9 294 | 9 294 | – | | | |
| Investment securities | E1 | 8 980 | | 8 980 | 671 | 860 | 7 016 |

*[1] 2019 restated, refer note A4: Reclassification.*
*[2] Refer to note H1: Consolidated statement of financial position - categories of financial instruments.*

| | At FVTPL | | | At FVOCI | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Designated | | | Debt instruments | | | Equity instruments | | |
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| | – | 11 432 | – | – | 17 821 | – | – | – | 311 |
| | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **–** | **11 432** | **–** | **–** | **17 821** | **–** | **–** | **–** | **–** |
| | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **311** |

| | At FVTPL | | | At FVOCI | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Designated | | | Debt instruments | | | Equity instruments | | |
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| | – | 9 323 | – | – | 16 391 | – | – | – | 433 |
| | – | – | – | – | – | – | – | – | – |
| | – | 9 323 | – | – | 16 391 | – | – | – | – |
| | | | | | | | | | 433 |

#### H2.2.1 Financial assets

### Summary of fair value hierarchies

| Rm | Total financial assets recognised at fair value | | Total financial assets classified as level 1 | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Other short-term securities | **27 082** | 33 055 | | |
| Derivative financial instruments | **79 933** | 34 923 | **9** | 61 |
| Government and other securities[1] | **54 231** | 35 317 | **46 926** | 32 599 |
| Loans and advances[1,2] | **95 886** | 60 130 | **–** | |
| Investment securities | **8 236** | 8 980 | **118** | 671 |
| | **265 368** | 172 405 | **47 053** | 33 331 |

*[1] 2019 restated, refer note A4: Reclassification.*
*[2] Refer to note H1: Consolidated statement of financial position - categories of financial instruments.*

### Reconciliation to categorised statement of financial position

| Rm | Mandatorily at fair value | | Designated as FVTPL | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Level 1 | **47 053** | 33 331 | | |
| Level 2 | **181 843** | 105 910 | **11 432** | 9 323 |
| Level 3 | **6 908** | 7 016 | | |
| | **235 804** | 146 257 | **11 432** | 9 323 |

### Reconciliation to statement of financial position

Reconciliation to statement of financial position

| Rm | Note | **2020** | 2019 |
|---|---|---|---|
| Total financial assets | H1 | **1 123 927** | 1 039 982 |
| Total non-financial assets | H1 | **28 431** | 28 328 |
| **Total assets** | | **1 152 358** | 1 068 310 |

#### H2.2.2 Financial liabilities

| Rm | Note | Total financial liabilities | Total financial liabilities recognised at amortised cost | Total financial liabilities recognised at fair value |
|---|---|---|---|---|
| **2020** | | **1 053 481** | **952 415** | **101 066** |
| Derivative financial instruments | **C7** | **64 649** | **–** | **64 649** |
| Amounts owed to depositors | **D1** | **929 757** | **893 340** | **36 417** |
| Provisions and other liabilities | **J1.1** | **1 472** | **1 472** | **–** |
| Long-term debt instruments | **D2** | **57 603** | **57 603** | **–** |

| | Total financial assets classified as level 2 | | Total financial assets classified as level 3 | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **27 082** | 33 055 | | |
| | **7 305** | 2 718 | | |
| | **95 886** | 60 130 | | |
| | **899** | 860 | **7 219** | 7 449 |
| | **211 096** | 131 625 | **7 219** | 7 449 |

| | FVOCI: Debt instruments | | FVOCI: Equity instruments | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | | | **–** | – |
| | **17 821** | 16 391 | **–** | – |
| | | | **311** | 433 |
| | **17 821** | 16 391 | **311** | 433 |

| | At FVTPL | | |
|---|---|---|---|
| | Mandatorily at fair value | | |
| | Level 1 | Level 2 | Level 3 |
| | **64** | **101 002** | **–** |
| | **64** | **64 585** | **–** |
| | **–** | **36 417** | **–** |
| | **–** | **–** | **–** |
| | **–** | **–** | **–** |

| Rm | Note | Total financial liabilities | Total financial liabilities recognised at amortised cost | Total financial liabilities recognised at fair value |
|---|---|---|---|---|
| **2019** | | 971 901 | 909 629 | 62 272 |
| Derivative financial instruments | C7 | 27 621 | | 27 621 |
| Amounts owed to depositors | D1 | 881 287 | 847 515 | 33 772 |
| Provisions and other liabilities | J1.1 | 3 381 | 2 502 | 879 |
| Long-term debt instruments | D2 | 59 612 | 59 612 | – |

**Summary of fair-value hierarchies**

| Rm | Total financial liabilities recognised at fair value | | Total financial liabilities classified as level 1 | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Derivative financial instruments | **64 649** | 27 621 | **64** | 16 |
| Amounts owed to depositors | **36 417** | 33 772 | **–** | 75 |
| Provisions and other liabilities | **–** | 879 | **–** | 879 |
| | **101 066** | 62 272 | **64** | 970 |

**Reconciliation to categorised statement of financial position**

| Rm | Mandatorily at fair value | |
|---|---|---|
| | **2020** | 2019 |
| Level 1 | **64** | 970 |
| Level 2 | **101 002** | 61 302 |
| Level 3 | **–** | – |
| | **101 066** | 62 272 |

**Reconciliation to statement of financial position**

| Rm | Note | 2020 | 2019 |
|---|---|---|---|
| **Total financial liabilities** | H1 | **1 053 481** | 971 901 |
| Total equity and non-financial liabilities | H1 | **98 877** | 96 409 |
| **Total equity and liabilities** | | **1 152 358** | 1 068 310 |

The tables presented above analyse the financial assets and financial liabilities that are measured at fair value by level of fair-value hierarchy as required by IFRS 13: Fair Value Measurement. The levels of the hierarchy are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Valuation techniques using market data that is either directly or indirectly observable. Various factors influence the availability of observable data and these may vary from product to product and change over time. Factors include, for example, the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the market, the maturity of market modelling and the nature of the transaction (bespoke or generic).

Level 3: Valuation techniques that include significant inputs that are unobservable. To the extent that a valuation is based on inputs that are not market-observable the determination of the fair value can be more subjective, dependent on the significance of the unobservable inputs to the overall valuation. Unobservable inputs are determined based on the best information available and may include reference to similar instruments, similar maturities, appropriate proxies or other analytical techniques.

| | At FVTPL | | |
|---|---|---|---|
| | Mandatorily at fair value | | |
| | Level 1 | Level 2 | Level 3 |
| | 970 | 61 302 | – |
| | 16 | 27 605 | |
| | 75 | 33 697 | |
| | 879 | | |

| | Total financial liabilities classified as level 2 | | Total financial liabilities classified as level 3 | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **64 585** | 27 605 | | |
| | **36 417** | 33 697 | | |
| | **–** | | **–** | – |
| | **101 002** | 61 302 | **–** | – |

## H2.3 DETAILS OF CHANGES IN VALUATION TECHNIQUES

There have been no significant changes to valuation techniques.

## H2.4 TRANSFERS BETWEEN LEVELS OF THE FAIR-VALUE HIERARCHY

There were no significant transfers between level 1 and level 2 of the fair-value hierarchy during 2020.
In terms of the group's policy, transfers of financial instruments between levels of the fair-value hierarchy are deemed to have occurred at the end of the reporting period.

## H2.5 LEVEL 3 RECONCILIATION

| Rm | Opening balance at 1 January | Losses in non-interest revenue in profit for the year |
|---|---|---|
| **2020** | | |
| At FVTPL – Mandatorily at fair value | 7 016 | (1 091) |
| Investment securities | 7 016 | (1 091) |
| At FVOCI – Equity instruments | 433 | – |
| Investment securities | 433 | |
| **Total financial assets classified as level 3** | 7 449 | (1 091) |

| Rm | Opening balance at 1 January | Gains in non-interest revenue in profit for the year |
|---|---|---|
| **2019** | | |
| At FVTPL – Mandatorily at fair value | 5 545 | – |
| Investment securities | 5 545 | |
| At FVOCI – Equity instruments | 433 | |
| Investment securities | 433 | – |
| **Total financial assets classified as level 3** | 5 978 | – |

| | Gains relating to investments in equity instruments at FVOCI and debt instruments at FVOCI in OCI for the year | Purchases | Issues | Sales | Settlements | Transfers to level 1 | Closing balance at 31 December |
|---|---|---|---|---|---|---|---|
| | **–** | **1 764** | **–** | **(618)** | **(46)** | **(117)** | **6 908** |
| | **–** | **1 764** | **–** | **(618)** | **(46)** | **(117)** | **6 908** |
| | **(122)** | **–** | **–** | **–** | **–** | **–** | **311** |
| | **(122)** | **–** | **–** | **–** | **–** | **–** | **311** |
| | **(122)** | **1 764** | **–** | **(618)** | **(46)** | **(117)** | **7 219** |

| | Gains relating to investments in equity instruments at FVOCI and debt instruments at FVOCI in OCI for the year | Purchases | Issues | Sales | Settlements | Transfers from level 1 | Closing balance at 31 December |
|---|---|---|---|---|---|---|---|
| | (43) | 2 585 | 1 976 | (772) | (2 275) | – | 7 016 |
| | (43) | 2 585 | 1 976 | (772) | (2 275) | | 7 016 |
| | | | | | | | 433 |
| | – | – | – | – | – | – | 433 |
| | (43) | 2 585 | 1 976 | (772) | (2 275) | – | 7 449 |

## H2.6 UNREALISED LOSSES

The unrealised losses arising on instruments classified as level 3 include the following:

| | **2020** | 2019 |
|---|---|---|
| Private-equity losses | **(1 091)** | – |
| | **(1 091)** | – |

## H2.7 EFFECT OF CHANGES IN SIGNIFICANT UNOBSERVABLE ASSUMPTIONS

The fair value of financial instruments is, in certain circumstances, measured using valuation techniques that include assumptions that are not market observable. Where these scenarios apply, the group performs stress testing on the fair value of the relevant instruments. When performing the stress testing, appropriate levels for the unobservable input parameters are chosen so that they are consistent with prevailing market evidence and in line with the group's approach to valuation control. The following information is intended to illustrate the potential impact of the relative uncertainty in the fair value of financial instruments for which valuation is dependent on unobservable input parameters and that which are classified as level 3 in the fair-value hierarchy. However, the disclosure is neither predictive nor indicative of future movements in fair value.

The group has developed a risk appetite tool to estimate downside income volatility to determine the effects of changes in significant unobservable assumptions on level 3 instruments. For risk appetite purposes, downside income volatility is estimated using a methodology that follows value-at-risk principles.

The following table shows the effect on the fair value of changes in unobservable input parameters to reasonable possible alternative assumptions:

| 2020 | Valuation technique | Significant unobservable input |
|---|---|---|
| **Assets** | | |
| Investment securities | **Discounted cashflows, adjusted net asset value, earnings multiples, third-party valuations, dividend yields** | **Valuation multiples, correlations, volatilities and credit spreads** |
| **Total financial assets classified as level 3** | | |

| 2019 | Valuation technique | Significant unobservable input |
|---|---|---|
| **Assets** | | |
| Investment securities | Discounted cashflows, adjusted net asset value, earnings multiples, third-party valuations, dividend yields | Valuation multiples, correlations, volatilities and credit spreads |
| **Total financial assets classified as level 3** | | |

| | Variance in fair value | Amounts recognised in the statement of financial position | Favourable change in fair value | Unfavourable change in fair value |
|---|---|---|---|---|
| | % | Rm | Rm | Rm |
| | **Between (16) and 19** | **7 219** | **1 381** | **(1 119)** |
| | | **7 219** | **1 381** | **(1 119)** |

| | Variance in fair value | Amounts recognised in the statement of financial position | Favourable change in fair value | Unfavourable change in fair value |
|---|---|---|---|---|
| | % | Rm | Rm | Rm |
| | Between (17) and 21 | 7 449 | 1 566 | (1 239) |
| | | 7 449 | 1 566 | (1 239) |

## H3 ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE FOR WHICH FAIR VALUE IS DISCLOSED

Certain financial instruments of the group are not carried at fair value and are measured at amortised cost. The calculation of the fair value of the financial instruments incorporates the group's best estimate of the value at which the financial assets could be exchanged, or financial liabilities transferred, between market participants at the measurement date. The group's estimate of what fair value is does not necessarily represent what it would be able to sell the asset for or transfer the respective financial liability for in an involuntary liquidation or distressed sale.

The fair values of these respective financial instruments at the reporting dates detailed below are estimated only for the purpose of IFRS disclosure:

| Rm | Carrying value | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **Financial assets** | **816 831** | **817 959** | **74 208** | **20 877** | **722 874** |
| Government and other securities | **77 149** | **74 208** | **74 208** | | |
| Loans and advances | **739 682** | **743 751** | | **20 877** | **722 874** |
| **Financial liabilities** | **57 603** | **61 465** | **33 928** | **27 537** | **–** |
| Long-term debt instruments | **57 603** | **61 465** | **33 928** | **27 537** | |
| **2019** | | | | | |
| **Financial assets** | 828 660 | 804 865 | 63 219 | 37 285 | 704 361 |
| Other short-term securities | 9 340 | 9 332 | | 9 332 | |
| Government and other securities[1,2] | 64 392 | 63 379 | 63 219 | | 160 |
| Loans and advances[1,2] | 754 928 | 732 154 | | 27 953 | 704 201 |
| **Financial liabilities** | 59 612 | 62 115 | 38 130 | 23 985 | |
| Long-term debt instruments | 59 612 | 62 115 | 38 130 | 23 985 | |

*[1] 2019 restated, refer note A4: Reclassification*
*[2] Certain categories of loans and advances were reclassified between FVOCI, FVTPL and amortised cost in 2019. The measurement basis of these instruments has however not changed. Refer to note H1: Consolidated statement of financial position – categories of financial instruments for further details*

### Loans and advances

Loans and advances, recognised in note C1.1, that are not recognised at fair value principally comprise variable-rate financial assets. The interest rates on these variable-rate financial assets are adjusted when the applicable benchmark interest rate changes.

Loans and advances are not traded actively in most markets and it is therefore not possible to determine the fair value of these loans and advances using observable market prices and market inputs. Due to the unique characteristics of the loans and advances portfolio and the fact that there have been no recent transactions involving the disposal of such loans and advances, there is no basis to determine a price that could be negotiated between market participants in an orderly transaction. The group is not currently in the position of a forced sale of such underlying loans and advances and it would therefore be inappropriate to value the loans and advances on a forced-sale basis.

For specifically impaired loans and advances, the carrying value as determined after consideration of the group's IFRS 9 ECLs is considered the best estimate of fair value.

The group has developed a methodology and model to determine the fair value of the gross exposures for the performing loans and advances measured at amortised cost, resulting in these assets' fair value being 0.55% higher (2019: 3.1% lower) than carrying value. This model incorporates the use of average interest rates and projected monthly cashflows per product type. Future cashflows are discounted using interest rates at which similar loans would be granted to borrowers with similar credit ratings and maturities. Methodologies and models are updated on a continuous basis for changes in assumptions, forecasts and modelling techniques. Future forecasts of the group's PDs and LGDs for the periods 2021 to 2023 (2019: for periods 2020 to 2022) are based on the latest available internal data and are applied to the projected cashflows of the first three years. Thereafter PDs and LGDs are gradually reverted to their long-run averages and are applied to the remaining projected cashflows. Inputs into the model include various assumptions used in the pricing of loans and advances. The determination of such inputs is highly subjective and therefore any change to one or more of the assumptions (e.g. interest rates, future forecasts of PDs or LGDs, or macroeconomic conditions) may result in a significant change in the determination of the fair value. Reasonable bounds for the fair value are estimated to be between 0.50% lower and 1.60% higher than the carrying value.

The fair value of corporate bonds is based on the discounted cashflow methodology (level 2).

### Government and other securities

The fair value of high-quality SA government bonds listed in an active market is based on the available market prices (level 1) and those that use significant unobservable inputs (level 3). The discounted cashflow methodology principles (level 3) are the same as those use to determine the fair value of loans and advances. See note C3 for further detail.

### Other short-term securities

The fair value of other short-term securities is determined using a discounted-cashflow analysis (level 2). See note C4 for further detail.

### Long-term debt instruments

The fair value of long-term debt instruments is based the available market prices (level 1). Where prices are not quoted or where the market is considered to be inactive, it is based on the discounted cashflow analysis (level 2).

### Amounts owed to depositors

The amounts owed to depositors principally comprise variable-rate liabilities and hedge-accounted fixed-rate liabilities. The carrying value of the amounts owed to depositors approximates fair value because the instruments reprice to current market rates at frequent intervals. In addition, a significant portion of the balance is callable or is short term in nature.

### Cash and cash equivalents, other assets, mandatory deposits with central banks, and provisions and other liabilities

The carrying values of cash and cash equivalents, other assets, mandatory deposits with central banks and provisions and other liabilities are considered a reasonable approximation of their respective fair values, as they are either short term in nature or are repriced to current market rates at frequent intervals.

## H4 FINANCIAL INSTRUMENTS DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS

The group has satisfied the criteria for designation of financial instruments as FVTPL in terms of the accounting policies.

Various fixed-rate advances and liabilities are entered into by the group. The overall interest-rate risk of the group is economically hedged by way of interest rate swaps and managed by the Group Asset and Liability Committee (ALCO). The interest rate risk is then traded to the market through the central trading desk.

The swaps and front-office trading instruments meet the definition of 'derivatives', and are measured at fair value in terms of IFRS 9. Fixed-rate advances and liabilities, however, do not meet this definition. Therefore, to avoid any accounting mismatch of holding the advances at amortised cost and the hedging instruments at fair value, the advances and liabilities are designated as FVTPL and are held at fair value.

Various instruments are designated as FVTPL, which is consistent with the group's documented risk management or investment strategy. The fair value of the instruments is managed and reviewed on a regular basis by the risk/investment functions of the group. The risk of the portfolio is measured and monitored on a fair-value basis.

### H4.1 Financial assets designated as FVTPL

| | Maximum exposure to credit risk | |
|---|---|---|
| **Rm** | **2020** | 2019 |
| Mortgage loans | **5 284** | 3 785 |
| Loans and advances (secured and unsecured) | **6 148** | 5 535 |
| Other loans | | 3 |
| | **11 432** | 9 323 |

Nedbank Group has estimated the change in credit risk as being the amount arising from the change in fair value of the financial instrument that is not attributable to changes in market conditions that give rise to market risk. Individual credit spreads for loans or receivables that have been designated as FVTPL are determined at the inception of the deal. The credit spread is calculated as the difference between the benchmark interest rate and the interest rate the client is charged. Subsequent changes in the benchmark interest rate and the credit spread give rise to changes in fair value in the financial instrument. Loans and advances are reviewed for observable changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. No credit derivatives are used to hedge the credit risk on any of the financial assets designated as FVTPL.

A breakdown of the financial assets that are designated as FVTPL can be found in note H1. A detailed explanation of how each financial asset is valued can be found in note H2.1.

## H5 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### ACCOUNTING POLICY

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when the group has a legally enforceable right to set off the financial asset and financial liability and the group has an intention of settling the asset and liability on a net basis or realising the asset and settling the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

In accordance with the requirements of IFRS 7: Financial Instruments: Disclosures, the table below sets out the impact of:

- recognised financial instruments that are set off in the statement of financial position in accordance with the requirements of IAS 32: Financial Instruments: Presentation; and
- financial instruments that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions that did not qualify for presentation on a net basis.

The group reports financial assets and financial liabilities on a net basis in the statement of financial position only if there is a legally enforceable right to set off the recognised amounts and there is the intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Certain master netting arrangements may not meet the criteria for offsetting in the statement of financial position because:

- these agreements create a right of setoff that is enforceable only following an event of default, insolvency or bankruptcy; and
- the group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Master netting arrangements and similar agreements include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements.

Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

**2020**

| | Effects of netting on the statement of financial position | | | Related amounts not set off in the statement of financial position | | | |
|---|---|---|---|---|---|---|---|
| Rm | Gross amounts | Amounts set off in the statement of financial position in accordance with IAS 32 | Net amounts included in the statement of financial position | Amounts that may be netted off on the occurrence of a future event | Net amounts reflecting the effect of master netting arrangements | Amounts not subject to IFRS 7 offsetting disclosure[2] | Total amounts recognised in the statement of financial position |
| **Financial assets** | | | | | | | |
| Derivative financial assets | **109 845** | **(33 803)** | **76 043** | **(53 373)** | **22 670** | **3 891** | **79 933** |
| Loans and advances | **56 484** | **(42 969)** | **13 515** | | **13 515** | **822 054** | **835 568** |
| Cash and cash equivalents | **11 501** | **(10 588)** | **912** | | **912** | **7 203** | **8 115** |
| **Total financial assets** | **177 830** | **(87 360)** | **90 470** | **(53 373)** | **37 097** | **833 147** | **923 616** |
| **Financial liabilities** | | | | | | | |
| Derivative financial liabilities | **(115 364)** | **51 781** | **(63 583)** | **53 373** | **(10 210)** | **128 232** | **64 649** |
| Amounts owed to depositors | **(72 350)** | **35 579** | **(36 771)** | | **(36 771)** | **884 134** | **847 363** |
| **Total financial liabilities** | **(187 714)** | **87 360** | **(100 354)** | **53 373** | **(46 981)** | **1 012 365** | **912 012** |

**2019**

| Rm | Effects of netting on the statement of financial position | | | Related amounts not set off in the statement of financial position | | | |
|---|---|---|---|---|---|---|---|
| | Gross amounts | Amounts set off in the statement of financial position in accordance with IAS 32 | Net amounts included in the statement of financial position[1] | Amounts that may be netted off on the occurrence of a future event | Net amounts reflecting the effect of master netting arrangements | Amounts not subject to IFRS 7 offsetting disclosure[2] | Total amounts recognised in the statement of financial position |
| **Financial assets** | | | | | | | |
| Derivative financial assets | 33 887 | (1 445) | 32 442 | (21 356) | 11 086 | 2 481 | 34 923 |
| Loans and advances | 71 418 | (60 475) | 10 943 | | 10 943 | 804 120 | 815 063 |
| Cash and cash equivalents | 3 347 | (1 650) | 1 697 | | 1 697 | 6 502 | 8 199 |
| **Total financial assets** | 108 652 | (63 570) | 45 082 | (21 356) | 23 726 | 813 103 | 858 185 |
| **Financial liabilities** | | | | | | | |
| Derivative financial liabilities | (33 728) | 6 815 | (26 913) | 21 356 | (5 557) | (708) | (27 621) |
| Amounts owed to depositors | (95 699) | 56 755 | (38 944) | | (38 944) | (842 353) | (881 297) |
| **Total financial liabilities** | (129 427) | 63 570 | (65 857) | 21 356 | (44 501) | (843 061) | (908 918) |

*[1] Includes the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to master netting agreements, but where no offsetting has been applied. Excludes financial instruments that are neither subject to setoff nor master netting agreements.*
*[2] Includes financial instruments that are neither subject to setoff nor master netting agreements.*
*[2]Figures for 2019 restated, refer to note A4: Reclassification*

## H6 COLLATERAL

### ACCOUNTING POLICY

Financial and non-financial assets are held as collateral in respect of recognised financial assets. Such collateral, except cash collateral, is not recognised by the group, as the group does not retain the risks and rewards of ownership, and is obliged to return such collateral to counterparties on settlement of the related obligations. Should a counterparty be unable to settle its obligations, the group takes possession of collateral or calls on other credit enhancements as full or part settlement of such amounts. These assets are recognised when the applicable recognition criteria under IFRS are met, and the group's accounting policies are applied from the date of recognition.

Cash collateral is recognised when the group receives the cash and is reported as amounts received from depositors. Collateral is also given to counterparties under certain financial arrangements, but such assets are not derecognised where the group retains the risks and rewards of ownership. Such assets are at risk to the extent that the group is unable to fulfil its obligations to counterparties.

### H6.1 COLLATERAL PLEDGED

The group has pledged government and other securities (note C3) and negotiable certificates of deposit (note C4) amounting to R12 477m (2019: R25 551m) as collateral for deposits received under repurchase agreements, of which R7 233m (2019: R12 611m) relates to sell/buybacks. These amounts represent assets that have been transferred, but that do not qualify for derecognition under IFRS 9. The associated liabilities of R12 267m (2019: R25 349m), of which R5 034m (2019: R12 734m) relates to sell-/buybacks, are disclosed in note D1.

### H6.2 COLLATERAL HELD TO MITIGATE CREDIT RISK

Credit risk mitigation refers to the actions that can be taken by the group to manage its exposure with credit risk so as to align such exposure to with its risk appetite. This action can be proactive or reactive and the level of mitigation that a bank desires may be influenced by external factors such as the economic cycle or internal factors such as a change in risk appetite.

References to credit risk mitigation normally focus on the taking of collateral as well as the management of such collateral. While collateral is an essential component of credit risk mitigation, there are a number of other methods used for mitigating credit risk. The group's credit risk policy acknowledges the role to be played by credit risk mitigation in the management of credit risk, but emphasises that collateral on its own is not necessarily a justification for lending. The primary consideration for any lending opportunity should rather be the borrower's financial position and ability to repay the facility from its own resources and cashflow.

The group generally segregates collateral received into the following two classes:

#### Financial collateral

The group takes financial collateral to support credit exposures in the trading book. This includes cash and debt securities in respect of derivative transactions.

These transactions are entered into under terms and conditions that are standard industry practice in securities borrowing and lending activities.

**Non-financial collateral**

In secured financial transactions the group takes other physical collateral to recover outstanding exposure in the event of the borrower being unable or unwilling to fulfil its obligations. This includes mortgages over property (both residential and commercial), liens over business assets (including, but not limited to, plant, vehicles, aircraft, inventories, trade debtors and financial securities that have a tradable market, such as shares and other securities) and guarantees from parties other than the borrower.

Should a counterparty be unable to settle its obligations, the group takes possession of collateral as full or part settlement of such amounts. In general, the group seeks to dispose of such property and other assets that are not readily convertible into cash as soon as the market for the relevant asset permits.

The group monitors the concentration levels of collateral to ensure that it is adequately diversified. In particular, the following collateral types are common in the marketplace:

**Retail portfolio**

- Mortgage lending that are secured by mortgage bonds over residential property.
- Instalment credit transactions that are secured by the assets financed.
- Overdrafts that are either unsecured or secured by guarantees, suretyships or pledged securities.

**Wholesale portfolio**

- Commercial properties that are supported by the property financed and a cession of the leases.
- Instalment credit type of transactions that are secured by the assets financed.
- Working capital facilities when secured, usually by either a claim on specific assets (fixed assets, inventories or trade debtors) or other collateral, such as guarantees.
- Term and structured lending, which usually relies on guarantees or credit derivatives (where only internationally recognised and enforceable agreements are used).
- Credit exposure to other banks, where the risk is commonly mitigated through the use of financial control and netting agreements.

The valuation and management of collateral across all business units of the group are governed by the Group Credit Policy.

Management considers collateral held in the retail portfolio to be homogenous by nature and therefore more reliably identifiable. Generally, valuations in respect of mortgage portfolios are updated using statistical index models, published data by service providers are used for motor vehicles and physical inspection is performed for other types of collateral. Physical valuations are performed every six months on the defaulted book. At 31 December 2020 management considered R288 737m (2019: R273 363m) to be a reasonable estimate of the gross collateral held in the retail portfolio.

Management considers collateral held in the wholesale portfolio to be non-homogenous and often exhibiting illiquid characteristics and therefore valuing collateral of this nature requires a significant level of judgement. Collateral of this nature is valued at the inception of a transaction and at least annually during the life of the transaction, usually as part of the facility review, which includes a review of the security structure and covenants to ensure that proper title is retained over the relevant collateral. At 31 December 2020 management considered R242 242m (2019: R230 404m) to be a reasonable estimate of the gross collateral held in the wholesale portfolio.

A further consideration with regard to the valuation and management of collateral is that when credit intervention is required, or in the case of default, all items of collateral relating to that particular client portfolio are immediately revalued. In such instances physical inspection by an expert valuer is required. This process also ensures that an appropriate impairment is evaluated timeously.

As part of the reverse repurchase agreements, the group has received securities as collateral that are allowed to be sold or repledged in the absence of default. The fair value of these securities at the reporting date amount to R47 366m (2019: R18 315m). None of these securities have been sold or repledged.

## H6.3 COLLATERAL TAKEN POSSESSION OF AND RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

Included in properties in possession (note C1.1) is an amount of R63m (2019: R55m), that represents retail assets the group has acquired during the year by taking possession of collateral held as security.

## SECTION I: SHARE-BASED PAYMENTS

ACCOUNTING POLICY

### EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS WITH EMPLOYEES

The group receives services from employees as consideration for equity instruments of the group. The fair value of the employee services is measured at the grant date, by reference to the fair value of the equity instruments.

Where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for the equity instruments, will be received in the future during the vesting period. The services are accounted for in profit or loss in the statement of comprehensive income as they are rendered during the vesting period, with a corresponding increase in equity. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Where the equity instruments are no longer outstanding, the accumulated share-based payment reserve in respect of those equity instruments is transferred to retained earnings.

Nedbank Group Limited shares, share options over Nedbank Group Limited shares and equity instruments in respect of Nedbank Group Limited shares are granted to employees as part of their remuneration package as services are rendered.

### CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS WITH EMPLOYEES

The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until the vesting date, with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date, up to and including the settlement date, with changes in fair value recognised in the statements of comprehensive income as staff costs.

### MEASUREMENT OF FAIR VALUE OF EQUITY INSTRUMENTS GRANTED

The equity instruments granted by the group are measured at fair value at the measurement date using standard-option pricing valuation models. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments. Vesting conditions, other than market conditions, are not taken into account in determining fair value. Vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount.

### SHARE-BASED PAYMENT TRANSACTIONS WITH PERSONS OR ENTITIES OTHER THAN EMPLOYEES

Transactions in which equity instruments are issued to historically disadvantaged individuals and organisations in SA for less than fair value are accounted for as share-based payments. Where the group has issued such instruments and expects to receive services in return for equity instruments, the share-based payments charge is spread over the related vesting (ie service) period. In instances where such services could not be identified the cost has been expensed with immediate effect. The valuation techniques are consistent with those mentioned above.

As the group cannot estimate reliably the fair value of services received nor the value of additional benefits received, the group rebuts the presumption that such services and business can be measured reliably. The group therefore measures its fair value by reference to the fair value of the shares, share options or equity instruments granted, in line with the group's accounting policy. The fair value of share option awards is measured at the grant date using the Black-Scholes valuation model. For the non-option equity awards the fair value is measured by reference to the listed share price, which includes the participant's right to dividends over the vesting period.

The following are the share and share option schemes that have been in place during the year. All schemes are equity-settled at group level, except the Nedbank UK schemes, the Nedbank Wealth Management International schemes and the Nedbank Africa scheme, all of which are cash-settled.

## I1 DESCRIPTION OF ARRANGEMENTS

### Traditional employee schemes

| SCHEME | TRUST / SPECIAL-PURPOSE VEHICLE (SPV) | DESCRIPTION | VESTING REQUIREMENTS | MAXIMUM TERM |
|---|---|---|---|---|
| **Nedbank Group (2005) Share Option and Restricted-share Scheme** | **Nedbank Group (2005) Share Scheme Trust** | Restricted shares, granted as part of the long-term incentive (LTI) scheme are awarded with the joint aim of aligning the interests of stakeholders and retaining key employees. Restricted shares are granted to key employees who meet the following eligibility criteria:<br>• They are key to driving the business strategy.<br>• They fall under talent management and succession planning.<br>• It is important to retain their key talent and scarce skills.<br>• They meet transformation objectives.<br>• They have potential and perform.<br>• They are part of leadership.<br>They are part of leadership All LTIs are discretionary and motivated by the Group Exco and approved by Group Remco members in their capacity as trustees of the Nedbank (2005) Employee Share Scheme Trust. Grants are made twice a year for new appointments and annually for existing employees, on a date determined by the trustees. | Three years' service and achievement of performance targets based on average return on equity, as well as the Nedbank Group Limited share price performance against the financial index (2017 tranche). In addition, the grants include a strategic initiative component in connection with benefits from the target operating model and a strategic initiative component in connection with growing the transactional banking franchise applicable to group and cluster executives only (2018 and 2019 tranches). The strategic initiative component was replaced by the cost-to-income ratio in 2020 which is applicable to all employees. Where the performance targets are not met in full a minimum of 50% will vest, where applicable, for employees other than group and cluster executives, provided that the three years' service has been reached. The performance condition is the diluted headline earnings per share compound annual growth rate. | **Three years** |
| **Nedbank Group (2005) Matched-share Scheme** | **Nedbank Group (2005) Share Scheme Trust** | All employees of the group are eligible to participate in the scheme. An amount of not more than 50% of their after-tax bonus can be invested, which will be matched by the group with shares. | Three years' service and achievement of Nedbank Group Limited performance target. Where this performance target is not met, 50% will vest provided that the three years' service has been reached, for employees other than Executive Directors and Group Exco members.<br>For Group Exco members and Executive Directors, vesting is 100% dependent on the achievement of the performance target. Where the performance targets are not met, 0% will vest. | **Three years** |
| **Nedbank UK Long-term Incentive Plan (LTIP)** | **N/A** | Employees who perform services in the United Kingdom on behalf of the group will be considered for participation in the UK LTIP. Selected employees will be granted share appreciation rights (SARs). SARs are similar to options in that they are granted at a predetermined exercise price vesting and expiry date. When the participant elects to exercise SARs, the employer settles the difference between the current market price and the exercise price in cash. | Completion of three years' service, from the grant date, subject to corporate performance targets being met. | **Three years** |

| SCHEME | TRUST / SPECIAL-PURPOSE VEHICLE | DESCRIPTION | VESTING REQUIREMENTS | MAXIMUM TERM |
|---|---|---|---|---|
| **Nedbank UK Matched Scheme** | **N/A** | All UK employees of the group are eligible to participate in the scheme. An amount of not more than 50% of their after-tax bonus can be invested, which will be matched by the group with shares. | Completion of three years' service, from the grant date, subject to corporate performance targets being met. | **Three years** |
| **Nedbank Wealth Management International Long-term incentive plan (LTIP)** | **N/A** | Restricted shares, granted as part of the LTI scheme are awarded with the joint aim of aligning the interests of stakeholders and retaining key employees. Restricted shares are granted to key personnel who meet the following eligibility criteria:<br>• They are key to driving the business strategy.<br>• They fall under talent management and succession planning.<br>• It is important to retain their key talent and scarce skills.<br>• They meet transformation objectives.<br>• They have potential and perform.<br>• They are part of leadership.<br>Grants are made twice a year for new appointments and annually for existing employees, on a date determined by the trustees. | Completion of three years' service, from the grant date, subject to corporate performance targets being met. | **Three years** |
| **Nedbank Wealth Management International Matched Scheme** | **N/A** | All Nedbank Wealth Management International employees of the group are eligible to participate in the scheme. An amount of not more than 50% of their after-tax bonus can be invested, which will be matched by the group with shares. | Completion of three years' service, from the grant date, subject to corporate performance targets being met. | **Three years** |

| SCHEME | TRUST / SPECIAL-PURPOSE VEHICLE | DESCRIPTION | VESTING REQUIREMENTS | MAXIMUM TERM |
|---|---|---|---|---|
| **Nedbank Africa Restricted-share Scheme** | **N/A** | Restricted shares, granted as part of the LTI scheme are awarded with the joint aim of aligning the interests of stakeholders and retaining key employees. Restricted shares are granted to key personnel who meet the following eligibility criteria:<br>• They are key to driving the business strategy.<br>• They fall under talent management and succession planning.<br>• It is important to retain their key talent and scarce skills.<br>• They meet transformation objectives.<br>• They have potential and perform.<br>• They are part of leadership.<br>Grants are made twice a year for new appointments and annually for existing employees, on a date determined by the trustees. | Completion of three years' service, from the grant date, subject to corporate performance targets being met. | **Three years** |
| **Nedbank Africa Matched-share Scheme** | **N/A** | All employees of the group are eligible to participate in the scheme. An amount of not more than 50% of their after-tax bonus can be invested, which will be matched by the group with shares. | Three years' service and achievement of corporate performance targets. Where these performance targets are not met, 50% will vest provided that the three years' service has been reached. | **Three years** |

## I2 EFFECT ON PROFIT AND FINANCIAL POSITION

| | Share-based payments expense | | Share-based payments reserve/liability | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Traditional employee schemes** | **269** | 570 | **925** | 1 430 |
| Nedbank Group (2005) Share Option and Restricted-share Scheme | **286** | 421 | **788** | 1 137 |
| Nedbank Group (2005) Matched-share Scheme | | 156 | **119** | 251 |
| Nedbank UK Long-term Incentive Plan[1] | **(5)** | (11) | **3** | 7 |
| Nedbank UK Matched-share Scheme[1] | **(2)** | 1 | | 2 |
| Nedbank Wealth Management International Long-term Incentive Plan[1] | **(5)** | (5) | **7** | 11 |
| Nedbank Wealth Management International Matched-share Scheme[1] | **(2)** | 1 | **1** | 3 |
| Nedbank Africa Restricted-share Scheme and Matched-share Scheme[1] | **(3)** | 7 | **7** | 19 |
| | **269** | 570 | **925** | 1 430 |

[1] *This scheme is cash-settled and therefore creates a liability.*

## I3 MOVEMENTS IN NUMBER OF INSTRUMENTS

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number of instruments | Weighted-average exercise price R | Number of instruments | Weighted-average exercise price R |
| **Nedbank Group (2005) Share Option and Restricted-share Scheme** | | | | |
| Outstanding at the beginning of the year | **9 067 833** | | 9 369 675 | |
| Granted | **5 342 656** | | 3 446 610 | |
| Forfeited | **(439 691)** | | (271 571) | |
| Exercised | **(2 916 554)** | | (3 476 881) | |
| **Outstanding at the end of the year** | **11 054 244** | | 9 067 833 | |
| Exercisable at the end of the year | **–** | **–** | – | – |
| Weighted-average share price for share instruments exercised (R) | | **128,31** | | 256,48 |
| **Nedbank Group (2005) Matched-share Scheme** | | | | |
| Outstanding at the beginning of the year | **2 235 442** | | 2 178 999 | |
| Granted | **1 956 332** | | 974 666 | |
| Forfeited | **(217 755)** | | (129 947) | |
| Exercised | **(671 022)** | | (788 276) | |
| **Outstanding at the end of the year** | **3 302 997** | | 2 235 442 | |
| Exercisable at the end of the year | **–** | **–** | – | – |
| Weighted-average share price for share instruments exercised (R) | | **85,00** | | 261,32 |
| **Nedbank UK Long-term Incentive Plan** | | | | |
| Outstanding at the beginning of the year | **74 608** | | 81 720 | |
| Granted | **39 856** | | 33 095 | |
| Forfeited | **(11 059)** | | (20 265) | |
| Exercised | **(23 666)** | | (19 942) | |
| **Outstanding at the end of the year** | **79 739** | | 74 608 | |
| Exercisable at the end of the year | **–** | **–** | – | – |
| Weighted-average share price for share instruments exercised (GBP) | | **–** | | – |
| **Nedbank UK Matched-share Scheme** | | | | |
| Outstanding at the beginning of the year | **12 617** | | 12 833 | |
| Granted | **1 594** | | 3 982 | |
| Exercised | **(5 341)** | | (4 198) | |
| **Outstanding at the end of the year** | **8 870** | | 12 617 | |
| Exercisable at the end of the year | **–** | **–** | – | – |
| Weighted-average share price for share instruments exercised (GBP) | | **–** | | – |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number of instruments | Weighted-average exercise price R | Number of instruments | Weighted-average exercise price R |
| **Nedbank Wealth Management International long-term Incentive Plan** | | | | |
| Outstanding at the beginning of the year | **130 335** | | 101 331 | |
| Granted | **79 146** | | 59 079 | |
| Forfeited | **(1 216)** | | | |
| Transfers | | | 985 | |
| Exercised | **(21 284)** | | (31 060) | |
| **Outstanding at the end of the year** | **186 981** | | 130 335 | |
| Exercisable at the end of the year | **–** | **–** | – | – |
| Weighted-average share price for share instruments exercised (GBP) | | **–** | | – |
| **Nedbank Wealth Management International Matched-share Scheme** | | | | |
| Outstanding at the beginning of the year | **24 345** | | 15 961 | |
| Granted | **13 705** | | 12 681 | |
| Forfeited | | | (151) | |
| Exercised | **(4 757)** | | (4 146) | |
| **Outstanding at the end of the year** | **33 293** | | 24 345 | |
| Exercisable at the end of the year | **–** | **–** | – | – |
| Weighted-average share price for share instruments exercised (GBP) | | **–** | | – |
| **Nedbank Africa Restricted-share Scheme** | | | | |
| Outstanding at the beginning of the year | **105 379** | | 100 734 | |
| Granted | **78 180** | | 45 727 | |
| Forfeited | **(19 841)** | | | |
| Accelerated vesting due to disposal of entity | **(665)** | | (11 898) | |
| Exercised | **(34 540)** | | (29 184) | |
| **Outstanding at the end of the year** | **128 513** | | 105 379 | |
| Exercisable at the end of the year | **–** | **–** | – | – |
| Weighted-average share price for share instruments exercised (GBP) | | **–** | | – |
| **Nedbank Africa Matched-share Scheme** | | | | |
| Outstanding at the beginning of the year | **4 901** | | 3 982 | |
| Granted | **9 915** | | 3 028 | |
| Forfeited | **(164)** | | | |
| Exercised | **(731)** | | (2 109) | |
| **Outstanding at the end of the year** | **13 921** | | 4 901 | |
| Exercisable at the end of the year | **–** | **–** | – | – |
| Weighted-average share price for share instruments exercised (GBP) | | **–** | | – |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number of instruments | Weighted-average exercise price R | Number of instruments | Weighted-average exercise price R |
| **Black Executive Scheme** | | | | |
| Outstanding at the beginning of the year | | | 115 852 | |
| Exercised | | | (115 852) | |
| **Outstanding at the end of the year** | – | | – | |
| Exercisable at the end of the year | – | – | – | – |
| Weighted-average share price for share instruments exercised (R) | | – | | 255,90 |
| **Black Management Scheme** | | | | |
| Outstanding at the beginning of the year | | | 5 944 | |
| Exercised | | | (5 944) | |
| **Outstanding at the end of the year** | – | | – | |
| Exercisable at the end of the year | – | – | – | – |
| Weighted-average share price for share instruments exercised (R) | | – | | 251,24 |

## I4 INSTRUMENTS OUTSTANDING AT THE END OF THE YEAR BY EXERCISE PRICE

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number of instruments | Weighted-average remaining contractual life (years) | Number of instruments | Weighted-average remaining contractual life (years) |
| **Nedbank Group (2005) Share Option and Restricted-share Scheme** | | | | |
| 0,00 | **11 054 244** | **1,4** | 9 067 833 | 1,3 |
| | **11 054 244** | **1,4** | 9 067 833 | 1,3 |
| **Nedbank Group (2005) Matched-share Scheme** | | | | |
| 0,00 | **3 302 997** | **1,6** | 2 235 442 | 1,4 |
| | **3 302 997** | **1,6** | 2 235 442 | 1,4 |
| **Nedbank UK Long-term Incentive Plan** | | | | |
| 0,00 | **79 739** | **1,5** | 74 608 | 1,4 |
| | **79 739** | **1,5** | 74 608 | 1,4 |
| **Nedbank UK Matched-share Scheme** | | | | |
| 0,00 | **8 870** | **1,1** | 12 617 | 1,1 |
| | **8 870** | **1,1** | 12 617 | 1,1 |
| **Nedbank Wealth Management International Long-term Incentive Plan** | | | | |
| 0,00 | **186 982** | **1,4** | 130 335 | 1,5 |
| | **186 982** | **1,4** | 130 335 | 1,5 |
| **Nedbank Wealth Management International Matched-share Scheme** | | | | |
| 0,00 | **33 293** | **1,4** | 24 345 | 1,7 |
| | **33 293** | **1,4** | 24 345 | 1,7 |
| **Nedbank Africa Restricted-share Scheme** | | | | |
| 0,00 | **128 513** | **1,5** | 105 379 | 1,4 |
| | **128 513** | **1,5** | 105 379 | 1,4 |
| **Nedbank Africa Matched-share Scheme** | | | | |
| 0,00 | **13 921** | **2,4** | 4 901 | 1,1 |
| | **13 921** | **2,4** | 4 901 | 1,1 |

## I5 INSTRUMENTS GRANTED DURING THE YEAR

| | Nedbank Group (2005) Share Option and Restricted-share Scheme[1] | Nedbank Group (2005) Matched-share Scheme[2] |
|---|---|---|
| **2020** | | |
| Number of instruments granted | **5 342 656** | **1 956 332** |
| Weighted-average fair value per instrument granted (R) | **91,75** | **82,68** |
| Weighted-average share price (R) | **91,75** | **82,68** |
| Weighted-average life (years) | **3** | **3** |
| Number of participants | **1 486** | **1 726** |
| Weighted-average vesting period (years) | **3** | **3** |
| **2019** | | |
| Number of instruments granted | 3 446 610 | 974 666 |
| Weighted-average fair value per instrument granted (R) | 256,20 | 213,12 |
| Weighted-average share price (R) | 256,20 | 251,24 |
| Weighted-average life (years) | 3 | 3 |
| Number of participants | 1 493 | 2 245 |
| Weighted-average vesting period (years) | 3 | 3 |

*[1] The weighted-average fair value of instruments granted during the year has been calculated using the closing price of Nedbank Group Limited quoted on the JSE.*

*[2] The weighted-average fair value of instruments granted during the year has been calculated using the closing price of Nedbank Group Limited quoted on the JSE of R82,66 (2019: R251,24) less the present value of dividends anticipated over the vesting period.*

| | Nedbank UK Long-term Incentive Plan[1] | Nedbank UK Matched Scheme[1] | Nedbank Wealth Management International Long-term Incentive Plan[1] | Nedbank Wealth Management International Matched Scheme[1] | Nedbank Africa Restricted-share Scheme[1] | Nedbank Africa Matched-share Scheme[1] |
|---|---|---|---|---|---|---|
| | **39 856** | **1 594** | **79 146** | **13 705** | **78 180** | **9 915** |
| | **91,29** | **82,66** | **91,40** | **104,90** | **91,40** | **82,66** |
| | **91,29** | **82,66** | **91,40** | **104,90** | **91,40** | **82,66** |
| | **3** | **3** | **3** | **3** | **3** | **3** |
| | **13** | **4** | **18** | **22** | **36** | **191** |
| | **3** | **3** | **3** | **3** | **3** | **3** |
| | 33 095 | 3 982 | 59 079 | 12 681 | 45 727 | 3 028 |
| | 245,62 | 251,24 | 258,03 | 251,24 | 254,05 | 251,24 |
| | 245,62 | 251,24 | 258,03 | 251,24 | 254,05 | 251,24 |
| | 3 | 3 | 3 | 3 | 3 | 3 |
| | 11 | 6 | 19 | 28 | 8 | 1 |
| | 3 | 3 | 3 | 3 | 3 | 3 |

# SECTION J: OTHER LIABILITIES

## J1 PROVISIONS AND OTHER LIABILITIES

### ACCOUNTING POLICY

#### Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, in respect of which it is probable that an outflow of economic benefits will occur and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the reasonable estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of discounting is material, the provision is discounted. The discount rate reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Gains from the expected disposal of assets are not taken into account in measuring provisions. Provisions are reviewed at each reporting date and adjusted to reflect the current reasonable estimate. If it is no longer probable that an outflow of resources will be required to settle the obligation, the provision is reversed.

#### Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by a party outside the group, the reimbursement is recognised when it is virtually certain that it will be received if the group settles the obligation. The reimbursement is recorded as a separate asset at an amount not exceeding the related provision. The expense for the provision is presented net of the reimbursement in profit or loss.

#### Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from an executory contract are lower than the unavoidable cost of meeting the obligations under the contract. Future operating costs or losses are not provided for.

#### Client loyalty

When a cardholder makes a purchase that is regarded as eligible spend, the person or entity is granted points that can be redeemed at a later date for goods or services. Points do not expire, unless a client is delinquent or dormant, in which case the points accrued are forfeited as stated in the terms and conditions. Client loyalty programmes are accounted for in accordance with IFRS 15 and a contract liability is recognised. The revenue normally earned by the group when clients transact on their Nedbank cards is reduced by the expected amount payable arising from the issue of points.

If the expectation regarding the amount to be paid changes, this is recognised in revenue. When the group settles the liability, there will be no additional revenue recognised and the costs will be offset against the liability.

#### Lease liabilities

**Initial and subsequent measurement**

The lease liability is initially measured at a present value of unpaid lease payments on the commencement date (the date the underlying asset is available for use). The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the group uses the incremental borrowing rate being the rate that the group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be payable by the group under residual value guarantees;
- variable lease payments that are based on an index or a rate;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the group is reasonably certain to exercise that option.

The lease liability is subsequently measured under IFRS 9 at amortised cost using the effective interest method. Interest expense is recognised in profit and loss and capitalised to the lease liability.

#### Reassessment of lease liability

After the commencement date the group remeasures the lease liability to reflect changes to the lease payments. The carrying amount of the lease liability is remeasured by discounting the revised lease payments using a revised discount rate if:

- there is a change in the lease term; or
- the group changes its assessment of whether it will exercise an option to purchase the underlying asset.

The carrying amount of the lease liability is remeasured by discounting the revised lease payments using the original discount rate if there is a change in:

- the amounts expected to be payable under a residual value guarantee; or
- in future lease payments resulting from a change in an index or a rate used to determine those payments.

If the change in lease payments results from a change in floating rates, the group uses a revised discount rate that reflects changes in the interest rate.

The group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. When corresponding adjustments to the right-of-use asset reduces the carrying amount to zero, the group recognises any remaining amount of the remeasurement in profit or loss.

### Lease modifications

The group accounts for modifications as a separate lease using a new discount rate if the modification is a material economic alteration of the initial contract. This would occur if the modification in question:

- increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that standalone price to reflect the circumstances of the particular contract.

For a lease modification that does not meet the criteria to be recognised as a separate lease at the effective date of the lease modification, the group accounts for the lease by:

- allocating the consideration in the modified contract between lease and non-lease components;
- determining the lease term of the modified lease; and
- remeasuring the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term if that rate can be readily determined, or the group's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

Additionally, for a lease modification that is not accounted for as a separate lease, the group accounts for the remeasurement of the lease liability by doing the following:

- Decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The group recognises in profit or loss any gain or loss relating to the partial or full termination of the lease.
- Making a corresponding adjustment to the right-of-use asset for all other lease modifications.

### Variable lease expense

The group recognises variable lease expenses not contingent or dependent on an index or a rate as an expense in profit or loss in the period in which the event or condition that triggers the payment occurs.

### Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise computer equipment and small items of office furniture. Leases with values of less than R20 000 are considered as low-values leases. The group does not recognise right-of-use assets and lease liabilities for short-term and low-value leases.

The group considers a short-term lease to be a new lease if:

- there is a lease modification; or
- there is any change in the lease term (for example, the group exercises an option not previously included in its determination of the lease term).

### Derecognition

Termination of a lease, partial or fully, results in derecognition of the right-of-use asset and the corresponding lease liability. The group recognises any profit and loss in the period in which the termination occurs

### Critical judgments and assumptions

#### Discount rates

The group's incremental borrowing rate is lease-specific and is determined using an array of assumptions and judgements surrounding the characteristics of the contract. The group considers:

- the credit risk of the group (swap yield curves are also used as anchors for most leases);
- the tenor of the lease; and
- the economic environment (the country, the currency and the date that the lease is entered into) in which the transaction occurs.

Refer to note F1 for accounting policies applied for right-of-use assets.

### J1.1 Analysis of carrying amount

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Creditors and other accounts | **7 092** | 7 040 |
| Client loyalty programmes liability | **428** | 347 |
| Short-trading securities and spot positions | | 879 |
| Provision for the impairment of off-balance-sheet items | **560** | 255 |
| Provision for bonuses (note J1.2) | **1 329** | 1 791 |
| Leave pay accrual (note J1.3) | **963** | 871 |
| Lease liabilities (note J1.5) | **1 987** | 2 290 |
| | **12 359** | 13 473 |

### J1.2 Provision for bonuses

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Provision for bonuses | | |
| Balance at the beginning of the year | **1 791** | 2 389 |
| Recognised in profit or loss | **1 320** | 1 773 |
| Utilised during the year | **(1 783)** | (2 369) |
| Foreign currency translation and other movements | **1** | (2) |
| **Balance at the end of the year** | **1 329** | 1 791 |

### J1.3 Leave pay accrual

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Balance at the beginning of the year | **871** | 836 |
| Recognised in profit or loss | **456** | 355 |
| Utilised during the year | **(364)** | (320) |
| **Balance at the end of the year** | **963** | 871 |

### J1.4 Day one gains and losses

The group enters into transactions where the fair value of the financial instruments are determined using valuation models for which certain inputs are not based on market-observable prices or rates. Such financial instruments are initially recognised at the transaction price, which is the best indicator of fair value. The transaction price may differ from the valuation amount obtained, giving rise to a day one profit or loss.

The difference between the transaction price and the valuation amount, commonly referred to as 'day one profit or loss', is deferred and either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market-observable inputs, or realised when the financial instrument is derecognised.

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Gains recognised in the statement of comprehensive income | **361** | 395 |

## J1.5 Lease liabilities

### Lease liabilities reconciliation

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Balance at the beginning of the year | **2 290** | 2 506 |
| Interest expense | **147** | 204 |
| Additions | **304** | 188 |
| Lease modifications | **367** | 445 |
| Lease payments | **(1 071)** | (1 049) |
| Derecognition | **(50)** | (4) |
| Effect of movements in foreign exchange rates and other movements | **[1]** | [1] |
| **Balance at the end of the year** | **1 987** | 2 290 |

[1] *Represents amounts less than R1m.*

### Current and non-current lease liabilities

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Current lease liabilities | **939** | 954 |
| Non-current lease liabilities | **1 048** | 1 336 |
| **Total lease liabilities** | **1 987** | 2 290 |

## J2 CONTINGENT LIABILITIES, UNDRAWN FACILITIES AND COMMITMENTS

### J2.1 Contingent liabilities and undrawn facilities

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Financial guarantees on behalf of clients | 28 941 | 23 220 |
| Letters of credit and discounting transactions | 7 958 | 6 702 |
| Irrevocable unutilised facilities and other | 149 723 | 145 183 |
| | 186 622 | 175 105 |

The group, in the ordinary course of business, enters into transactions that expose the group to tax, legal and business risks. Provisions are made for known liabilities that are expected to materialise (refer to note K1). Possible obligations and known liabilities, where no reliable estimate can be made or it is considered improbable that an outflow would result, are reported as contingent liabilities. This is in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets.

There are legal or potential claims against Nedbank Group Limited and its subsidiary companies, but the outcomes cannot be foreseen now.

There are two claims of which the possible amount at risk cannot be determined:

- For the first time in June 2020, the Competition Commission added Nedbank Group Limited and Nedbank Limited to referral to the Competition Tribunal in a matter that had started in 2015 about allegations of collusion in the dollar/rand foreign exchange market. If found guilty, the maximum fine is 10% of turnover, which will be calculated from Nedbank Group Limited's financial statements of the previous year.
- In February 2020 an application for the certification of a class action was launched against Nedbank Limited and other major banks seeking financial relief for alleged damages caused by past sales in execution of clients' residential properties.

Our external legal counsel is of the view that we have a strong case to resist both matters successfully.

### J2.2 Commitments

#### Capital expenditure approved by directors

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Contracted but not provided for [1] | 208 | 193 |

*[1] During the year, the group reviewed the authorised capital expenditure presentation. As a result of this review, the presentation has been enhanced to reflect only the capital expenditure that has been contracted but not provided for. In addition, during the review it was identified that certain contracts were incorrectly disclosed as contracted. The prior-year balance has been restated from R373m to R193m.*

Funds to meet capital expenditure commitments will be provided from group resources. In addition, capital expenditure is incurred in the normal course of business throughout the year.

#### Commitments under derivative instruments

The group enters into option contracts, financial futures contracts, forward rate and interest rate swap agreements, and other financial agreements in the normal course of business (note C7).

# SECTION K: RISK AND BALANCE SHEET MANAGEMENT

## K1 FINANCIAL RISK MANAGEMENT

The group's risk management procedures include, but are not limited to, credit risk, liquidity risk, interest rate risk in the banking book and market risk.

## K2 CAPITAL MANAGEMENT

Nedbank Group’s Capital Management Framework reflects the integration of risk, capital, strategy and performance measurement across the group and contributes significantly to the ERMF.

A board-approved Solvency and Capital Management Policy requires the group to be capitalised at the greater of Basel III regulatory capital and economic capital.

The Nedbank Group Capital Management Division is part of Balance Sheet Management within the Group Finance Cluster that reports to the Chief Financial Officer and is mandated with the implementation of the Capital Management Framework and the Internal Capital Adequacy Assessment Process (ICAAP) across the group. The capital management (incorporating ICAAP) responsibilities of the board and executive management are incorporated in their respective terms of reference as contained in the ERMF and are assisted by the board’s Group Risk and Capital Management Committee, and Group ALCO and Executive Risk Committee (Group ALCO), respectively.

### Capital, reserves, and long-term debt instruments

The group's Capital Management Framework, policies and processes cover the group's capital and reserves as per the consolidated statement of changes in equity, as well as the long-term debt instruments per note D2.

## K3 LIQUIDITY GAP

Banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks. Through the robust Liquidity Risk Management Framework the group manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objectives that underpin the Liquidity Risk Management Framework include maintaining financial-market confidence at all times, protecting key stakeholder interests and meeting regulatory liquidity requirements.

In terms of measuring, managing and mitigating liquidity mismatches Nedbank focuses on two types of liquidity risk: funding liquidity risk and market liquidity risk.

Funding liquidity risk is the risk that the group is unable to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals, or the inability to roll over maturing debt or meet contractual commitments to lend.

Liquidity risk management is a vital risk management function in all entities across all jurisdictions and currencies, and is a key focus for the group.

The board of directors retains ultimate responsibility for the effective management of liquidity risk. Through the Group Risk and Capital Management Committee (GRCMC) (a board committee), the board has delegated its responsibility for the management of liquidity risk to Group ALCO.

The group's Liquidity Risk Management Framework articulates the board-approved risk appetite in the form of limits and guidelines, and sets out the responsibilities, processes, reporting and assurance required to support the management of liquidity risk. The Liquidity Risk Management Framework is reviewed annually by Group ALCO and approved by the GRCMC.

| Rm | <3 months | >3 months <6 months | >6 months <1 year | >1 year <5 years | >5 years | Non-determined | Total |
|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | |
| Cash and cash equivalents (including mandatory reserve deposits with central banks) | **32 597** | | | | | | **32 597** |
| Other short-term securities | **7 900** | **8 076** | **9 170** | **1 797** | **139** | | **27 082** |
| Derivative financial instruments | **13 133** | **11 031** | **7 926** | **18 837** | **29 006** | | **79 933** |
| Government and other securities | **14 767** | **339** | **1** | **23 700** | **92 573** | | **131 380** |
| Loans and advances | **169 757** | **32 947** | **61 098** | **331 173** | **188 151** | **52 442** | **835 568** |
| Other assets | **15** | | | | | **45 783** | **45 798** |
| | **238 169** | **52 393** | **78 195** | **375 507** | **309 869** | **98 225** | **1 152 358** |
| Total equity | | | | | | **84 949** | **84 949** |
| Derivative financial instruments | **10 918** | **7 181** | **7 183** | **14 741** | **24 626** | | **64 649** |
| Amounts owed to depositors | **636 719** | **80 847** | **79 880** | **89 630** | **12 842** | **29 843** | **929 761** |
| Provisions and other liabilities | **326** | **180** | **721** | **1 126** | **149** | **12 894** | **15 396** |
| Long-term debt instruments | **2 687** | **2 811** | **2 768** | **30 157** | **19 180** | | **57 603** |
| | **650 650** | **91 019** | **90 552** | **135 654** | **56 797** | **127 686** | **1 152 358** |
| **Net liquidity gap** | **(412 481)** | **(38 626)** | **(12 357)** | **239 853** | **253 072** | **(29 461)** | **–** |
| **2019** | | | | | | | |
| Cash and cash equivalents (including mandatory reserve deposits with central banks) | 29 623 | | | | | | 29 623 |
| Other short-term securities | 15 991 | 12 182 | 10 202 | 3 461 | 559 | | 42 395 |
| Derivative financial instruments | 8 419 | 2 731 | 3 519 | 7 113 | 13 141 | | 34 923 |
| Government and other securities[1] | 5 922 | 313 | 453 | 23 157 | 69 864 | | 99 709 |
| Loans and advances [1] | 147 135 | 32 418 | 65 239 | 333 265 | 200 482 | 36 524 | 815 063 |
| Other assets | | | 213 | | | 46 384 | 46 597 |
| | 207 090 | 47 644 | 79 626 | 366 996 | 284 046 | 82 908 | 1 068 310 |
| Total equity | | | | | | 83 219 | 83 219 |
| Derivative financial instruments | 6 789 | 2 031 | 2 953 | 5 637 | 10 211 | | 27 621 |
| Amounts owed to depositors | 564 522 | 77 210 | 111 340 | 90 907 | 11 185 | 26 133 | 881 297 |
| Provisions and other liabilities | 209 | 179 | 370 | 1 336 | 238 | 14 229 | 16 561 |
| Long-term debt instruments | 1 025 | 464 | 4 523 | 30 994 | 22 606 | | 59 612 |
| | 572 545 | 79 884 | 119 186 | 128 874 | 44 240 | 123 581 | 1 068 310 |
| **Net liquidity gap** | (365 455) | (32 240) | (39 560) | 238 122 | 239 806 | (40 673) | – |

*[1] 2019 restated, refer to note A4: Reclassifcation.*

This note has been prepared on a contractual maturity basis.

The group has high-quality liquid assets and other sources of quick liquidity. Other sources of quick liquid assets include corporate bonds and listed equities, unencumbered trading securities, price-sensitive overnight loans, other banks' paper and unutilised bank credit lines.

## K4 INTEREST RATE RISK IN THE BANKING BOOK

| | **2020 Rm** | 2019 Rm |
|---|---|---|
| **Net interest income sensitivity** | | |
| One percent instantaneous decline in interest rates[1] | **(1 094)** | (1 184) |

*[1] Nedbank London and Nedbank Private Wealth: 0,5% instantaneous decline in interest rates.*

**Management of interest rate risk in the banking book**

The group employs various analytical techniques to measure interest rate sensitivity monthly in the banking book on both an earnings and economic-value basis (where appropriate) for balance sheets with material exposure to interest rate risk. Assets, liabilities and derivative financial instruments are modelled and reported based on their contractual repricing or maturity characteristics. Where advances are exposed to prepayments and deposits to ambiguous repricing, Group ALCO approves the use of prepayment models for the hedging of fixed-rate advances and behavioural repricing assumptions for the modelling and reporting of ambiguous repricing deposits, where appropriate.

**Sensitivity analysis**

At the reporting date, the net interest income sensitivity of the banking book for a 1% parallel reduction in interest rates measured over 12 months is a decrease in net interest income of approximately R1 094m before tax (2019: R1 184m), which is within the board's approved risk limit. The group's net interest income sensitivity exhibits very little convexity and will therefore also result in an increase in pretax net interest income of similar amounts should interest rates increase by one percent. Net interest income sensitivity is actively managed through on- and off-balance-sheet interest rate risk management strategies for the group's expected interest rate view and impairment sensitivity.

## K5 HISTORICAL VALUE AT RISK (99%, ONE-DAY) BY RISK TYPE

Value at risk (VaR) is the potential loss in pretax profit due to adverse market movements over a defined holding period with a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. It facilitates the consistent measurement of risk across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The 99% one-day VaR number used by the group reflects, at a 99% confidence level, that the daily loss will not exceed the reported VaR and therefore that the daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days.

The group uses one year of historical data to estimate VaR. Some of the considerations that are taken into account when reviewing the VaR numbers are:

- The assumed one-day holding period will not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day.
- The historical VaR assumes that the past is a good representation of the future, which may not always be the case.
- The 99% confidence level does not indicate the potential loss beyond this interval.
- If a product or listing is new in the market, limited historical data would be available. In such cases, a proxy is chosen to act as an estimate for the historical rates of the relevant risk factor. Depending on the amount of (limited) historical rates available, regression analysis is used on the chosen proxy to refine the link between the proxy and the actual rates.

Additional risk measures are used to monitor the individual trading desks, including performance triggers, approved trading products, concentration of exposures, maximum tenor limits and market liquidity constraints.

All market risk models are subject to periodic independent validation in terms of the Group Market Risk Management Framework. A formal review of all existing valuation models is conducted at least annually. Should the review process indicate that models need to be updated, a formal independent review will take place. All new risk models developed are independently validated prior to implementation.

The group's current trading activities are focused on liquid markets, which are in line with the current regulatory liquidity horizon assumption of a 10-day holding period, as per Basel III.

Since mid-March 2020 the group has observed significant increases in VaR estimates as a result of the extreme market volatility caused by the Covid-19 pandemic. This has resulted in an increase in the VaR measure by an order or two to three times the pre-Covid-19 measure without any material change to the underlying trading positions.

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| Rm | Average | Minimum | Maximum | Year-end | Average | Minimum | Maximum | Year-end |
| Foreign exchange | **6,8** | **1,4** | **18,6** | **9,2** | 4,3 | 0,9 | 11,6 | 2,6 |
| Interest rate | **70,3** | **32,0** | **128,2** | **97,7** | 34,6 | 20,2 | 45,3 | 35,0 |
| Equity | **3,3** | **0,1** | **14,5** | **4,1** | 0,5 | <0,1 | 3,9 | 1,0 |
| Credit | **16,0** | **4,7** | **42,3** | **16,6** | 7,7 | 4,0 | 9,7 | 4,7 |
| Commodity | **0,2** | | **3,6** | **0,1** | 0,1 | <0,1 | 0,7 | 0,1 |
| Diversification | **(31,0)** | | | **(45,8)** | (12,1) | | | (10,1) |
| **Total VaR exposure** | **65,6** | **30,0** | **125,1** | **81,9** | 35,1 | 22,4 | 47,6 | 33,3 |

# SECTION L: CASHFLOW INFORMATION

## L1 RECONCILIATION OF PROFIT FROM OPERATIONS TO CASH GENERATED BY OPERATIONS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Profit from operations | **4 970** | 13 028 |
| Adjusted for: | | |
| – Depreciation (note B6) | **1 403** | 1 451 |
| – Depreciation of right-of-use assets (note B6) | **824** | 806 |
| – Amortisation: computer software and intangible assets (note B6) | **1 399** | 1 139 |
| – Movement in impairments on financial instruments | **13 561** | 7 180 |
| – Long-term-asset sales (note B5.2) | **(30)** | (23) |
| – Unrealised losses (note B5.2) | **1 600** | 461 |
| – Non-trading and capital items (note B1.2) | **417** | 424 |
| – Indirect taxation (note B7.1) | **1 017** | 961 |
| – Fair-value adjustments (note B6)[1] | **(336)** | (51) |
| – Short-term incentives and long-term employee benefits[1] | **462** | 598 |
| – Share-based payments expense – employees (note B6)[1] | **270** | 570 |
| – Movements in accrued operating expenses[1] | **349** | (1 367) |
| – Movement in accrued interest[1] | **(8 477)** | 915 |
| **Cash generated by operations** | **17 429** | 26 092 |

*[1] 2019 restated, refer to note A5: Restatement of the consolidated statement of cashflows.*

## L2 CASH RECEIVED FROM CLIENTS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Interest and similar income[1] | **63 791** | 79 500 |
| Commission and fees income | **14 393** | 16 004 |
| Net trading income | **4 550** | 4 062 |
| Private-equity income[1] | **542** | 673 |
| Other non-interest income[1] | **509** | 343 |
| | **83 785** | 100 582 |

*[1] 2019 restated, refer to note A5: Restatement of the consolidated statement of cashflows.*

## L3 CASH PAID TO CLIENTS, EMPLOYEES AND SUPPLIERS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Interest expense and similar charges[1] | **(44 760)** | (51 233) |
| Staff costs (note B6)[1] | **(13 740)** | (13 759) |
| Computer processing | **(3 097)** | (2 580) |
| Communication and travel | **(610)** | (717) |
| Occupation and accommodation | **(985)** | (929) |
| Marketing and public relations | **(1 045)** | (1 368) |
| Fees and assurances | **(3 482)** | (3 227) |
| Furniture, office equipment and consumables | **(176)** | (293) |
| Other operating expenses | **(212)** | (454) |
| Movements in accrued operating expenses[1] | **349** | (1 367) |
| | **(67 758)** | (75 927) |

*[1] 2019 restated, refer to note A5: Restatement of the consolidated statement of cashflows.*

## L4 DIVIDENDS RECEIVED

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Dividends received on investments | **266** | 210 |
| | **266** | 210 |

## L5 INCREASE IN OPERATING ASSETS

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Other short-term securities | **15 354** | 15 449 |
| Government and other securities | **(31 671)** | (31 539) |
| Loans and advances and other operating assets | **(79 570)** | (79 924) |
| Fair-value adjustments[1] | **336** | 51 |
| Movement in accrued interest income[1] | **4 863** | (260) |
| | **(90 688)** | (96 223) |

*[1] 2019 restated, refer to note A5: Restatement of the consolidated statement of cashflows.*

## L6 INCREASE IN OPERATING LIABILITIES

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Current and savings accounts | **12 944** | 1 656 |
| Other deposits, loan accounts and foreign currency liabilities | **66 195** | 39 695 |
| Negotiable certificates of deposit | **(18 682)** | 29 107 |
| Deposits received under repurchase agreements | **(13 082)** | 3 906 |
| Creditors and other liabilities | **36 662** | 7 372 |
| Movement in accrued interest expense[1] | **3 614** | (655) |
| Movements in accrued operating expenses[1] | **(349)** | 1 367 |
| | **87 302** | 82 448 |

*[1] 2019 restated, refer to note A5: Restatement of the consolidated statement of cashflows.*

## L7 TAXATION PAID

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Amounts receivable/(payable) at the beginning of the year | **171** | (167) |
| Statement of comprehensive income charge (excluding deferred taxation) | **(2 106)** | (2 617) |
| Current taxation recognised in equity | **167** | 101 |
| Amounts payable/(receivable) at the end of the year | **441** | (171) |
| | **(1 327)** | (2 854) |
| Total indirect taxation (note B7.1) | **(1 017)** | (961) |
| **Taxation paid** | **(2 344)** | (3 815) |

# SECTION M: ADDITIONAL INFORMATION

## M1 FOREIGN CURRENCY CONVERSION

### ACCOUNTING POLICY

**Foreign currency transactions**

Individual entities within the group may use a different functional currency than that of the group, being the currency of the primary economic environment in which the respective entities operate. Transactions in foreign currencies are translated into the functional currency of the individual entities at the date of the transaction by applying the spot exchange rate ruling at the transaction date to the foreign currency amounts. The consolidated financial statements are presented in SA rand, which is the group's presentation currency.

Monetary assets and liabilities in foreign currencies are translated into the functional currency of the respective entities of the group at the spot exchange rate ruling at the reporting date.

Exchange differences that arise on the settlement or translation of monetary items at rates that are different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period that they arise.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the respective functional currencies of the group entities using the foreign exchange rates ruling at the dates when the fair values were determined.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are converted into the functional currency of the respective group entities at the rate of exchange ruling at the date of the transaction and are not retranslated subsequently.

Exchange differences on non-monetary items are recognised consistently, with the gains and losses that arise on such items, i.e. exchange differences relating to an item for which gains and losses are recognised directly in equity are generally recognised in equity. Similarly, exchange differences for non-monetary items for which gains and losses are recognised in profit or loss are recognised in profit or loss in the period in which they arise.

**Exchange rates**

| | Average | | Closing | |
|---|---|---|---|---|
| | **2020 Rm** | 2019 Rm | **2020 Rm** | 2019 Rm |
| UK pound to rand | **21,10** | 18,43 | **20,07** | 18,43 |
| US dollar to rand | **16,46** | 14,44 | **14,70** | 14,01 |

**Geographic analyses**

The geographic analyses within various notes are based on the geographic location of the clients or transactions and not the domicile of the group entity.

## M2 EVENTS AFTER THE REPORTING PERIOD

On 24 February 2021, the Minister of Finance announced a change in corporate income tax rates from 28% to 27%, applicable to companies. This change is effective for companies with years of assessment commencing on or after 1 April 2022. Deferred tax balances are reflected at 28% as the rate which was substantively enacted at 31 December 2020. The estimated impact of the rate change is R7,6m decrease in deferred tax asset and R29,9m increase in direct taxation. The directors are not aware of any further events (as defined in IAS10: Events after the Reporting Period) after the reporting date of 31 December 2020 and the date on which these annual consolidated financial statements were authorised.

## M3 DIRECTORS' EMOLUMENTS

The following disclosures are those required by the Companies Act, 71 of 2008, in respect of remuneration of directors and prescribed officers:

### M3.1 TOTAL REMUNERATION OF EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS

| | Mike Brown | | Mfundo Nkuhlu | |
|---|---|---|---|---|
| R'000 | 2020 | 2019 | 2020 | 2019 |
| Cash portion of package | 7 722 | 7 669 | 5 249 | 5 176 |
| Other benefits | 263 | 223 | 192 | 177 |
| Defined-contribution retirement fund | 1 115 | 1 102 | 759 | 747 |
| **Guaranteed remuneration[1]** | 9 100 | 8 994 | 6 200 | 6 100 |
| Cash performance incentive | 4 500 | 6 250 | 3 125 | 3 750 |
| Cash performance incentive (delivered in shares)[2] | 3 500 | 5 250 | 2 125 | 2 750 |
| **Total short-term incentive (STI)** | 8 000 | 11 500 | 5 250 | 6 500 |
| Total remuneration[3] | 17 100 | 20 494 | 11 450 | 12 600 |
| Value of share-based awards (face value at award)[4] | 26 000 | 15 500 | 18 000 | 10 250 |
| **Total direct remuneration** | 43 100 | 35 994 | 29 450 | 22 850 |

| | Iolanda Ruggiero | | Ciko Thomas | |
|---|---|---|---|---|
| R'000 | 2020 | 2019 | 2020 | 2019 |
| Cash portion of package | 3 551 | 3 514 | 4 605 | 4 507 |
| Other benefits | 113 | 105 | 144 | 134 |
| Defined-contribution retirement fund | 511 | 505 | 751 | 734 |
| **Guaranteed remuneration** | 4 175 | 4 124 | 5 500 | 5 375 |
| Cash performance incentive | 2 625 | 2 375 | 2 900 | 4 250 |
| Cash performance incentive (delivered in shares)[2] | 1 625 | 1 375 | 1 900 | 3 250 |
| **Total short-term incentive (STI)** | 4 250 | 3 750 | 4 800 | 7 500 |
| Total remuneration[3] | 8 425 | 7 874 | 10 300 | 12 875 |
| Value of share-based awards (face value at award)[4] | 10 250 | 6 750 | 14 500 | 10 250 |
| **Total direct remuneration** | 18 675 | 14 624 | 24 800 | 23 125 |

*[1] GP of Mike Brown is reflected before voluntary contributions to Covid-19 charitable causes, equal to R320 840, representing a third of his after-tax monthly salary in May, June and July 2020.*
*[2] In terms of the rules of the Matched share Scheme (MSS), the total STI has the potential to increase by up to 27,5% (before share price movement) if the deferred amount is invested in the MSS for 36 months and the performance condition in the MSS is met.*
*[3] Total remuneration is the sum of guaranteed remuneration and total STI.*
*[4] This is the value of the share-based awards made in the following financial year.*
*[5] Raisibe Morathi resigned with effect from 30 September 2020. The fixed-remuneration values are disclosed on a pro-rata basis.*
*[6] Total remuneration amounts shown for Mike Davis, Anel Bosman and Terence Sibaya are prorated based on the term during which they were appointed as Executive Director (Mike Davis was appointed on 1 October 2020) and Prescribed Officers (Anel Bosman and Terence Sibaya were appointed on 1 April 2020).*
*[7] Brian Kennedy retired from Nedbank Group Limited, with effect from 31 March 2020. The fixed-remuneration values are disclosed on a pro-rata basis.*

| | Raisibe Morathi[5] | | Michael Davis[6] |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| | **3 588** | 4 736 | **1 079** |
| | **140** | 173 | **47** |
| | **453** | 597 | **199** |
| | **4 181** | 5 506 | **1 325** |
| | | 4 375 | **3 000** |
| | | 3 375 | **2 000** |
| | **–** | 7 750 | **5 000** |
| | **4 181** | 13 256 | **6 325** |
| | | 10 250 | **16 625** |
| | **4 181** | 23 506 | **22 950** |

| | Brian Kennedy[7] | | Anél Bosman[6] | Terence Sibiya[6] |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | **2020** |
| | **1 119** | 4 444 | **3 213** | **2 613** |
| | **66** | 243 | **100** | **135** |
| | **89** | 353 | **249** | **252** |
| | **1 274** | 5 040 | **3 562** | **3 000** |
| | | 6 250 | **4 875** | **1 625** |
| | | 5 250 | **3 875** | **625** |
| | **–** | 11 500 | **8 750** | **2 250** |
| | **1 274** | 16 540 | **12 312** | **5 250** |
| | | 9 675 | **11 000** | **8 000** |
| | **1 274** | 26 215 | **23 312** | **13 250** |

### M3.2 NON-EXECUTIVE DIRECTORS' REMUNERATION

| Name | Note | Nedbank and Nedbank Group board fees (R000) | Committee fees (R000) | 2020 (R000) | 2019 (R000) |
|---|---|---|---|---|---|
| BA Dames | 1 | 534 | 650 | 1 184 | 1 125 |
| T Marwala | | 534 | 289 | 867 | 443 |
| EM Kruger | 2 | 534 | 1 621 | 3 049 | 2 880 |
| PM Makwana | | 534 | 1 474 | 2 008 | 1 807 |
| MA Matooane | | 534 | 457 | 991 | 962 |
| V Naidoo | | 6 042 | | 6 042 | 5 871 |
| JK Netshitenzhe | 3 | 208 | 164 | 372 | 927 |
| RAG Leith | | 534 | 626 | 1 160 | 1 080 |
| SS Subramoney | 4 | 534 | 1 472 | 2 006 | 1 796 |
| MI Wyman | | | | | 424 |
| L Makalima | 5 | 534 | 656 | 1 190 | 1 125 |
| NP Dongwana | | 534 | 744 | 1 278 | 1 238 |
| HR Brody | | 534 | 872 | 1 406 | 1 374 |
| MP Moyo | 6 | 115 | 112 | 227 | 1 021 |
| IG Williamson | 7 | 312 | | 312 | |
| **Total** | | **12 017** | **9 137** | **22 092** | 22 073 |

[1] *Chairman of the Group Risk and Capital Management Committee (GRCMC), Brian Dames became member of the Directors' Affairs Committee on 1 October 2020.*
[2] *Errol Kruger's total fee is inclusive of the Nedbank Private Wealth (Isle of Man) Chairman fees of £42 399.96 (R894 390.19).*
[3] *Joel Netshitenzhe retires from the boards of Nedbank Limited and Nedbank Group Limited effective 22 May 2020.*
[4] *Stanley Subramoney was appointed as a member of the Group Remuneration Committee,with effect from 1 March 2020.*
[5] *Linda Makalima was appointed as a member of the Group Related party Transactions Committee, with effect from 1 March 2020.*
[6] *Peter Moyo resigned as a member of Group Remuneration Committee, Group Risk and Capital Management Committee, and Group Directors' Affairs Committee,with effect from 19 March 2020.*
[7] *Iain Williamson was appointed to the boards of Nedbank Limited and Nedbank Group Limited, with effect from 1 June 2020.*

In line with conversations held with OML, the OML-nominee will not be appointed to Nedbank Board committees and as a consequence ongoing Directors' Affairs Committee membership has been revised so that the OML nominee is not a member.

Where applicable, board fees include travel reimbursements for business mileage.

| Number of shares | Beneficial direct 2020 | Beneficial direct 2019 | Beneficial indirect 2020 | Beneficial indirect 2019 |
|---|---|---|---|---|
| **Directors** | | | | |
| Hubert Brody | **2 556** | 2 556 | | |
| Mike Brown | **470 345** | 412 897 | **270 554** | 214 611 |
| Brian Dames | **64** | 64 | | |
| Michael Davis[1] | **43 273** | | **109 926** | |
| Mantsika Matooane | **2 261** | 2 261 | | |
| Raisibe Morathi[2] | **31 045** | 31 045 | **200 096** | 266 856 |
| Peter Moyo[3] | | | **51 128** | 51 128 |
| Vassi Naidoo | | | **49 254** | 49 254 |
| Joel Netshitenzhe[4] | | | | |
| Mfundo Nkuhlu | **39 073** | 90 818 | **169 433** | 133 361 |
| Malcolm Wyman | | | | 321 |
| Stanley Subramoney | | | **2 300** | 2 300 |
| Iain Williamson[5] | **785** | | | |
| **Prescribed Officers** | | | | |
| Brian Kennedy[6] | **229** | 26 000 | **193 304** | 151 129 |
| Ciko Thomas | **24 167** | 24 277 | **143 283** | 103 510 |
| Iolanda Ruggiero | **69 543** | 48 351 | **109 347** | 89 755 |
| Anél Bosman [7] | **30 187** | | **131 518** | |
| Terence Sibiya[8] | **42 635** | | **80 482** | |
| **Total ordinary shares** | **756 163** | 638 269 | **1 510 625** | 1 062 225 |

| Number of shares | Beneficial direct 2020 | Beneficial direct 2019 | Beneficial indirect 2020 | Beneficial indirect 2019 |
|---|---|---|---|---|
| **Prescribed officers** | | | | |
| Anél Bosman – Nedbank preference shares | **53 000** | | | |
| **Total preference shares** | **53 000** | | | |

[1] *Appointed on 1 October 2020.*

[2] *Resigned on 30 September 2020.*

[3] *Resigned on 19 March 2020.*

[4] *Retired on 22 May 2020.*

[5] *Appointed on 1 June 2020.*

[6] *Retired on 31 March 2020.*

[7] *Appointed on 1 April 2020.*

[8] *Appointed on 1 April 2020.*

No change in the above interests occurred between 31 December 2020 and 16 March 2021.

### M3.3 SHARE-BASED PAYMENTS TO EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS.

| | Opening balance at 1 January 2020 | | | | Awards made during 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| Prescribed officers | Number of restricted shares/ options | Date of issue/ inception | Issue price | Vesting date | Number of restricted shares/ options | Date of issue/ inception | Issue price | Final vesting/ exercise date |
| | | | (R) | | | | (R) | |
| **MWT Brown Nedbank restricted shares** | | | | | | | | |
| | 58 197 | 15 March 2017 | 249,15 | 16 March 2020 | | | | |
| | 48 376 | 14 March 2018 | 299,73 | 15 March 2021 | | | | |
| | 61 122 | 14 March 2019 | 269,95 | 15 March 2022 | | | | |
| | | | | | 91 824 | 19 March 2020 | 169 | 20 March 2023 |
| **Compulsory Bonus Share Scheme[1]** | | | | | | | | |
| | 14 371 | 31 March 2017 | 258,33 | 1 April 2020 | | | | |
| | 12 034 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 16 307 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | | | | | 34 638 | 31 March 2020 | 83 | 1 April 2023 |
| **Voluntary Bonus Share Scheme[4]** | | | | | | | | |
| | 1 249 | 8 May 2017 | 220,17 | 9 May 2020 | | | | |
| | 943 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 1 087 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | | | | | 3 298 | 31 March 2020 | 83 | 1 April 2023 |
| **Total value of dividends** | | | | | | | | |
| **Total** | 213 686 | | | | 129 760 | | | |

| Awards vesting/lapsing during 2020 | | | | | Dividends | Closing balance at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|---|
| Number of restricted shares/ options released | Number of restricted shares/ options lapsed | Market price at vesting | Value gained on vesting | Notional value of loss on lapsing[5] | Total value of dividends paid in respect of all plans[6] | Number of restricted shares/ options | End of performance period | Final vesting/ exercise date |
| | | (R) | (R) | (R) | (R) | | | |
| 29 506 | 28 691 | 129 | 3 803 028 | (3 697 983) | | | | |
| | | | | | | 48 376 | 31 December 2020 | 15 March 2021 |
| | | | | | | 61 122 | 31 December 2021 | 15 March 2022 |
| | | | | | | 91 824 | 31 December 2022 | 20 March 2023 |
| 28 742[3] | | 83 | 2 375 814 | | | | | |
| | | | | | | 12 034 | 31 December 2020 | 1 April 2021 |
| | | | | | | 16 307 | 31 December 2021 | 1 April 2022 |
| | | | | | | 34 638 | 31 December 2022 | 1 April 2023 |
| 2 498[3] | | 97 | 243 005 | | | | | |
| | | | | | | 943 | 31 December 2020 | 1 April 2021 |
| | | | | | | 1 087 | 31 December 2021 | 1 April 2022 |
| | | | | | | 3 298 | 31 December 2022 | 1 April 2023 |
| | | | | | 2 241 716 | | | |
| 60 746 | 28 691 | | 6 421 848 | (3 697 983) | 2 241 716 | 269 629 | | |

| Prescribed officers | Opening balance at 1 January 2020 | | | | Awards made during 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Vesting date | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Final vesting/ exercise date |
| **MC Nkuhlu Nedbank restricted shares** | | | | | | | | |
| | 37 126 | 15 March 2017 | 249,15 | 16 March 2020 | | | | |
| | 31 695 | 14 March 2018 | 299,73 | 15 March 2021 | | | | |
| | 37 969 | 14 March 2019 | 269,95 | 15 March 2022 | | | | |
| | | | | | 60 722 | 19 March 2020 | 168,80 | 20 March 2023 |
| **Compulsory Bonus Share Scheme[1]** | | | | | | | | |
| | 7 717 | 31 March 2017 | 258,33 | 1 April 2020 | | | | |
| | 6 606 | 31 March 2018 | 291,36 | 1 October 2021 | | | | |
| | 8 969 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | | | | | 18 144 | 31 March 2020 | 83,36 | 1 April 2023 |
| **Voluntary Bonus Share Scheme[4]** | | | | | | | | |
| | 1 249 | 08 May 2017 | 220,17 | 9 May 2020 | | | | |
| | 943 | 31 March 2018 | 291,36 | 1 October 2021 | | | | |
| | 1 087 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | | | | | 3 298 | 31 March 2020 | 83,36 | 1 April 2023 |
| **Total value of dividends** | | | | | | | | |
| **Total** | 133 361 | | | | 82 164 | | | |

| Awards vesting/lapsing during 2020 | | | | | Dividends | Closing balance at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|---|
| Number of restricted shares/ options released | Number of restricted shares/ options lapsed | Market price at vesting (R) | Value gained on vesting (R) | Notional value of loss on lapsing[5] (R) | Total value of dividends paid in respect of all plans[6] (R) | Number of restricted shares/ options | End of performance period | Final vesting/ exercise date |
| 18 823 | 18 303 | 129 | 2 426 096 | (2 359 074) | | | | |
| | | | | | | 31 695 | 31 December 2020 | 15 March 2021 |
| | | | | | | 37 969 | 31 December 2021 | 15 March 2022 |
| | | | | | | 60 722 | 31 December 2022 | 20 March 2023 |
| 15 434[3] | | 83 | 1 275 774 | | | | | |
| | | | | | | 6 606 | 31 December 2020 | 1 April 2021 |
| | | | | | | 8 969 | 31 December 2021 | 1 April 2022 |
| | | | | | | 18 144 | 31 December 2022 | 1 April 2023 |
| 2 498[3] | | 97 | 243 005 | | | | | |
| | | | | | | 943 | 31 December 2020 | 1 April 2021 |
| | | | | | | 1 087 | 31 December 2021 | 1 April 2022 |
| | | | | | | 3 298 | 31 December 2022 | 1 April 2023 |
| | | | | | 1 401 537 | | | |
| 36 755 | 18 303 | | 3 944 876 | (2 359 074) | 1 401 537 | 169 433 | | |

| Prescribed officers | Opening balance at 1 January 2020 | | | | Awards made during 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Vesting date | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Final vesting/ exercise date |
| RK Morathi[7] Nedbank restricted shares | | | | | | | | |
| | 32 109 | 15 March 2017 | 249,15 | 16 March 2020 | | | | |
| | 29 192 | 14 March 2018 | 299,73 | 15 March 2021 | | | | |
| | 35 191 | 14 March 2019 | 269,95 | 15 March 2022 | | | | |
| | | | | | 60 722 | 19 March 2020 | 168,80 | 20 March 2023 |
| Compulsory Bonus Share Scheme[1] | | | | | | | | |
| | 7 717 | 31 March 2017 | 258,33 | 1 April 2020 | | | | |
| | 6 842 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 8 806 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | | | | | 22 267 | 31 March 2020 | 83,36 | 1 April 2023 |
| Voluntary Bonus Share Scheme[4] | | | | | | | | |
| | 1 249 | 08 May 2017 | 220,17 | 9 May 2020 | | | | |
| | 943 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 1 087 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| Total value of dividends | | | | | | | | |
| Total | 123 136 | | | | 82 989 | | | |

| Awards vesting/lapsing during 2020 | | | | | Dividends | Closing balance at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|---|
| Number of restricted shares/ options released | Number of restricted shares/ options lapsed | Market price at vesting | Value gained on vesting | Notional value of loss on lapsing[5] | Total value of dividends paid in respect of all plans[6] | Number of restricted shares/ options | End of performance period | Final vesting/ exercise date |
| | | (R) | (R) | (R) | (R) | | | |
| 16 280 | 15 829 | 129 | 2 098 329 | (2 040 200) | | | | |
| | 29 192 | 128 | | (3 729 386) | | | | |
| | 35 191 | 128 | | (4 505 504) | | | | |
| | 60 722 | 128 | | (7 774 238) | | | | |
| 15 434[3] | | 83 | 1 275 774 | | | | | |
| 6 842 | | 128 | 875 981 | | | | | |
| 5 870 | 2 936 | 128 | 751 536 | (375 896) | | | | |
| 7 422 | 14 845 | 128 | 950 239 | (1 900 605) | | | | |
| 2 498[3] | | 97 | 243 005 | | | | | |
| 943 | | 128 | 120 732 | | | | | |
| 1 087 | | 128 | 139 169 | | | | | |
| | | | | | 1 353 401 | | | |
| 56 376 | 158 715 | | 6 454 766 | (20 325 829) | 1 353 401 | | | |

| Prescribed officers | Opening balance at 1 October 2020 | | | | Awards made during 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Vesting date | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Final vesting/ exercise date |
| **MH Davis[8] Nedbank restricted shares** | 11 510 | 15 March 2018 | 299,73 | 16 March 2021 | | | | |
| | 7 673 | 14 March 2018 | 299,73 | 15 March 2021 | | | | |
| | 23 152 | 14 March 2019 | 269,95 | 15 March 2022 | | | | |
| | 35 545 | 19 March 2020 | 168,80 | 20 March 2023 | | | | |
| **Compulsory Bonus Share Scheme[1]** | | | | | | | | |
| | 4 908 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 6 305 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | 15 505 | 31 March 2020 | 83,36 | 1 April 2023 | | | | |
| **Voluntary Bonus Share Scheme[4]** | | | | | | | | |
| | 943 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 1 087 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | 3 298 | 31 March 2020 | 83,36 | 1 April 2023 | | | | |
| **Total value of dividends** | | | | | | | | |
| **Total** | **109 926** | | | | | | | |

| Awards vesting/lapsing during 2020 | | | | | Dividends | Closing balance at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|---|
| Number of restricted shares/ options released | Number of restricted shares/ options lapsed | Market price at vesting | Value gained on vesting | Notional value of loss on lapsing[5] | Total value of dividends paid in respect of all plans[6] | Number of restricted shares/ options | End of performance period | Final vesting/ exercise date |
| | | (R) | (R) | (R) | (R) | | | |
| | | | | | | 11 510 | 31 December 2020 | 16 March 2021 |
| | | | | | | 7 673 | 31 December 2020 | 15 March 2021 |
| | | | | | | 23 152 | 31 December 2021 | 15 March 2022 |
| | | | | | | 35 545 | 31 December 2022 | 20 March 2023 |
| | | | | | | 4 908 | 31 December 2020 | 1 April 2021 |
| | | | | | | 6 305 | 31 December 2021 | 1 April 2022 |
| | | | | | | 15 505 | 31 December 2022 | 1 April 2023 |
| | | | | | | 943 | 31 December 2020 | 1 April 2021 |
| | | | | | | 1 087 | 31 December 2021 | 1 April 2022 |
| | | | | | | 3 298 | 31 December 2022 | 1 April 2023 |
| | | | | | | 109 926 | | |

| Prescribed officers | Opening balance at 1 January 2020 | | | | Awards made during 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of restricted shares/ options | Date of issue/ inception | Issue price | Vesting date | Number of restricted shares/ options | Date of issue/ inception | Issue price | Final vesting/ exercise date |
| | | | (R) | | | | (R) | |
| B Kennedy[9] Nedbank restricted shares | | | | | | | | |
| | 20 469 | 15 March 2017 | 249,15 | 16 March 2020 | | | | |
| | 13 646 | 16 March 2017 | 249,15 | 17 March 2020 | | | | |
| | 11 343 | 15 March 2018 | 299,73 | 16 March 2021 | | | | |
| | 17 015 | 14 March 2018 | 299,73 | 15 March 2021 | | | | |
| | 33 339 | 14 March 2019 | 269,95 | 15 March 2022 | | | | |
| | | | | | 57 316 | 19 March 2020 | 168,80 | 20 March 2023 |
| Compulsory Bonus Share Scheme[1] | | | | | | | | |
| | 17 713 | 31 March 2017 | 258,33 | 1 April 2020 | | | | |
| | 14 865 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 19 460 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | | | | | 34 638 | 31 March 2020 | 83,36 | 1 April 2023 |
| Voluntary Bonus Share Scheme[4] | | | | | | | | |
| | 1 249 | 31 March 2017 | 220,17 | 1 April 2020 | | | | |
| | 943 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 1 087 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | | | | | 3 298 | 31 March 2020 | 83,36 | 1 April 2023 |
| Total value of dividends | | | | | | | | |
| Total | 151 129 | | | | 95 252 | | | |

| Awards vesting/lapsing during 2020 | | | | | Dividends | Closing balance at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|---|
| Number of restricted shares/ options released | Number of restricted shares/ options lapsed | Market price at vesting | Value gained on vesting | Notional value of loss on lapsing[5] | Total value of dividends paid in respect of all plans[6] | Number of restricted shares/ options | End of performance period | Final vesting/ exercise date |
| | | (R) | (R) | (R) | (R) | | | |
| 10 726 | 9 743 | 129 | 1 382 474 | (1 255 775) | | | | |
| 13646[2] | | 129 | 1 758 833 | | | | | |
| | | | | | | 11 343 | 31 December 2020 | 16 March 2021 |
| | | | | | | 17 015 | 31 December 2020 | 15 March 2021 |
| | | | | | | 33 339 | 31 December 2021 | 15 March 2022 |
| | | | | | | 57 316 | 31 December 2022 | 20 March 2023 |
| | | | | | | 17 713 | 31 December 2019 | 1 April 2020 |
| | | | | | | 14 865 | 31 December 2020 | 1 April 2021 |
| | | | | | | 19 460 | 31 December 2021 | 1 April 2022 |
| | | | | | | 34 638 | 31 December 2022 | 1 April 2023 |
| | | | | | | 1 249 | 31 December 2019 | 1 April 2020 |
| | | | | | | 943 | 31 December 2020 | 1 April 2021 |
| | | | | | | 1 087 | 31 December 2021 | 1 April 2022 |
| | | | | | | 3 298 | 31 December 2022 | 1 April 2023 |
| 24 372 | 9 743 | | 3 141 307 | (1 255 775) | – | 212 266 | | |

| Prescribed officers | Opening balance at 1 January 2020 | | | | Awards made during 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Vesting date | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Final vesting/ exercise date |
| **C Thomas Nedbank restricted shares** | | | | | | | | |
| | 18 061 | 15 March 2017 | 249,15 | 16 March 2020 | | | | |
| | 12 040 | 16 March 2017 | 249,15 | 17 March 2020 | | | | |
| | 11 343 | 15 March 2018 | 299,73 | 16 March 2021 | | | | |
| | 17 015 | 14 March 2018 | 299,73 | 15 March 2021 | | | | |
| | 37 043 | 14 March 2019 | 269,95 | 15 March 2022 | | | | |
| | | | | | 60 722 | 19 March 2020 | 168,80 | 20 March 2023 |
| **Compulsory Bonus Share Scheme[1]** | | | | | | | | |
| | 2 282 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 5 726 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | | | | | 21 443 | 31 March 2020 | 83,36 | 1 April 2023 |
| **Voluntary Bonus Share Scheme[4]** | | | | | | | | |
| **Total value of dividends** | | | | | | | | |
| **Total** | 103 510 | | | | 82 165 | | | |

| Awards vesting/lapsing during 2020 | | | | | Dividends | Closing balance at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|---|
| Number of restricted shares/ options released | Number of restricted shares/ options lapsed | Market price at vesting | Value gained on vesting | Notional value of loss on lapsing[5] | Total value of dividends paid in respect of all plans[6] | Number of restricted shares/ options | End of performance period | Final vesting/ exercise date |
| | | (R) | (R) | (R) | (R) | | | |
| 9 464 | 8 597 | 129 | 1 219 815 | (1 108 067) | | | | |
| 12040[2] | | 129 | 1 551 836 | | | | | |
| | | | | | | 11 343 | 31 December 2020 | 16 March 2021 |
| | | | | | | 17 015 | 31 December 2020 | 15 March 2021 |
| | | | | | | 37 043 | 31 December 2021 | 15 March 2022 |
| | | | | | | 60 722 | 31 December 2022 | 20 March 2023 |
| 2 282 | | 128 | 292 164 | | | | | |
| 2 862 | | 128 | 366 422 | | | 2 864 | 31 December 2021 | 1 April 2022 |
| 7 147 | | 128 | 915 030 | | | 14 296 | 31 December 2022 | 1 April 2023 |
| | | | | | 1 230 692 | | | |
| 33 795 | 8 597 | | 4 345 267 | (1 108 067) | 1 230 692 | 143 283 | | |

| Prescribed officers | Opening balance at 1 January 2020 | | | | Awards made during 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Vesting date | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Final vesting/ exercise date |
| **I Ruggiero Nedbank restricted shares** | | | | | | | | |
| | 15 653 | 15 March 2017 | 249,15 | 16 March 2020 | | | | |
| | 10 435 | 16 March 2017 | 249,15 | 17 March 2020 | | | | |
| | 8 007 | 15 March 2018 | 299,73 | 16 March 2021 | | | | |
| | 12 011 | 14 March 2018 | 299,73 | 15 March 2021 | | | | |
| | 25 930 | 14 March 2019 | 269,95 | 15 March 2022 | | | | |
| | | | | | 39 988 | 19 March 2020 | 168,80 | 20 March 2023 |
| **Compulsory Bonus Share Scheme[1]** | | | | | | | | |
| | 5 429 | 31 March 2017 | 258,33 | 1 April 2020 | | | | |
| | 4 011 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 5 000 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | | | | | 9 072 | 31 March 2020 | 83,36 | 1 April 2023 |
| **Voluntary Bonus Share Scheme[4]** | | | | | | | | |
| | 1 249 | 08 May 2017 | 220,17 | 9 May 2020 | | | | |
| | 943 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 1 087 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| **Total value of dividends** | | | | | 3 298 | 31 March 2020 | 83,36 | 1 April 2023 |
| **Total** | 89 755 | | | | 52 358 | | | |

| Awards vesting/lapsing during 2020 | | | | | Dividends | Closing balance at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|---|
| Number of restricted shares/ options released | Number of restricted shares/ options lapsed | Market price at vesting | Value gained on vesting | Notional value of loss on lapsing[5] | Total value of dividends paid in respect of all plans[6] | Number of restricted shares/ options | End of performance period | Final vesting/ exercise date |
| | | (R) | (R) | (R) | (R) | | | |
| 8 203 | 7 450 | 129 | 1 057 285 | (960 231) | | | | |
| 10 435[2] | | 129 | 1 344 967 | | | | | |
| | | | | | | 8 007 | 31 December 2020 | 16 March 2021 |
| | | | | | | 12 011 | 31 December 2020 | 15 March 2021 |
| | | | | | | 25 930 | 31 December 2021 | 15 March 2022 |
| | | | | | | 39 988 | 31 December 2022 | 20 March 2023 |
| 10 858[3] | | 83 | 897 522 | | | | | |
| | | | | | | 4 011 | 31 December 2020 | 1 April 2021 |
| | | | | | | 5 000 | 31 December 2021 | 1 April 2022 |
| | | | | | | 9 072 | 31 December 2022 | 1 April 2023 |
| 2 498[3] | | 97 | 243 005 | | | | | |
| | | | | | | 943 | 31 December 2020 | 1 April 2021 |
| | | | | | | 1 087 | 31 December 2021 | 1 April 2022 |
| | | | | | | 3 298 | 31 December 2022 | 1 April 2023 |
| | | | | | 950 850 | | | |
| 31 994 | 7 450 | | 3 542 780 | (960 231) | 950 850 | 109 347 | | |

| Prescribed officers | Opening balance at 1 April 2020 | | | | Awards made during 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of restricted shares/ options | Date of issue/ inception | Issue price | Vesting date | Number of restricted shares/ options | Date of issue/ inception | Issue price | Final vesting/ exercise date |
| | | | (R) | | | | (R) | |
| **A Bosman[10] Nedbank restricted shares** | | | | | | | | |
| | 8 007 | 14 March 2018 | 299,73 | 15 March 2021 | | | | |
| | 5 338 | 15 March 2018 | 299,73 | 16 March 2021 | | | | |
| | 9 335 | 14 March 2019 | 269,95 | 15 March 2022 | | | | |
| | 6 223 | 15 March 2019 | 269,95 | 16 March 2022 | | | | |
| | 32 582 | 19 March 2020 | 168,80 | 20 March 2023 | | | | |
| | 14 573 | 19 March 2020 | 168,80 | 20 March 2023 | | | | |
| | 9 716 | 20 March 2020 | 168,80 | 21 March 2023 | | | | |
| **Compulsory Bonus Share Scheme[1]** | | | | | | | | |
| | 7 550 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 10 599 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | 22 267 | 31 March 2020 | 83,36 | 1 April 2023 | | | | |
| **Voluntary Bonus Share Scheme[4]** | | | | | | | | |
| | 943 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 1 087 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | 3 298 | 31 March 2020 | 83,36 | 1 April 2023 | | | | |
| **Total value of dividends** | | | | | | | | |
| **Total** | 131 518 | | | | | | | |

| Awards vesting/lapsing during 2020 | | | | | Dividends | Closing balance at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|---|
| Number of restricted shares/ options released | Number of restricted shares/ options lapsed | Market price at vesting | Value gained on vesting | Notional value of loss on lapsing[5] | Total value of dividends paid in respect of all plans[6] | Number of restricted shares/ options | End of performance period | Final vesting/ exercise date |
| | | (R) | (R) | (R) | (R) | | | |
| | | | | | | 8 007 | 31 December 2020 | 15 March 2021 |
| | | | | | | 5 338 | 31 December 2020 | 16 March 2021 |
| | | | | | | 9 335 | 31 December 2021 | 15 March 2022 |
| | | | | | | 6 223 | 31 December 2021 | 16 March 2022 |
| | | | | | | 32 582 | 31 December 2021 | 20 March 2023 |
| | | | | | | 14 573 | 31 December 2022 | 20 March 2023 |
| | | | | | | 9 716 | 31 December 2022 | 21 March 2023 |
| | | | | | | 7 550 | 31 December 2020 | 1 April 2021 |
| | | | | | | 10 599 | 31 December 2021 | 1 April 2022 |
| | | | | | | 22 267 | 31 December 2022 | 1 April 2023 |
| | | | | | | 943 | 31 December 2020 | 1 April 2021 |
| | | | | | | 1 087 | 31 December 2021 | 1 April 2022 |
| | | | | | | 3 298 | 31 December 2022 | 1 April 2023 |
| | | | | | 1 072 531 | | | |
| | | | | | 1 072 531 | 131 518 | | |

| Prescribed officers | Opening balance at 1 April 2020 | | | | Awards made during 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Vesting date | Number of restricted shares/ options | Date of issue/ inception | Issue price (R) | Final vesting/ exercise date |
| **T Sibiya[10] Nedbank restricted shares** | | | | | | | | |
| | 6 006 | 14 March 2018 | 299,73 | 15 March 2021 | | | | |
| | 4 003 | 15 March 2018 | 299,73 | 16 March 2021 | | | | |
| | 7 779 | 14 March 2019 | 269,95 | 15 March 2022 | | | | |
| | 5 186 | 15 March 2019 | 269,95 | 16 March 2022 | | | | |
| | 23 696 | 19 March 2020 | 168,80 | 20 March 2023 | | | | |
| | 10 663 | 19 March 2020 | 168,80 | 20 March 2023 | | | | |
| | 7 109 | 20 March 2020 | 168,80 | 21 March 2023 | | | | |
| **Compulsory Bonus Share Scheme[1]** | | | | | | | | |
| | 2 548 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 3 533 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | 7 422 | 31 March 2020 | 83,36 | 1 April 2023 | | | | |
| **Voluntary Bonus Share Scheme[4]** | | | | | | | | |
| | 943 | 31 March 2018 | 291,36 | 1 April 2021 | | | | |
| | 395 | 31 March 2019 | 252,95 | 1 April 2022 | | | | |
| | 1 199 | 31 March 2020 | 83,36 | 1 April 2023 | | | | |
| **Total value of dividends** | | | | | | | | |
| **Total** | 80 482 | | | | | | | |

*[1] Matching on the Compulsory Bonus Share Scheme occurs only on shares in the scheme at the vesting date. If corporate performance targets (CPTs) are met, 100% matching occurs.*
*[2] Restricted-share awards with time-based vesting only.*
*[3] Match occurred at one share for each share in the Compulsory Bonus Share Scheme and Voluntary Bonus Share Scheme at the vesting date.*
*[4] For the Voluntary Bonus Share Scheme, employees invest their own Nedbank shares in the scheme. After three years, if the CPTs are met, a 100% matching occurs.*
*[5] Value determined based on the number of shares lapsing, multiplied by the market share price on the scheduled vesting date.*
*[6] Plans exclude the Voluntary Bonus Share Scheme, which consists of own shares.*
*[7] RK Morathi resigned with effect from 31 September 2020.*
*[8] MH Davis was appointed as CFO, with effect from 1 October 2020. Opening balance at 1 October 2020.*
*[9] B Kennedy retired with effect from 30 March 2020. Closing balance at 31 March 2020.*
*[10] A Bosman and T Sibiya were appointed with effect from 1 April 2020. Opening balance at 1 April 2020.*

| Awards vesting/lapsing during 2020 | | | | | Dividends | Closing balance at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|---|
| Number of restricted shares/ options released | Number of restricted shares/ options lapsed | Market price at vesting | Value gained on vesting | Notional value of loss on lapsing[5] | Total value of dividends paid in respect of all plans[6] | Number of restricted shares/ options | End of performance period | Final vesting/ exercise date |
| | | (R) | (R) | (R) | (R) | | | |
| | | | | | | 6 006 | 31 December 2020 | 15 March 2021 |
| | | | | | | 4 003 | 31 December 2020 | 16 March 2021 |
| | | | | | | 7 779 | 31 December 2021 | 15 March 2022 |
| | | | | | | 5 186 | 31 December 2021 | 16 March 2022 |
| | | | | | | 23 696 | 31 December 2022 | 20 March 2023 |
| | | | | | | 10 663 | 31 December 2022 | 20 March 2023 |
| | | | | | | 7 109 | 31 December 2022 | 21 March 2023 |
| | | | | | | 2 548 | 31 December 2020 | 1 April 2021 |
| | | | | | | 3 533 | 31 December 2021 | 1 April 2022 |
| | | | | | | 7 422 | 31 December 2022 | 1 April 2023 |
| | | | | | | 943 | 31 December 2020 | 1 April 2021 |
| | | | | | | 395 | 31 December 2021 | 1 April 2022 |
| | | | | | | 1 199 | 31 December 2022 | 1 April 2023 |
| | | | | | 604 344 | | | |
| | | | | | 604 344 | 80 482 | | |

**Register date: 31 December 2020**

**Authorised share capital: 1 000 000 000 shares**

**Issued share capital: 358 277 491 shares**

## M4 PREFERENCE SHAREHOLDER ANALYSIS

| Shareholder spread | Number of shareholdings | % | Number of shares | % |
|---|---|---|---|---|
| 1–1 000 shares | 778 | 12,13 | 140 247 | 0,04 |
| 1 001–10 000 shares | 2 251 | 35,09 | 13 041 677 | 3,64 |
| 10 001–100 000 shares | 2 921 | 45,53 | 94 174 656 | 26,29 |
| 100 001–1 000 000 shares | 430 | 6,70 | 99 572 180 | 27,79 |
| 1 000 001 shares and over | 35 | 0,55 | 151 348 731 | 42,24 |
| **Total** | **6 415** | **100,00** | **358 277 491** | **100,00** |

| Distribution of shareholders | Number of shareholdings | % | Number of shares | % |
|---|---|---|---|---|
| Banks | 11 | 0,17 | 4 107 874 | 1,15 |
| Close corporations | 64 | 1,00 | 3 047 093 | 0,85 |
| Endowment funds | 86 | 1,34 | 9 274 764 | 2,59 |
| Individuals | 4 447 | 69,32 | 97 973 674 | 27,35 |
| Insurance companies | 17 | 0,27 | 26 318 086 | 7,35 |
| Investment companies | 2 | 0,03 | 12 020 145 | 3,35 |
| Medical aid schemes | 5 | 0,08 | 330 836 | 0,09 |
| Mutual funds | 71 | 1,11 | 62 086 034 | 17,33 |
| Trusts | 1 351 | 21,06 | 58 483 975 | 16,32 |
| Other corporations | 44 | 0,69 | 1 700 856 | 0,47 |
| Private companies | 275 | 4,29 | 33 484 769 | 9,35 |
| Public companies | 3 | 0,05 | 2 283 100 | 0,64 |
| Own holdings | 1 | 0,02 | 37 300 000 | 10,41 |
| Retirement funds | 38 | 0,59 | 9 866 285 | 2,75 |
| **Total** | **6 415** | **100,00** | **358 277 491** | **100,00** |

| Public/Non-public shareholders | Number of shareholdings | % | Number of shares | % |
|---|---|---|---|---|
| Non-public shareholders | 13 | 0,20 | 48 086 732 | 13,42 |
| Nedbank Group Limited and associates | 13 | 0,20 | 48 086 732 | 13,42 |
| Public shareholders | 6 402 | 99,80 | 310 190 759 | 86,58 |
| **Total** | **6 415** | **100,00** | **358 277 491** | **100,00** |

| Beneficial shareholders holding 5% or more | Number of shares | % |
|---|---|---|
| Nedbank Group Limited | 48 086 732 | 13,42 |
| Prescient | 29 692 574 | 8,29 |
| **Total** | **77 779 306** | **21,71** |

| Major managers | Number of shares | 2020 % holding | 2019 % holding |
|---|---|---|---|
| Prescient Investment Management (SA) | 40 867 060 | **11,41** | 10,46 |
| Nedbank Group Limited (SA) | 37 300 000 | **10,41** | 10,41 |
| Investec Securities Proprietary Limited | 31 483 752 | **8,79** | 8,90 |
| Nedgroup Private Wealth (Pty) Ltd | 27 830 391 | **7,77** | 8,63 |
| Sanlam Investment Management | 12 020 145 | **3,35** | |
| Sanlam Private Investments (ZA) | 9 054 135 | **2,53** | 5,97 |
| Abax Investments (SA) | 7 864 691 | **2,20** | 2,20 |
| Outsurance Insurance Company Limited (SA) | 7 586 720 | **2,12** | 2,12 |
| ABSA Asset Management (Pty) Ltd | 5 751 432 | **1,61** | |
| Hollard Insurance (ZA) | 5 629 051 | **1,57** | 1,57 |
| FNB Wealth & Investments (ZA) | 5 146 312 | **1,44** | |
| STANLIB Asset Management (SA) | 4 902 014 | **1,37** | 1,99 |
| Ashburton Fund Managers Ltd (ZA) | 4 838 050 | **1,35** | |
| Old Mutual Ltd | 4 621 638 | **1,29** | |
| PSG Wealth Financial Planning (Pty) Ltd (ZA) | 4 053 426 | **1,13** | |
| Climor Trust (ZA) | 3 982 983 | **1,11** | 1,11 |
| Sahd WP | 3 810 641 | **1,06** | |
| BJM Private Client Services Ltd (ZA) | 3 676 563 | **1,03** | 1,18 |
| Sasfin Asset Managers (Pty) Ltd | 3 511 474 | **0,98** | 1,26 |
| Graaf Baronetcy Fund (ZA) | 3 281 296 | **0,92** | 0,92 |

## INFORMATION NOT COVERED BY THE INDEPENDENT AUDITORS' REPORT

| COMPLIANCE WITH IFRS – FINANCIAL STATEMENT NOTES | | |
|---|---|---|
| Note number | Note description | IFRS required |
| A1 | Principal accounting policies | IAS 1 |
| A2 | Key assumptions concerning the future and key sources of estimation | IAS 1 |
| A3 | New standards and interpretations not yet adopted | IAS 8 |
| B1 | Segmental reporting | IFRS 8 |
| B1.2 | Headline earnings | IAS 1, IAS 16 and IAS 36 |
| B2 | Dividends | IAS 1, IAS 10, and IAS 32 |
| B3 | Share capital | IAS 1 and IAS 32 |
| B4 | Holders of additional tier 1 capital instruments | IAS 32, IFRS 7, IFRS 9 and IFRS 13 |
| B5.1 | Net interest income | IAS 32, IFRS 7, IFRS 9, IFRS 13 and IFRS 15 |
| B5.2 | Non-interest revenue | IAS 20, IAS 32, IFRS 4, IFRS 7, IFRS 8, IFRS 9, IFRS 13 and IFRS 15 |
| B6 | Total operating expenses | IAS 1, IAS 19, IFRS 2 and IFRS 8 |
| B7.1 | Indirect taxation | IAS 1 |
| B7.2 | Direct taxation | IAS 12 |
| B7.3 | Deferred taxation | IAS 12 |
| C1 | Loans and advances | IFRS 7, IFRS 8, IFRS 9 and IFRS 13 |
| C2 | Impairments charge on financial instruments | IFRS 7, IFRS 8 and IFRS 9 |
| C3 | Government and other securities | IAS 1,IAS 32, IFRS 7, IFRS 8, IFRS 9 and IFRS 13 |
| C4 | Other short-term securities | IAS 1, IFRS 7, IFRS 8, IFRS 9 and IFRS 13 |
| C5 | Credit analysis of other short-term securities, and government and other securities | IFRS 7 |
| C6 | Cash and cash equivalents | IAS 1, IAS 7 and IFRS 7 |
| C7 | Derivative financial instruments | IAS 32, IAS 39, IFRS 7, IFRS 9 and IFRS 13 |
| D1 | Amounts owed to depositors | IAS 1, IFRS 7, IFRS 8, IFRS 9 and IFRS 13 |
| D2 | Long-term debt instruments | IAS 32, IFRS 7, IFRS 9 and IFRS 13 |
| D3 | Investment contract liabilities | IAS 1, IFRS 4, IFRS 7, IFRS 9 and IFRS 13 |
| D4 | Insurance contract liabilities | IAS 1 and IFRS 4 |
| D5 | Contractual maturity analysis for financial liabilities | IFRS 7 |
| E1 | Investment securities | IAS 32, IFRS 7, IFRS 9 and IFRS 13 |
| E2 | Investments in associate companies | IAS 28, IFRS 11, IFRS 12 and IFRS 13 |
| E3 | Investments in subsidiary companies and related disclosure | IAS 27, IFRS 10 and IFRS 12 |
| E4 | Interests in structured consolidated and unconsolidated structured entities | IFRS 10 and IFRS 12 |
| E5 | Securitisations | IFRS 7, IFRS 9, IFRS 12 and IFRS 13 |
| E6 | Related parties | IAS 24 |
| F1 | Property and equipment | IAS 16, IAS 36, IFRS 13 and IFRS 16 |
| F2 | Intangible assets | IAS 38 and IAS 36 |
| G1 | Long-term employee benefits | IAS 19 and IFRIC 14 |
| G2 | Non-current assets and liabilities held for sale | IFRS 5 and IFRS 13 |
| G3 | Other assets | IAS 1, IFRS 7, IFRS 9 and IFRS 13 |
| H1 | Consolidated statement of financial position — categories of financial instruments | IFRS 7 and IFRS 9 |
| H2 | Fair-value measurement — financial instruments | IFRS 7, IFRS 9 and IFRS 13 |
| H3 | Assets and liabilities not measured at fair value for which fair value is disclosed | IFRS 7, IFRS 9 and IFRS 13 |
| H4 | Financial instruments designated as fair value through profit or loss | IAS 32, IFRS 7, IFRS 9 and IFRS 13 |
| H5 | Offsetting financial assets and financial liabilities | IFRS 7 and IAS 32 |
| H6 | Collateral | IFRS 7 |
| I | Share-based payments | IFRS 2 |
| J1 | Provisions and other liabilities | IAS 37, IAS 32, IFRS 7, IFRS 9, IFRS 13 and IFRS 16 |
| J2 | Contingent liabilities, undrawn facilities and commitments | IAS 37, IAS 10 and IFRS 7 |
| K1 | Financial risk management | IAS 1 |
| K2 | Capital management | IAS 1 |
| K3 | Liquidity gap | IFRS 7 |
| K4 | Interest rate risk in the banking book | IFRS 7 |
| K5 | Historical value at risk (99%, one-day) by risk type | IFRS 7 |
| L | Cashflow information | IAS 7 |
| M1 | Foreign currency conversion | IAS 21 |
| N2 | Events after the reporting period | IAS 10 |

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