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TAKING THE STING OUT OF COVID-19

THE IMPACT AND ACCOUNTING CONSIDERATIONS OF COVID-19 ON THE BANKING INDUSTRY

February 2021

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"As evidenced in BDO's survey, COVID-19 has introduced further estimation uncertainty and inconsistency into an already complex and judgemental area of IFRS 9, in applying Expected Credit Loss principles.

We trust that this publication will bring some degree of clarity and alignment to the market, and banks can apply these insights into their upcoming reporting cycle disclosures and estimation considerations."

- Kevin Hoff, Head of Banking: South Africa BDO Financial Services

INTRODUCTION

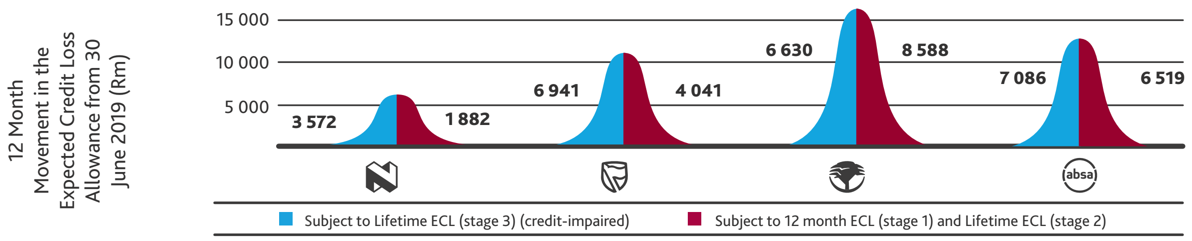
COVID-19 has generated health and economic challenges across the global, regional and domestic economy. Policymakers have responded swiftly with emergency economic support and payment relief measures providing relief to lenders across the banking industry, thus stabilising their operations during this turbulent period. However, it is evident with the occurrence of the second and third waves of infection that the impact of the COVID-19 pandemic will reverberate for many years to come.

Analysis of both the economic and epidemiological data indicates that South Africa had a severe pandemic, on par with many developed countries. South Africa's experience of the associated economic challenges are perhaps even more stark, particularly as the country entered this crisis amidst a mild recession following several years of disappointing growth, high unemployment, a weak fiscal position, and fragile business and consumer confidence. South Africa's current circumstances and patterns of immunity to COVID-19 also provide some clues as to what may lie ahead. However, South Africa's four largest banks have been cognisant of the uncertainty inherent within the trajectory of the pandemic, and this is reflected in the increase in the Expected Credit Loss (ECL) allowance for the 12-month period from 30 June 2019.

The impact of COVID-19 on the global economy has prompted regulators, including the International Accounting Standards Board, to issue guidance in respect of the accounting for ECLs, in applying IFRS 9 Financial Instruments. Similarly, the Prudential Authority (PA) of the South African Reserve Bank (SARB), has issued guidance on macroeconomic factors to be taken into consideration in ECL modelling, in an effort to stabilise Balance Sheets across the banking sector.

This publication serves as a reminder of the existing accounting requirements and insights from local and global regulatory bodies, to be considered in the determination of ECLs in the banking sector, for the annual or interim reporting periods ending in 2020/2021, amidst a highly uncertain local and global economic backdrop.

Furthermore, given the unprecedented nature of the current health and economic crisis, forecasting with confidence is particularly difficult and scenarios play an even greater than normal role in ensuring appropriate risk management. We therefore analyse a number of scenarios and macroeconomic assumptions that have been considered by the four largest South African banks, as disclosed in their financial results for the reporting period ended 30 June 2020. ■



The movements in the ECL allowance were extracted from the financial results of the relevant banks for the reporting period ended 30 June 2020.

COVID-19 Snapshot

Cumulative Cases
1,477,511

Daily Change
+1,376

Active Cases
67,091

Relative to Population
2.5138%

Cumulative Fatalities
46,473

Mortality Rate
3.15%

Relative to Population
0.079069%

Total Recoveries
1,363,947

Total Tests
8,511,410

	Gauteng	Western Cape	KwaZulu Natal	Free State	Eastern Cape	Limpopo	Mpumalanga	North West	Northern Cape
	394,629	272,526	321,367	77,699	192,846	59,774	67,515	58,497	32,658
Daily Increase	389	123	324	88	52	112	191	67	30

Data sourced from The Johns Hopkins University CSSE – 9 February 2021

OVERVIEW

Banks continue to face challenges related to forecasting as a result of the ongoing uncertainties associated with the COVID-19 pandemic. One might observe a tale of two economic outlooks: one in which **short term uncertainty and volatility is forecast to persist in the medium term** (U-shaped recession: long period between decline and recovery), and one in which **pre-COVID-19 levels of long term economic growth is expected to return in the medium term** (V-shaped recession: steep decline, quick recovery).

With all the unknowns and uncertainties unfolding locally and globally, particularly the ensuing second and third wave of COVID-19 infections, banks are faced with a decision to either develop new ECL models or update existing models with uncertain macroeconomic forecast assumptions and management overlays. As traditional credit models were not calibrated for events such as the COVID-19 crisis, major South African banks have opted for the latter, in addition to leaning on guidance from regulatory bodies in reinforcing their existing models. This takes into account the use of regulatory capital calculations and stress testing frameworks as part of the overall process in determining the ECL allowance.

However, in our view, given that the severity of the consequences of the COVID-19 pandemic is not directly comparable with any recent similar events, it would be difficult to ensure that any post-model overlays or adjustments would be an unbiased and probability-weighted estimate of future losses. In addition, there is a danger of double-counting the economic impact of the COVID-19 pandemic, by providing for such adjustments, resulting in overly conservative ECL allowances recognised up-front, with steady releases over the next 12 - 24 months.

While we do not believe that there is a one-size-fits-all approach to addressing the forecasting challenges that exist currently, we have seen the following general strategies prove to be effective when forecasting amidst uncertainty:

- Evaluating recovery and financial forecasts from an outside-in perspective first. Specifically, focusing on the factors, issues, and conditions outside of a bank's control that are known.
- Automating components of forecasting to help remove bias and facilitate more real-time and frequent re-forecasting as key drivers and trends change, while also analysing data at a more detailed level.
- Considering facts that both support and contradict assumptions regarding the company's timing and pattern of recovery, sustainability, and growth.
- Back-testing models and post-model overlays or adjustments against actual macroeconomic indicators as they are published or become observable.

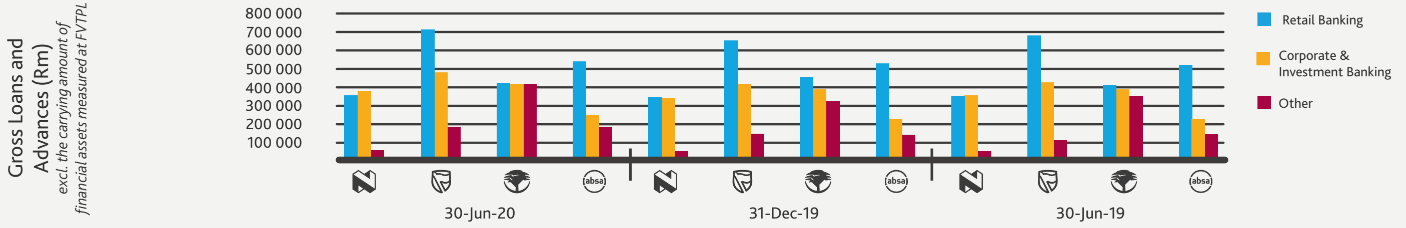
In the short term, we believe that credit models should be revisited, with the key focus being on the improvement of data collection and management processes, to ensure that model development and management input is well informed. However, in the longer term, for the development of dynamic and robust ECL models, we propose that banks consider the adoption and integration of machine learning algorithms to detect changes in risk indicators at a specific borrower or sector level, enabling the reassessment of the affected exposures and the integration of real-time risk drivers and trends.

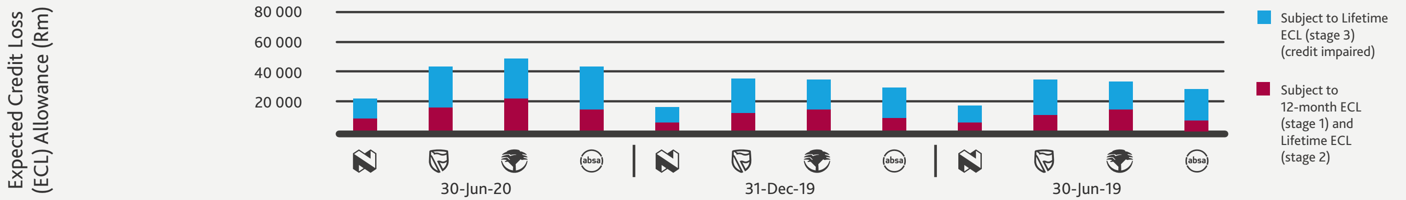
"When you develop your opinions on the basis of weak evidence, you will have difficulty interpreting subsequent information that contradicts these opinions, even if this new information is obviously more accurate."

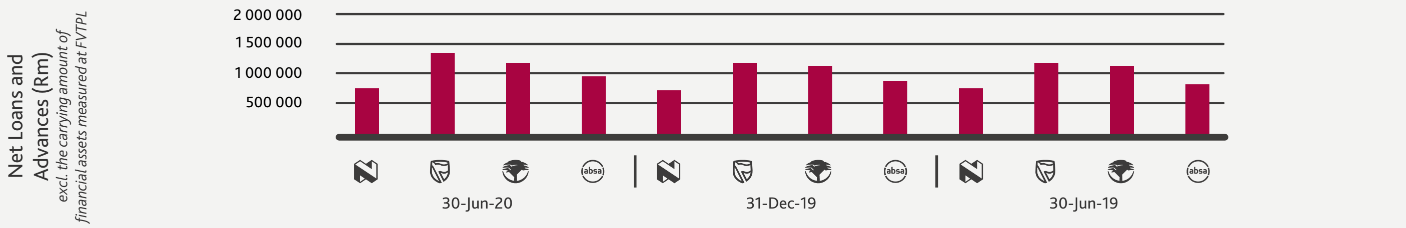
- Nassim Nicholas Taleb, The Black Swan: The Impact of the Highly Improbable

LOANS AND ADVANCES

As per the financial results of Nedbank, Standard Bank, FirstRand Bank, and Absa:



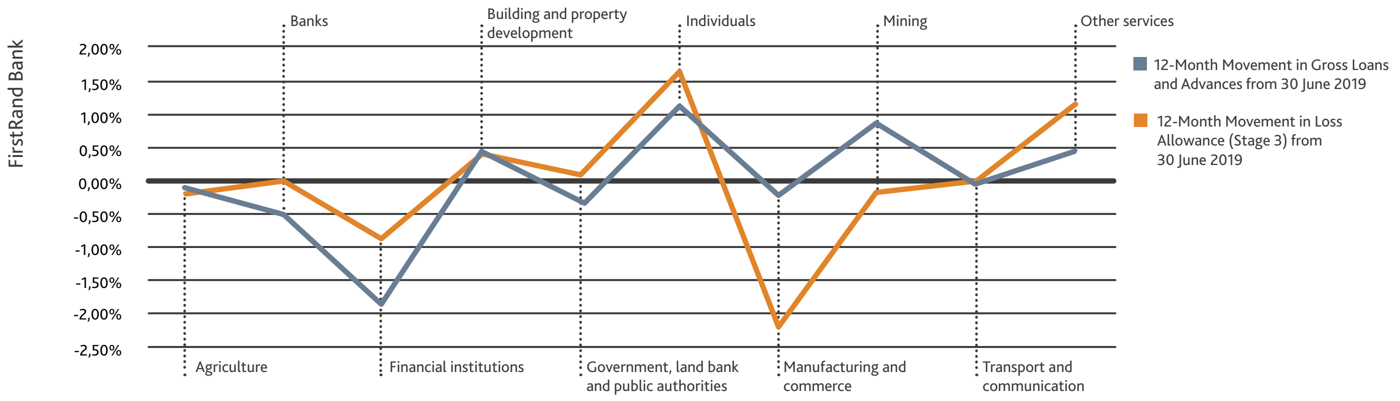


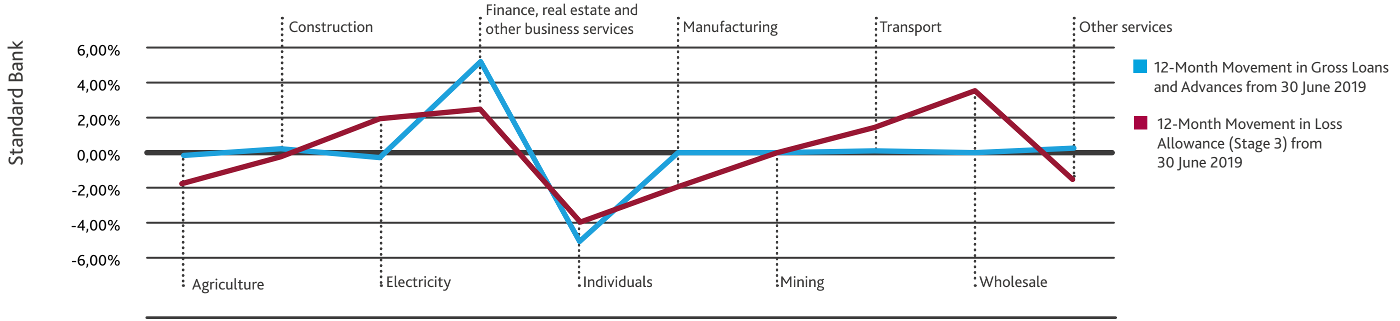


Although there are substantial differences amongst the geographic split and the counterparty exposure of the loan books, on average the four largest banks in South Africa have booked significant provisions on performing loans, due to of the deterioration in the credit quality of the underlying financial assets.

GROSS CREDIT AND COUNTERPARTY EXPOSURES BY INDUSTRY

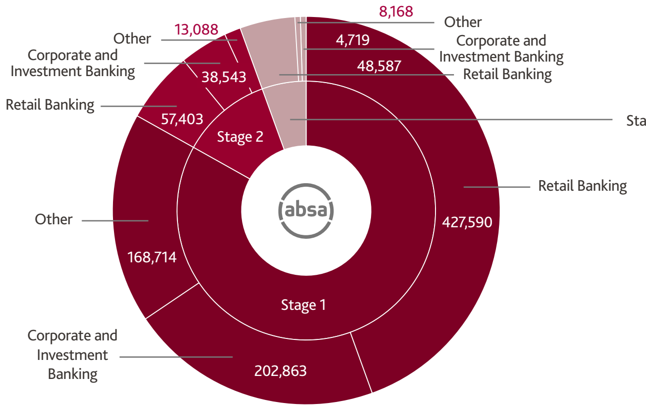
As per the financial results of FirstRand Bank and Standard Bank:

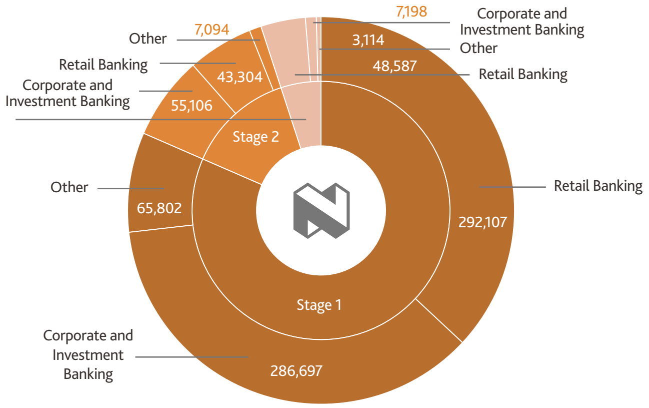


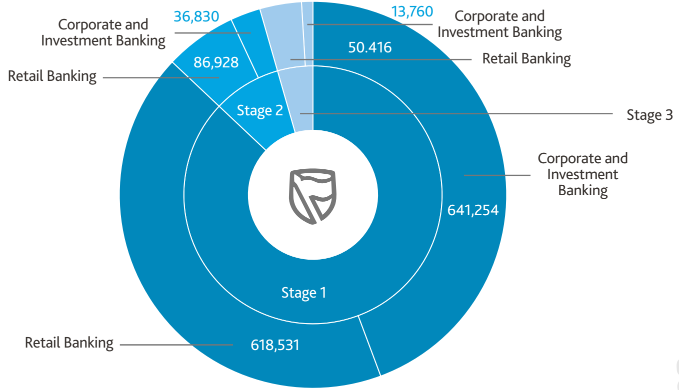


The gross credit and counterparty exposures by industry were extracted from the financial results of the relevant banks for the relevant reporting periods.
Industry segmental analysis of both Gross Loans and Advances and ECL Allowances, were not disclosed in the financial results of ABSA and Nedbank, for the reporting period ended 30 June 2020.

ECL ANALYSIS BY MARKET SEGMENT AND CLASS OF CREDIT EXPOSURE (Rm)







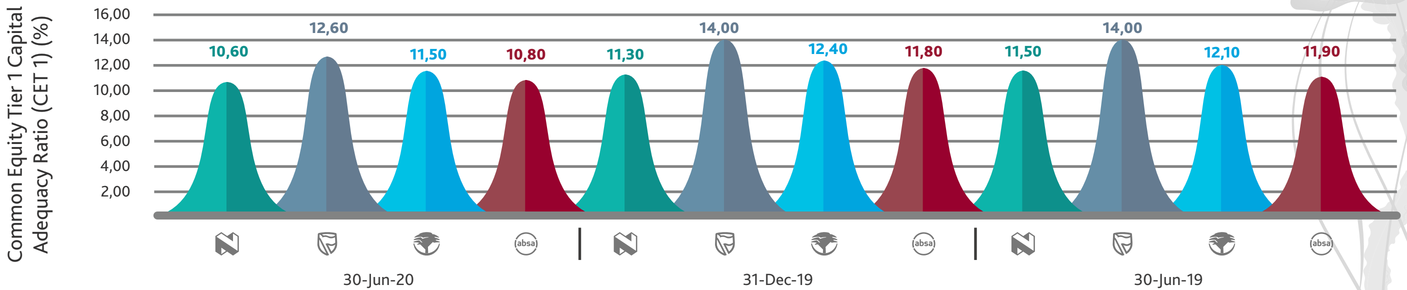
Stage 1	Retail Banking	44%
	Corporate and Investment Banking	21%
	Other	17%
Stage 2	Retail Banking	6%
	Corporate and Investment Banking	4%
	Other	1%
Stage 3	Retail Banking	5%
	Corporate and Investment Banking	1%
	Other	1%

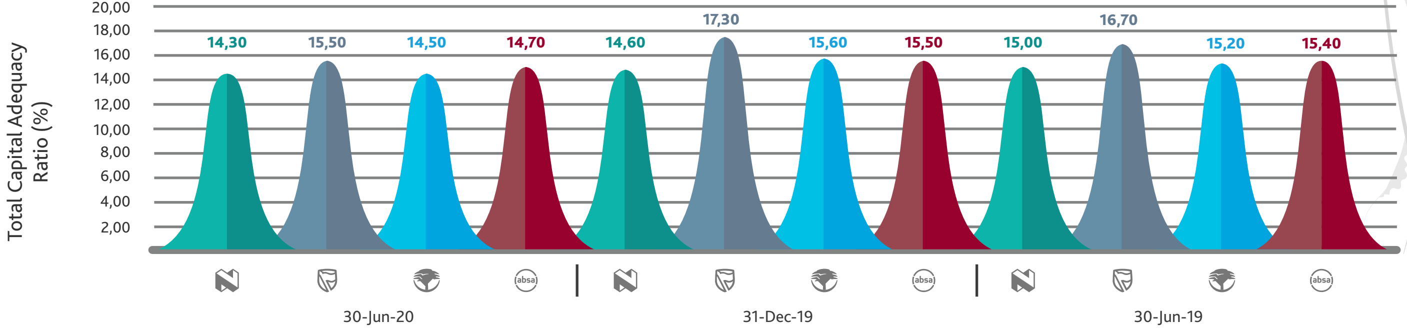
Stage 1	Retail Banking	37%
	Corporate and Investment Banking	36%
	Other	8%
Stage 2	Retail Banking	6%
	Corporate and Investment Banking	7%
	Other	1%
Stage 3	Retail Banking	4%
	Corporate and Investment Banking	1%
	Other	0%

Stage 1	Retail Banking	44%
	Corporate and Investment Banking	46%
	Other	-4%
Stage 2	Retail Banking	6%
	Corporate and Investment Banking	3%
	Other	0%
Stage 3	Retail Banking	4%
	Corporate and Investment Banking	1%
	Other	0%

An ECL analysis by market segment and class of credit exposure was not disclosed in the financial results of FirstRand Bank for the reporting period ended 30 June 2020.
The ECL analysis by market segment and class of credit exposures was extracted from the financial results of the relevant banks at the relevant 2020 reporting dates.

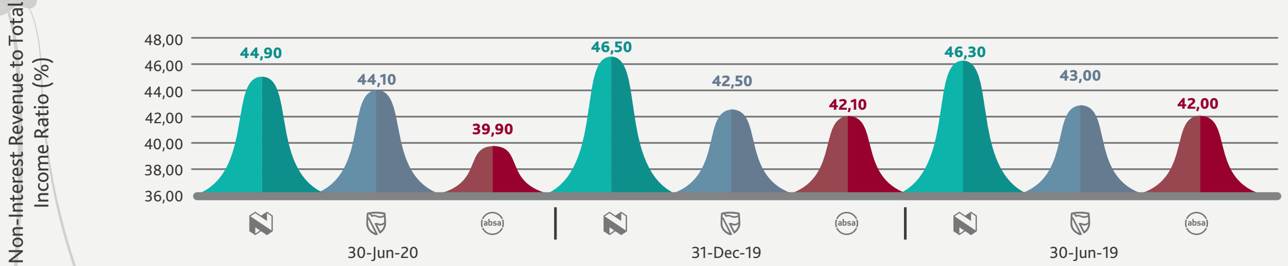
CAPITAL ADEQUACY RATIOS



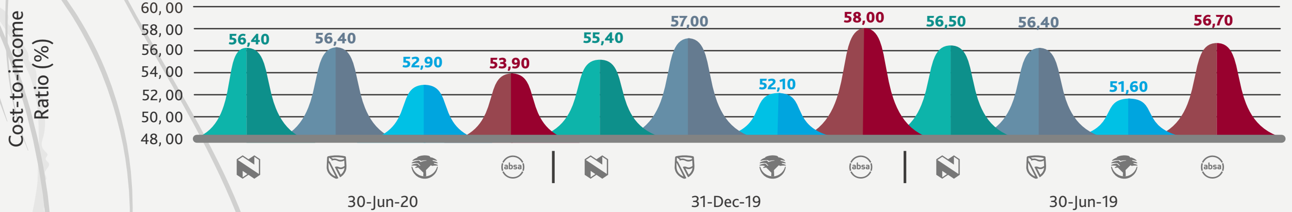


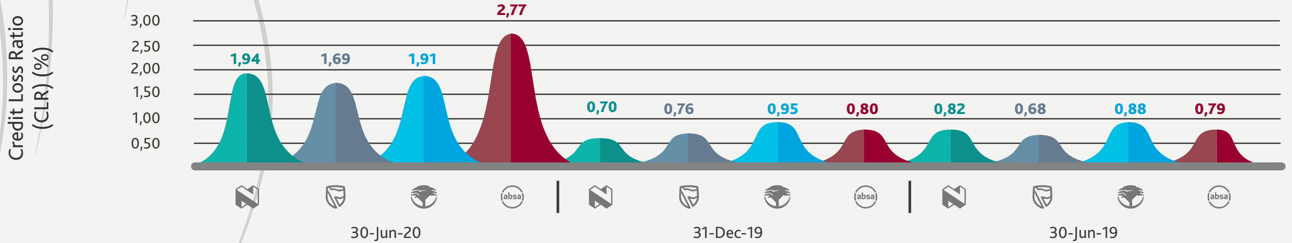
The capital adequacy and banking activity ratios were extracted from the financial results of the relevant banks as at the relevant reporting dates.

BANKING ACTIVITY RATIOS



The Non-Interest Revenue to Total Income Ratio is not disclosed in FirstRand's Annual Report (for the reporting period ended 30 June 2020).





IFRS 7 AND IFRS 9 ACCOUNTING CONSIDERATIONS

Economic Scenarios

The purpose of estimating ECLs is neither to estimate only a worst-case scenario nor to estimate a best-case scenario in isolation. Instead, the estimate of ECL is to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible scenarios.

The number of scenarios is not prescribed by IFRS 9, however, a range of scenarios will be required to address the non-linearities of macroeconomic inputs and contrasting economic recovery profiles. Given the uncertainty of the trajectory of the economy and the duration of the recession, banks should consider the spectrum of scenarios (namely a V-shaped, U-shaped, W-shaped, and L-shaped recession).

While the weighting of scenarios will depend on the stage of the country's response to the pandemic, assumptions used in specifying the scenarios, and the accuracy of macroeconomic forecasts, it is expected that the most weight be placed on a U-shaped and W-shaped economic recovery. The final weightings selected should reflect the asymmetry of the likelihood of various economic outcomes.

Alternatively, banks may consider introducing a COVID-19 / disaster scenario into the ECL model, to account for the high levels of uncertainty in the short term, and assume a mean reversion of long-term forecasts in the medium term. This is an appropriate consideration where existing linkage models cannot reflect COVID-19 macroeconomics, and an out-of-model adjustment is required.

As the economic environment is subject to rapid change, updated facts and circumstances should continue to be monitored as new information becomes available, and banks should aim to update their economic scenarios as close to their reporting dates as possible, assessing whether this constitutes an adjusting or non-adjusting event in terms of IAS 10 (refer to the COVID-19 IFRS Disclosure Checklist). ■

Forward Looking Information (FLI)

An inherent component included in forecasts of future conditions over the entire expected life of a financial instrument, is judgement. The degree of judgement that is required to estimate ECLs depends on the availability of reasonable and supportable information. As the forecast horizon increases, the availability of reasonable and supportable information decreases and the degree of judgement required to estimate ECLs increases.

As such, banks may encounter challenges in generating reasonable and supportable short-term forecasts, on which to anchor longer-term outlooks. Therefore, when making short-term forecasts, banks should remove the assumption that the COVID-19 pandemic is distinctly short-term in nature and limited only to a second wave of infections. This may be achieved by facilitating more real-time and frequent re-forecasting, as key epidemiological drivers and trends change, whilst also analysing South Africa's microeconomic landscape at a more detailed level.

Furthermore, due weight should be given to the long-term stable outlook evidenced by past experience when estimating ECLs. Practically this requires banks to distinguish between borrowers whose long-term credit risk is unlikely to be significantly affected by the COVID-19 pandemic, from those who may be more permanently impacted. Exercising this discrimination may be achieved by both quantitatively and qualitatively assessing significant increases in credit risk. ■

Management Overlays & Post-Model Adjustments

Due to the nature of the crisis and the urgency with which banks had to reassess ECL models and produce revised estimates, there may have been a need for post-model adjustments or overlays, in the interim period. However, as the overlay is required to reflect the inherent uncertainty and non-linearity of potential outcomes, there is a danger of double-counting the economic impact of the COVID-19 crisis, in both the economic scenario modelling considerations and the management overlay.

Where management overlays and post-model adjustments are provided for, strict governance procedures should be adhered to in order to ensure that the management overlay is based on reasonable and supportable information. The judgment applied and the quantification of the relationship between the forward-looking information and the management overlay raised, is to be documented and reviewed by those charged with governance, to ensure that the estimates are free from bias, reasonable, and a range of possible outcomes were considered.

Given that the severity of the consequences of the COVID-19 pandemic is not directly comparable with any recent similar events, it would be challenging to ensure that any overlay would be an unbiased and probability-weighted estimate of future losses.
In contrast to providing for a post-model adjustment or management overlay, our recommendation would be to review and adjust existing ECL models by: (a.) assessing forecast assumptions for excessive pro-cyclicality, (b.) facilitating more real-time and frequent re-forecasting as key drivers and trends change, and (c.) back-testing models against actual macroeconomic indicators as they are published or become observable. ■

Disclosure

The assessment of the impact of the COVID-19 pandemic on ECL requires significant judgement, and given the level of uncertainty and the sensitivity of judgements and estimates, disclosures of the key assumptions used and judgements made in estimating ECL, as well as the impact of any relief measures, is important. In particular, some of the disclosures set out in IFRS 7 should be expanded upon in order to consider the impact of COVID-19, these include:

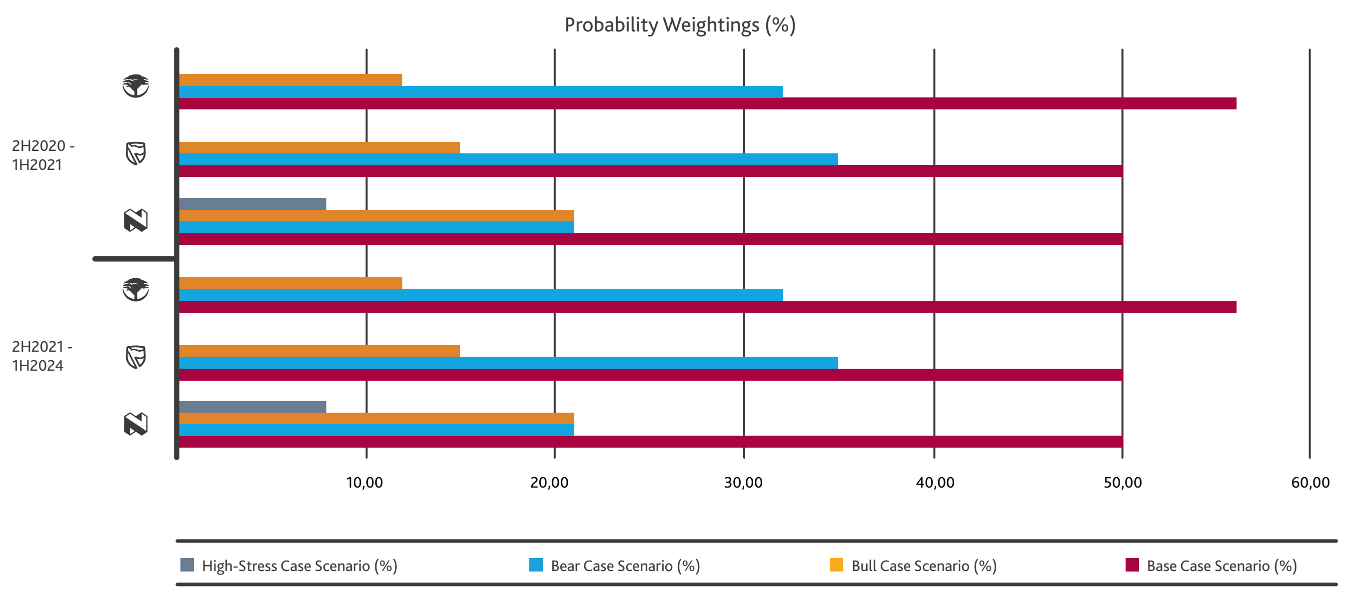
- Information about a bank's credit risk management practices and how they relate to the recognition and measurement of ECLs, in light of an extension of payment terms and payment holidays offered to borrowers.
- The methods, assumptions, and information used to measure ECLs and in what manner updated forward looking information has been incorporated.
- Quantitative and qualitative information that enables evaluation of the amounts arising from ECLs, by way of the:
  - the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
  - an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.
- Information that enables users of financial statements to understand whether there are groups or portfolios of financial instruments with particular features that could affect a large concentration of those financial instruments, such as living standard measures, loan-to-value concentrations, and geographical, industry or issuer-type concentrations. ■

"Banks should avoid pro-cyclical assumptions in their IFRS 9 Expected Credit Loss modelling during the period of the COVID-19 pandemic."

\- South African Reserve Bank Guidance Note 3 (2020)

ECONOMIC SCENARIO MODELLING CONSIDERATIONS

Probability weightings assigned to a range of possible macroeconomic outcomes



Probability weightings assigned to the range of possible macroeconomic outcomes of ABSA's forecasting models, were not disclosed in its Interim financial results for the reporting period ended 30 June 2020.

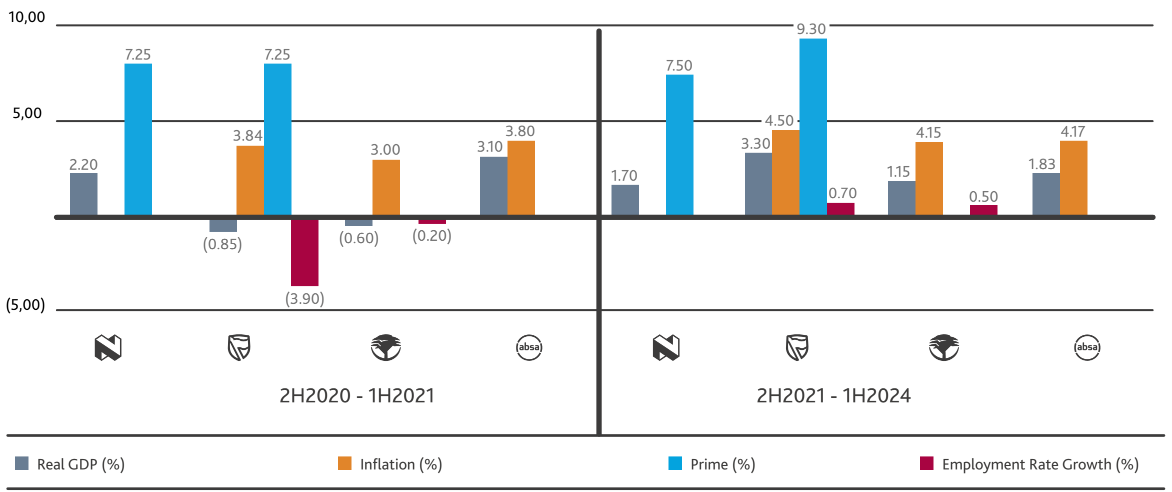
Probability weightings and macroeconomic forecast assumptions were extracted from the financial results of the relevant banks for the reporting period ended 30 June 2020.

ECONOMIC SCENARIO MODELLING CONSIDERATIONS CONTINUED

SA macroeconomic factors used to estimate the forward-looking impact on ECL

As per the financial results of Nedbank, Standard Bank, FirstRand Bank, and Absa:

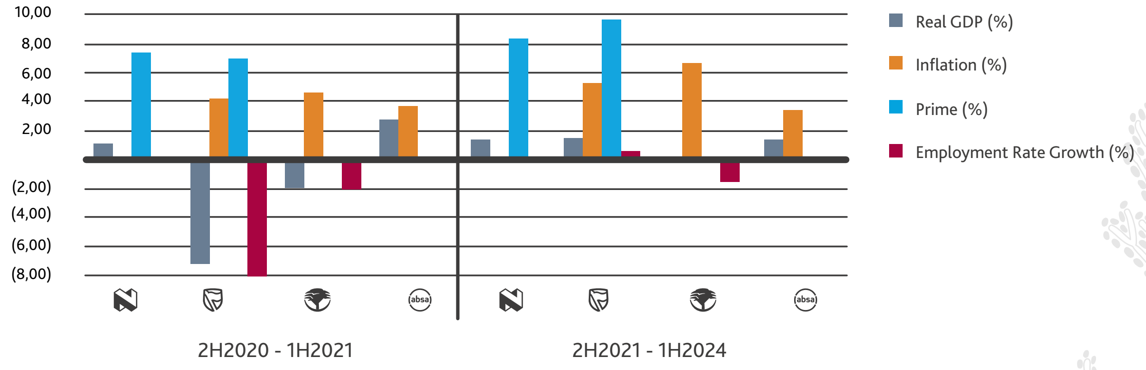
Base Case Scenario (%)



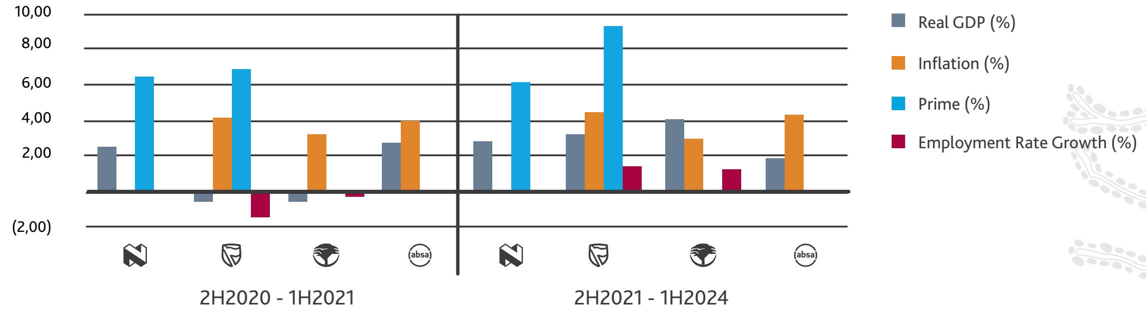
The impact of the COVID-19 pandemic has been severe and unprecedented. With new waves of infection now occurring in South Africa amidst the discovery of new COVID-19 variants, it is still uncertain as to how long it will take to contain the spread of the virus.

A base case scenario underpinned by monetary and other policy support measures, in which a modest domestic economic recovery begins in the second half of 2021, has been assumed by the four largest banks in the short to medium term.

Bear Case Scenario (%)



Bull Case Scenario (%)



Only key macroeconomic forecast assumptions across two or more banks were included in the above analysis.
Macroeconomic forecast assumptions are included to the extent of it being disclosed in the entity's financial results for the reporting period ended 30 June 2020.

"The policies we need to make decisions on should depend far more on the range of possible outcomes than on the expected final number."

– *Nassim Nicholas Taleb, The Black Swan: The Impact of the Highly Improbable*

OUR RANGE OF MACROECONOMIC FORECASTS IN THE SHORT TO MEDIUM TERM

Real GDP Growth Rate

As South Africa battles with new waves of infection amidst the discovery of new COVID-19 variants, we expect the development and distribution of COVID-19 vaccines as well as additional fiscal stimulus, to turn GDP growth positive in the short to medium term, albeit from a low base, as lockdowns are lifted and the economy begins to recover.

2021	2022	2023	2024
-0.5% - 1.5%	1.5% – 3.5%	2% - 3.5%	2.5% - 3.5%

Inflation

Traditional economic theory suggests that the monetary stimulus and fiscal measures taken globally should place upside pressure on inflation. However, a shrinking economy and a slower circulation of money, counter-balance this expectation. Therefore, we expect inflation to remain under control and within the SARB band.

2021	2022	2023	2024
3.9% - 4.7%	4.4% - 5.1%	5% - 5.5%	5% - 5.5%

Exchange Rate USD/ZAR

Given the evidence of new waves of infection across the globe, and the consequent reinstatement of strict lockdown measures, governments are likely to provide additional fiscal stimulus to sustain their economies, increasing USD-denominated debt, consequently strengthening the Dollar against the Rand.

2021	2022	2023	2024
15.5 – 16.75	15.6 – 16.5	15.1 – 16.1	15.5 – 16.75

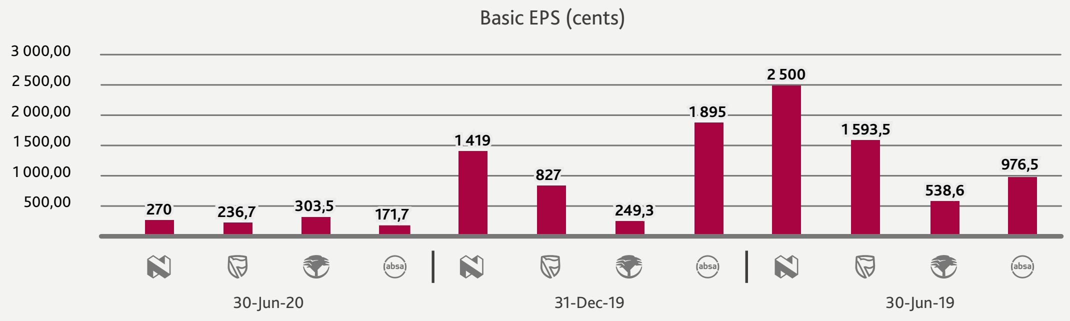
Employment Rate Growth

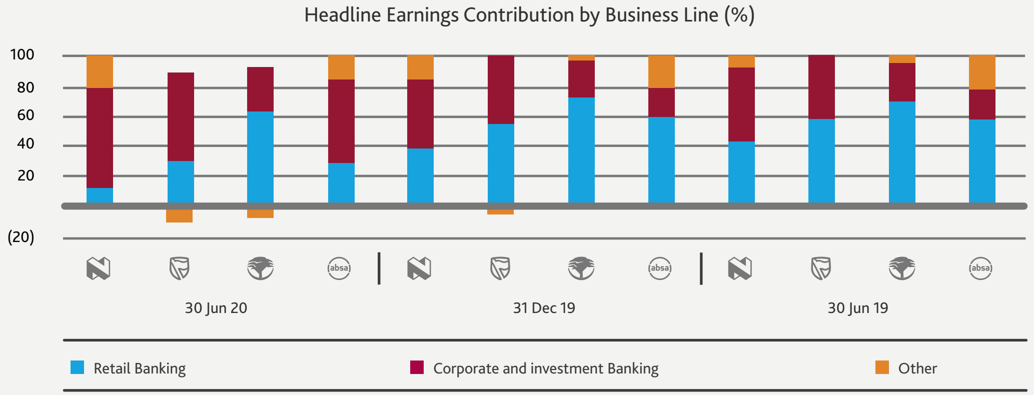
This is likely to remain challenging to estimate, as it is highly dependent on the planned interventions by the South African government to stimulate an economy which exhibits many structural challenges. The reinstatement of strict lockdown measures inhibits human capital development at tertiary and vocational institutions, and the consequent introduction of skilled graduates into the workplace.

2021	2022	2023	2024
0% – 2.5%	1% - 3%	1% - 2.5%	1% - 2.5%

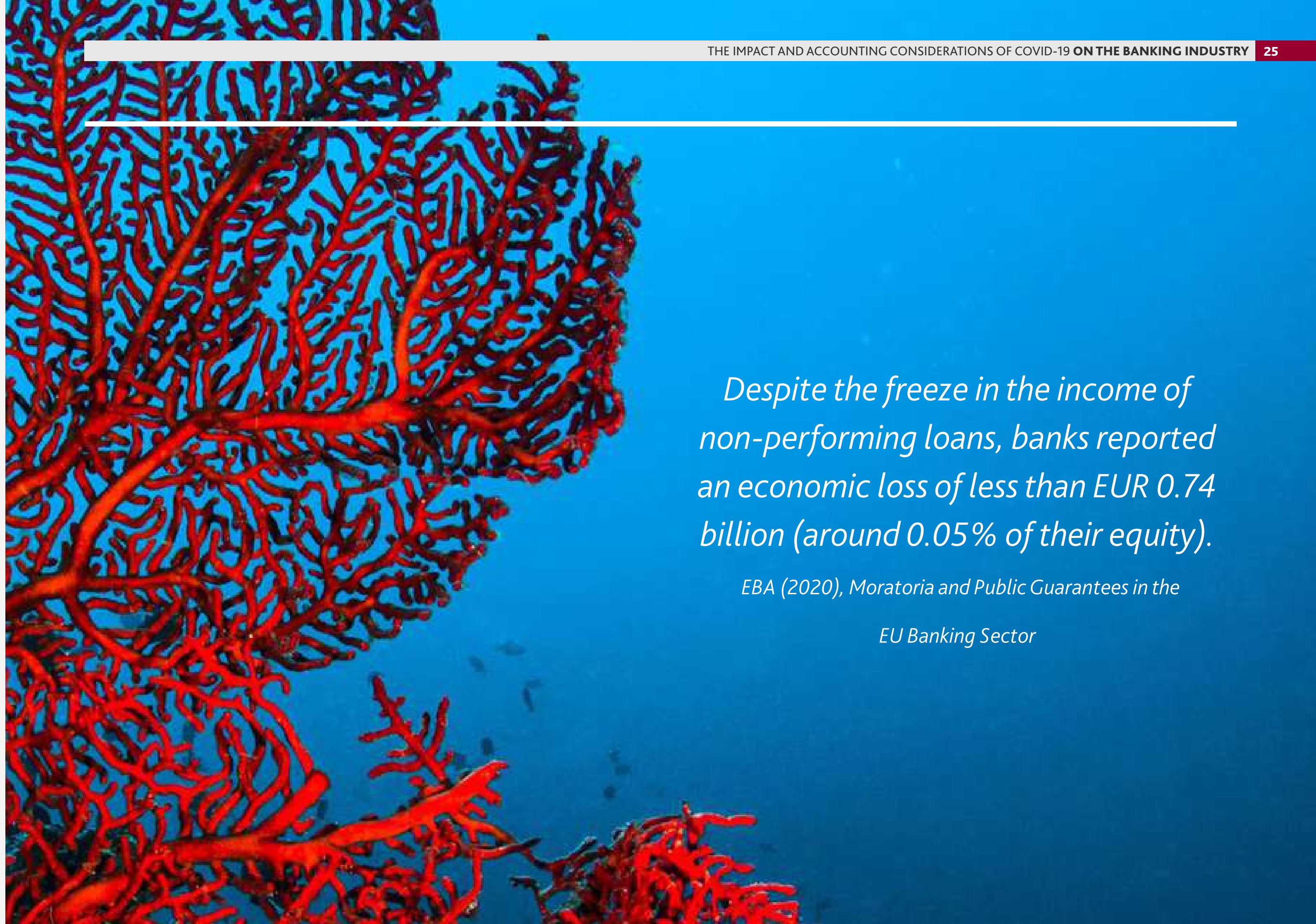
In formulating our views in February 2021, we analysed publicly available information and forecasts from the following sources: IDC, Reuters, Coronation, Sanlam, and World Bank.

SHARE STATISTICS





Management overlay: *for the financial reporting period ended 30 June 2020, both Standard Bank and FirstRand Bank recognised a judgemental credit adjustment as a management overlay to the impairment losses accounted for on the total loans and advances to customers' portfolio. The amount is disclosed in the "Other" market segment.*



Despite the freeze in the income of non-performing loans, banks reported an economic loss of less than EUR 0.74 billion (around 0.05% of their equity).

EBA (2020), Moratoria and Public Guarantees in the EU Banking Sector

SIGNIFICANT INCREASE IN CREDIT RISK (SICR) DUE TO COVID-19

Approaches in the assessment of a SICR for financial reporting periods ended June 2020 / September 2020.

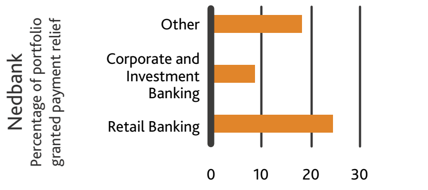
The impact of COVID-19 on the probability of defaults and loss-given defaults, as well as the provision of payment relief, were considered to determine whether significant increase in credit risk events had taken place. As payment arrears are a significant input into the retail credit models, **deferred or reduced payments could not be considered in determining whether a significant increase in credit risk has occurred**. However, all available information was considered, including, whether a client is experiencing a short-term liquidity constraint, the impact on the respective industry, and the anticipated arrears in a COVID-19 environment.

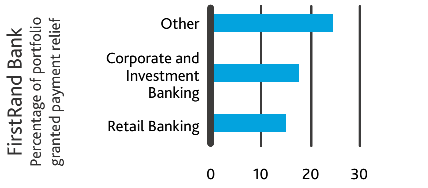
Although COVID-19 has had a negative impact on the economies in which the group operates (in isolation), **COVID-19 initially reflected a liquidity constraint more than an inherent increase in credit risk** for the entire portfolio of advances held by the group. A systematic and targeted approach to the impact of COVID-19 on the group's customer base was undertaken, in line with the group's existing credit framework. As such, **requests for payment deferrals and liquidity assistance were not viewed as the sole indicator that a significant increase in credit risk had occurred** for performance advances.

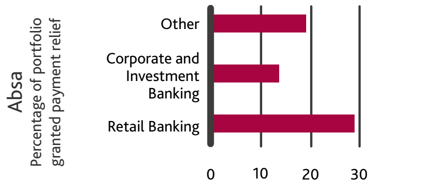
SICR thresholds, which are behavior score based, were derived for each portfolio of exposures with similar credit risk. These thresholds are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk. Where behaviour scores were not available, **historical levels of delinquency were applied in determining whether there has been a significant increase in credit risk**. Furthermore, in accordance with the guidance provided by the Prudential Authority, where a restructure was considered due to COVID-19 related factors, **the group determined whether the loan is expected to remain in an up-to-date status subsequent to the relief period**, in the determination of whether there has been a significant increase in credit risk.

The group developed a **COVID-19 credit program in order to assess significant increases in credit risk**. The starting point of the credit program entailed a review of the existing ECL models and an adjustment to account for the unprecedented macroeconomic impacts and regulatory relief measures. To supplement ECL modelling and to avoid excessive pro-cyclicality in forecast assumptions, **the group developed detailed bottom-up client reviews as well as sector/industry analysis to assess the significant increase in credit risk** in loans and advances at a 'granular level'.

FINDINGS OF THE EBA - PAYMENT RELIEF ACROSS THE EU BANKING SECTOR







On 20th November 2020, the European Banking Authority (EBA) published an assessment of the use of COVID-19 payment relief measures across the European Union (EU) banking sector.

As of June 2020, EU banks reported that close to EUR 871 billion of loans were granted EBA-compliant payment-relief measures on loan repayments (or 6% of total loans). A significant share of loans under EBA-compliant payment relief measures were those advanced to households (HHs) and non-financial corporations (NFCs) by banks across the EU.

Loans advanced by French, Spanish and Italian banks dominate the loan volumes that were granted payment relief. French banks reported EUR 255 billion of loans towards HHs and NFCs were subject to payment relief measures (7% of their total loans for HHs and NFCs); this was followed by Spanish banks (EUR 187 billion, 10% of total loans for HHs and NFCs) and Italian banks (EUR 156 billion, 13% of total loans for HHs and NFCs).

As expected, the sectors impacted the most by lockdown measures applied by various countries to mitigate the spread of COVID-19 also had the highest shares of loans under payment relief. The percentages of loans affected in the hospitality, education and entertainment sectors were significantly higher than the average percentage of loans affected in the NFC segment.

Similar to the SARB PA Guidance Note, according to the EBA guidelines, the application of payment relief on loan repayments does not automatically trigger either the forbearance classification or the non-performing status of the exposure.

Around EUR 20 billion of loans under non-expired payment relief measures were classified as non-performing, resulting in a stage 3 gross loans and advances ratio of 2.5%, in comparison with the EU stage 3 gross loans and advances ratio for all loans of 2.9%.

Stage 3 Gross Loans and Advances Ratio:

absa			
4.93%	4.62%	4.37%	5.65%

Greek and Spanish banks, reported the highest volume of stage 3 non-performing loans. Greek banks reported the highest stage gross loans and advances ratio (20%), followed by Irish and Romanian banks (9%), the latter also had the highest coverage ratio of non-performing loans under payment relief measures.

A sign of increased credit risk is the classification of an exposure in stage 2. Despite the payment relief measures in place for these exposures, EUR 131 billion (or 17%) of the loans were classified as stage 2 loans. However, this is more than double the share of stage 2 allocations for all loans. With only a few exceptions, this 2:1 rule seems to hold for most EU countries.

The estimation of economic loss provides an indication of whether or not banks have forecasted any losses from the payment relief measures implemented, as a result of missing interest because of postponements of payments or reduced interest margins.

This represents the difference between the net present value of the renegotiated or modified contractual cash flows and the net present value of the cash flows before granting the measure.

Despite the freeze in the income of non-performing loans, banks reported an economic loss of less than EUR 0.74 billion, or around 0.05% of their equity. Banks expect a significantly higher economic loss from loans under payment relief to HHs than that of loans to NFCs, with 70% of the total economic loss expected from HH loans.

Despite the relatively low impact on economic losses, given the ongoing uncertainty with regard to economic recovery and the resurgence of COVID-19 in many European countries, further assessments of economic losses as a result of payment relief measures, as performed by the banks, could potentially reveal further downsides. ■

The findings of the EBA were extracted from a thematic note published in November 2020, titled: "First evidence on the use of moratoria and public guarantees in the EU banking sector.

COVID-19 IFRS DISCLOSURE CHECKLIST

IAS 1 Presentation of Financial Statements

Disclosure / Presentation Requirement	Impact of COVID-19
IAS 1.17(c) and 31: fair presentation of the financial statements is required by presenting information, in a manner that provides relevant, reliable, comparable and understandable information; and by providing additional disclosures to further improve the users understanding of the impact of events and conditions that affect the entity's financial position and financial performance.	The COVID-19 pandemic may result in obligations or uncertainties that the bank may not have previously recognised or disclosed. As such, it may be necessary to disclose additional information in the financial statements which explain both the qualitative and quantitative impact of the COVID-19 pandemic on provisions, contingent assets/liabilities, and asset impairments after the reporting period.
IAS 1.122 and 125: the judgements that management has made in the process of applying the entity's accounting policies, as well as the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, is required to be disclosed, if it is considered by management to have a significant effect on the amounts recognised in the financial statements.	Many financial reporting implications of COVID-19 (e.g. ECL impairment charges, provisions, fair value measurement, etc.) may require the use of more judgement and higher degrees of estimation uncertainty. Such judgements and estimates must be disclosed if significant. In disclosing significant estimates, banks must consider disclosures beyond those required by specific IFRSs to improve the users understanding of the estimation uncertainty and judgement inherent within the bank's financial position and financial performance.

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IAS 1 Presentation of Financial Statements Cont.

Disclosure / Presentation Requirement	Impact of COVID-19
IAS 1.134 and 135: an entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.	On 6 April 2020, the PA issued a directive giving effect to three proposals designed to shore-up banks' balance sheets and enable them to assist distressed clients. These proposals enabled banks to use their own regulatory capital and liquidity reserves to assist their clients who were 'in good standing'. Where banks have adhered to the non-binding directive, additional disclosures should be provided to identify how this additional capital was utilised in assisting clients, while maintaining a healthy capital position.

IAS 7 Statement of Cash Flows

Disclosure / Presentation Requirement	Impact of COVID-19
IAS 7.44A: an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	Where banks have refinanced financial liabilities with other commercial and private banks as well as the SARB, renegotiated leases and/or entered into other transactions that resulted in non-cash changes to the carrying values of liabilities, IAS 7 requires the quantitative and qualitative disclosure of the resultant changes.

COVID-19 IFRS DISCLOSURE CHECKLIST CONTINUED

IAS 10 Events after the Reporting Period

Disclosure / Presentation Requirement	Impact of COVID-19
IAS 10.19: if an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in light of the new information.	The effects of COVID-19 (and mitigating factors, such as vaccine development and reinstated lockdowns) are occurring rapidly, therefore, events after the reporting period may give rise to adjusting subsequent events. However, where an event is deemed by management to not be adjusting in nature, the relevant information should still be considered in supporting and contradicting assumptions included in the determination of estimates and key judgements.
IAS 10.21: an entity shall disclose the nature of the non-adjusting event, and an estimate of its financial effect, or a statement that such an estimate cannot be made, for each material category of non-adjusting event after the reporting period.	In contrast to adjusting events, information may be obtained after the reporting period relating to COVID-19 that does not relate to conditions as at the balance sheet date. For a non-adjusting event with a material impact on the financial performance and/or financial position of the bank, as concluded by management, the bank is required to disclose the nature of the event and an estimate of its financial effect.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

Disclosure / Presentation Requirement	Impact of COVID-19
IAS 20.39: the entity shall disclose the accounting policy adopted for government grants, the nature and extent of government grants recognised, and unfulfilled conditions attaching to government assistance that has been recognised.	In response to COVID-19, the South African Reserve Bank in partnership with participating commercial banks, and the National Treasury developed a COVID-19 Loan Guarantee Scheme. It provides loans for salaries and other operating and start-up costs to small businesses who are under financial stress as a result of the economic impact of the COVID-19 pandemic and restrictions imposed by the National State of Disaster. IAS 20 contains disclosure requirements relating to the nature and extent of such relief and the conditions attached to such assistance.

IFRS 2 Share-based Payment

Disclosure / Presentation Requirement	Impact of COVID-19
IFRS 2.47(c): for share-based payment arrangements that were modified during the period, the entity shall disclose an explanation of those modifications, the incremental fair value granted, and information on how the incremental fair value granted was measured.	Where market and non-market vesting conditions are no longer achievable, as a result of the financial impact of COVID-19, modifications may have been made to existing share-based payment schemes, for which IFRS 2 provides disclosure requirements in respect of both the qualitative and quantitative effect of such modifications.

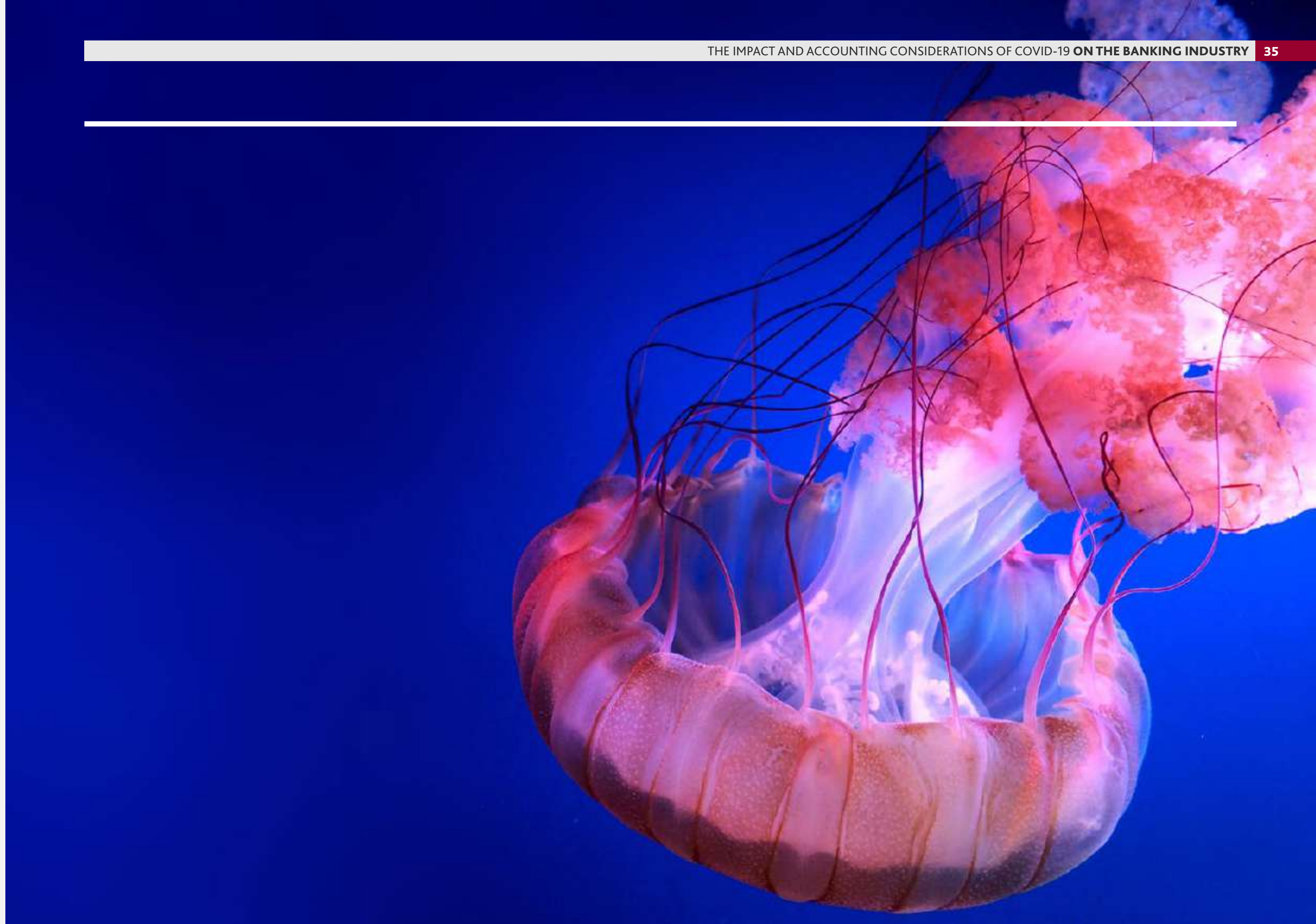
COVID-19 IFRS DISCLOSURE CHECKLIST CONTINUED

IFRS 7 Financial Instruments: Disclosures

Disclosure / Presentation Requirement	Impact of COVID-19
IFRS 7.21A-24F and 24H-24J: there are extensive disclosure requirements for entities applying hedge accounting, including an entity's risk management strategy, how hedging activities affect the amount, timing and uncertainty of future cash flows and the effect of hedge accounting on the entity's financial statements.	The identified concentrations of increased risk in sectors severely affected by the COVID-19 pandemic (e.g. the airline, education, entertainment, hospitality, and tourism sectors) should be clearly disclosed, in terms of the quantitative risk exposure associated with all affected financial instruments, and the bank's risk management strategy in respect of those vulnerable sectors.

IFRS 13 Fair Value Measurement

Disclosure / Presentation Requirement	Impact of COVID-19
IFRS 13.91-99: disclose information about fair value measurement in financial statements, including significant assumptions, valuation techniques, inputs used, sensitivity of the fair value measurement to unobservable inputs, etc.	The financial effects of COVID-19, including the uncertainty in the underlying financial and non-financial assumptions, may result in significant adjustments to disclosures of unobservable inputs and valuation techniques used to estimate fair values. Improving the transparency over the techniques, key assumptions and inputs used in determining fair value, including the sensitivities of the related assumptions and inputs, by providing disclosures required by IFRS 13, is integral to enhancing the users understanding of the derivation of the fair value measurement, in an uncertain economic landscape.



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