Absa Bank Limited

Annual consolidated and separate financial statements

for the year ended
31 December 2011

Member of BARCLAYS

ABSA

Contents

Absa Bank Limited
(1986/004794/06)
Annual consolidated and separate financial statements for the year ended 31 December 2011

These audited annual consolidated financial statements were prepared by Absa Group Financial Reporting under the direction and supervision of the Group Financial Director, D W P Hodnett CA(SA).

The Absa Bank Limited audited annual consolidated financial statements include the financial statements as included in this report (pages 1 – 183) as well as the audited sections of the Remuneration summary as contained in Absa Bank Limited's Annual Report, and the Capital and Risk Management Report (marked as 'audited' in these respective reports). Accordingly, these financial statements should be read in conjunction with the audited sections of the Remuneration summary and Capital and Risk Management Reports.

Group Audit and Compliance Committee (GACC) report

The GACC is pleased to submit this report in respect of the 2011 financial year to the shareholders of Absa Group Limited. This report includes the requirements of section 94(7)(f) of the Companies Act, No 71 of 2008 (as amended) (the Companies Act), the King Code of Corporate Governance Principles for South Africa and other regulatory requirements.

The GACC serves as the audit committee for Absa Group Limited, Absa Bank Limited and their subsidiaries (the Group). Barclays Bank Mozambique and National Bank of Tanzania have separate audit committees, whose terms of reference are aligned with those of the GACC.

Information on the membership and composition of the GACC, its terms of reference and its procedures are set out in the online corporate governance section of the integrated annual report.

Responsibilities of the GACC

The GACC's duties include its statutory duties in terms of the Companies Act as well as additional duties assigned to it by the board in its terms of reference. During the year under review, the GACC undertook the following duties:

In respect of the external auditors and the external audit:

- nominated PricewaterhouseCoopers Inc (PwC) and Ernst and Young Inc (E&Y) as joint external auditors for the year under review;
- in terms of section 61 of the Companies Act, recommended to the board the appointment of PwC and E&Y as joint external auditors for the financial year ended 2012;
- ensured the appointment of the external auditors complied with the Companies Act and all other applicable legal and regulatory requirements;
- reviewed and approved the Group audit plan, the budgeted fee for the year and the terms of engagement of the external auditors;
- reviewed and assessed the quality of the external audit process, and concluded that the process had been satisfactory;
- reviewed the external auditors' reports and obtained assurances from the external auditors that adequate accounting records were maintained at all times;
- reviewed and approved the Group's policy on non-audit services to be provided by the external auditors during the year;
- approved proposed contracts with the external auditors for the provision of non-audit services falling within the scope of the policy concerning non-audit services;
- considered whether any reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act 2005, and determined that there were no such reportable irregularities; and
- reviewed the findings and recommendations of the external auditors and confirmed that no unresolved issues of concern exist between the Group and the external auditors, in relation to the Group or any of its business units and subsidiaries.

In respect of the financial statements and accounting practices:

- confirmed the going concern as the basis of preparation of the interim and annual financial statements;
- reviewed the interim and annual financial statements and summarised annual financial statements, prior to submission to and approval by the board, is satisfied that they fairly present the consolidated financial position of the Group and comply, in all material respects, with the relevant provisions of the Companies Act, International Financial Reporting Standards (IFRS) and Interpretations of IFRS;
- reviewed significant accounting and reporting issues, including complex or unusual transactions, sustainability issues, highly judgemental areas, and recent professional and regulatory pronouncements, and ascertained their impact on the financial statements;
- reviewed and satisfied itself as to the expertise, resources and experience of the Group's finance function;
- considered the accounting policies, practices and internal controls of the Group and is satisfied that they are appropriate and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and the Interpretations of IFRS standards; and
- established a process to deal with any concerns or complaints relating to accounting practices, internal audit and the auditing of the Group's financial statements. The GACC confirms that no significant concerns were raised during the year under review.

Group Audit and Compliance Committee (GACC) report

In respect of internal control and internal audit, including forensic audit:

- approved the Internal Audit Charter and reviewed the effectiveness of Absa Internal Audit (AIA) and its performance against the Internal Audit Charter, and reviewed the internal audit programme;
- assessed the adequacy and effectiveness of AIA's performance, the adequacy of its staffing and skills, and noted the completion of the agreed programme for the year;
- regularly reviewed management's actions in remedying control deficiencies reported by AIA;
- ensured an independent performance review of AIA measured against international standards was undertaken, supplemented by assessments during the year under review carried out by the external auditors and Barclays global review programme; and
- considered the report of AIA, which found the overall state of the controls to be satisfactory.

In respect of compliance, legal and regulatory requirements, to the extent they may have an impact on the financial statements:

- approved the Group Compliance Plan and the Group Compliance Charter and reviewed compliance practices and procedures for enabling the directors of the Group to discharge their regulatory responsibilities;
- reviewed and approved the Regulatory Compliance Risk Control Framework and applicable compliance policies, which include the requirements for the Group to comply with applicable laws, rules, codes and standards;
- satisfied itself that the functioning of Group Compliance is in line with relevant regulatory requirements;
- considered any significant compliance risk matters reported by Group Compliance and monitored progress in rectifying these matters;
- ensured procedures were in place for receiving evidence from internal lawyers (and where relevant external lawyers) relating to breaches of securities law, fiduciary duties, other similar violations and claims against the Group;
- ensured procedures are in place for receiving and treating complaints in terms of the Companies Act and other applicable Acts regarding accounting practices, the internal audit of the Group, the content or auditing of its financial statements, the internal financial controls of the Group or any related matter (including internal, anonymous complaints from employees or any other person); and
- reviewed and monitored the Group's approach to, and compliance with, section 404 of the Sarbanes-Oxley Act, within the context of the materiality limits applicable to Barclays Bank PLC. The GACC also reviewed and monitored the Group's approach to and compliance with Turnbull attestations.

In respect of risk management:

- reviewed the reports which identified significant control issues that require, or are subject to, remedial attention and which summarised the actions being taken to resolve these issues;
- dealt with the introduction of a combined assurance model for the Group. The GACC determined that the process co-ordinating all assurance activities sufficiently is appropriate to address the significant risks facing the Group for each principal risk and business area. The model is owned and managed by Group Risk with Internal Audit being an integral part of the process; and
- reviewed the Group's Business Continuity Management plans and processes. The GACC dealt with matters referred to the GACC by the Group Risk and Capital Management Committee.

In respect of integrated reporting:

- established the GACC Disclosure Committee (GACC-DC) to provide oversight in respect of the quality and integrity of the Group's integrated reporting.
- the GACC-DC undertook the following:
  - considered all factors and risks that may impact on the integrity of the integrated annual report;
  - considered and reviewed the findings and recommendations of the various Group board committees insofar as they related to the integrated annual report;
  - endorsed the appointment of PwC and E&Y to provide assurance on certain sustainability matters contained in the integrated annual report;
  - together with management, met with the external auditors to consider the latter's findings, make appropriate enquiries and through this process received the necessary assurances that the material disclosures in the integrated annual report are reliable and do not conflict with financial information; and
  - recommended the integrated annual report to the board for approval.

Regulatory and corporate governance requirements

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

- the appointed external auditors are duly accredited as independent on the JSE's list of auditors; and
- the financial director has appropriate expertise and experience.

Pursuant to the King III Code, the GACC is satisfied that the composition, experience and skills set of the finance function met the Group's requirements.

Independence of the external auditors

The GACC is satisfied that PwC and E&Y are independent of the Group. This conclusion was arrived at by taking, inter alia, the following factors into account:

- representations from PwC and E&Y confirming their independence and that nothing had taken place which would impair this at any time;
- the auditors did not, except as external auditors or in providing permitted non-audit services, receive any remuneration or other benefit from the Group;
- the criteria for independence set by the Independent Regulatory Board for Auditors and international regulatory bodies were satisfied;
- the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditors; and
- the auditor's independence was not prejudiced as a result of any previous appointment as auditor.

Group Audit and Compliance Committee (GACC) report

Conclusion

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

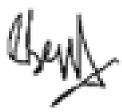
The GACC is pleased to note an improving trend in the results of management's assessment of its individual control and risk environments as confirmed by the combined assurance work of the internal audit, compliance and risk functions and additionally, from the views of the external auditors. There was also an improvement in the remediation of weaknesses as measured by a decrease in the number of overdue outstanding matters.

The GACC formed the opinion that at the date of this report there were no material breakdowns in internal control, including financial control, that would result in any material loss to the Group.

The GACC reviewed the consolidated and separate financial statements and recommended the financials for approval to the Board Finance Committee on the 9th of February 2012.

The GACC-DC reviewed the Group's integrated annual report and recommended it to the board for approval on the 28th of March 2012.

On behalf of the Group Audit and Compliance Committee:



Colin Beggs

Chairman

28 March 2012

Directors' approval

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditor's statement of responsibilities set out on page 6, is made to distinguish, for the benefit of shareholders, the respective responsibilities of the directors and of the auditors in relation to the annual consolidated financial statements of Absa Bank Limited and its subsidiaries (the Bank).

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

To enable the directors to meet these responsibilities:

- All directors and employees will endeavour to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that in all reasonable circumstances is above reproach.
- The board sets standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that both on- and off-statement of financial position assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The board and management identify all key areas of risk across the Bank and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems and discipline are applied and managed within predetermined procedures and constraints.
- The Bank's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the GACC, appraises, evaluates and, when necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that, combined with the efforts of the Bank's risk functions, take cognisance of the relative degrees of risk of each function or aspect of the business.
- The GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC reviews reports on the principal risk areas and is responsible for approving the principal risk control frameworks. The GACC is satisfied that the external auditors are independent.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The Bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

The financial statements of the Bank and the Company have been prepared in accordance with the provisions of the Companies Act, and the Banks Act, No 94 of 1990 (as amended) (the Banks Act), and comply with IFRS and all applicable legislation.

The directors have no reason to believe that the Bank and the Company will not be going concerns in the year ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on this basis.

It is the responsibility of the independent auditors to report on the consolidated and separate financial statements. Their report to the shareholders of the Bank and Company is set out on page 6 of this report.

The directors' report on pages 7 to 11, the financial statements of the Bank and the Company and the related IFRS 7 *Financial Instruments: Disclosures* (IFRS 7) disclosures, which appear on pages 1 to 66 of the Capital and Risk Management Report, were approved by the board of directors and are signed by:

G Griffin
Chairman

M Ramos
Chief Executive (CE)

Johannesburg
9 February 2012

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

In accordance with the provisions of the Companies Act, I certify that, in respect of the year ended 31 December 2011, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

D Hodnett

D W P Hodnett
Acting Company Secretary

Johannesburg
9 February 2012

Independent auditors' report to the shareholders of Absa Bank Limited

We have audited the Bank and Company financial statements of Absa Bank Limited, which comprise the consolidated and separate statements of financial position as at 31 December 2011, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, the directors' report, as set out on pages 7 to 183, those sections marked as audited in the Capital and Risk Management Report and the directors emoluments disclosures marked as audited in the Remuneration summary (as contained in Absa Bank Limited's Annual Report), but excludes the sections marked as 'unaudited' in notes 53.3 and 53.4.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and the requirements of the Companies Act and 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of the Bank and of the Company as at 31 December 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with IFRS and the requirements of the Companies Act.

Ernst + Young Inc.

Ernst & Young Inc.
Director – Ernest van Rooyen
Registered Auditor
Chartered Accountant (SA)

Wanderers Office Park
52 Corlett Drive, Illovo

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director – John Bennett
Registered Auditor
Chartered Accountant (SA)

2 Eglin Road,
Sunninghill

Johannesburg
9 February 2012

General information and nature of activities

The Bank, which has preference shares listed on the JSE Limited (JSE), is incorporated and domiciled in South Africa and provides retail, commercial, corporate and investment banking services and wealth management products and services. The Bank operates primarily in South Africa and employs over 29 000 people. The address of the Bank's registered office is 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001[1].

The Bank is a wholly owned subsidiary of Absa Group Limited.

The Bank's ultimate parent company is Barclays Bank PLC, which is incorporated and domiciled in the United Kingdom. The address of its registered office is 1 Churchill Place, Canary Wharf, London, United Kingdom.

The Bank is one of South Africa's largest financial services organisations, serving retail, commercial and corporate customers in South Africa.

The Bank also provides products and services to selected markets in Nigeria.

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

The consolidated and separate financial statements were approved for issue by the board on 9 February 2012.

The financial statements set out fully the financial positions, results of operations and cash flows for the Bank and the Company for the year ended 31 December 2011.

Group Audit and Compliance Committee

Please refer to the GACC report on page 1.

Bank results

Main business and operations

The Bank recorded an increase of 24% in headline earnings to **R7 957 million** for the year ended 31 December 2011 (2010: R6 412 million). Headline earnings per share (HEPS) and fully diluted HEPS both increased by 23% to **2 127,0** cents (2010: 1 733,4 cents).

Headline earnings were derived from the following activities:

	2011 Rm	2010[2] Rm
Banking operations		
Retail Banking	4 031	3 104
Home Loans	448	166
Vehicle and Asset Finance	403	226
Card	1 646	1 380
Personal Loans	720	515
Retail Bank	814	817
Absa Business Bank	2 878	2 815
Absa Capital	1 280	1 439
Corporate centre	(319)	(414)
Capital and funding centres	315	(192)
Preference equity holders of the Bank	(284)	(320)
Profit attributable to ordinary equity holder of the Bank	7 901	6 432
Headline earnings adjustments (refer to note 39)	56	(20)
Headline earnings	7 957	6 412

Notes

[1]Effective from 1 April 2011, the registered address changed from 3rd Floor, Absa Towers East, 170 Main Street, Johannesburg, 2001.

[2]Comparatives have been reclassified. Refer to note 1.23 and note 53.1 for additional information.

Directors' report

Directors

The directors of the Company during the year and as at the reporting date are as follows:

D C Arnold[1, 2]
C Beggs[2]
B P Connellan[2, 3]
Y Z Cuba[2]
B C M M de Vitry[4]
S A Fakie[2]
G Griffin (Chairman)[2, 3]
M W Hlahla[1, 2]
D W P Hodnett[5]
M J Husain[2]
A P Jenkins[6]
R Le Blanc[6]
P B Matlare[2, 7]
T M Mokgosi-Mwantembe[2]
E C Mondlane, Jr[8]
T S Munday[2]
S G Pretorius[2]
M Ramos (CE)[5]
I R Ritossa[9]
L L von Zeuner (Deputy CE)[5]
B J Willemse[2]

Re-election of retiring directors (Absa Group AGM resolution number 3 to 9 – ordinary resolutions)

In line with international best practice, the Bank has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting (AGM). The director who retires in terms of the above arrangement at the 2012 AGM is G Griffin. This director is eligible for re-election and is recommended by the board for re-election at the Absa Group AGM.

B P Connellan has also served on the board for more than nine years. He has, however, retired following the conclusion of the Absa Group AGM.

In terms of the Company's articles of association, one-third of the directors are required to retire at each Absa Group AGM and may offer themselves for re-election.

The directors who retire in terms of the above arrangement at the 2012 AGM are S A Fakie, M J Husain, R Le Blanc, E C Mondlane Jr, S G Pretorius and B J Willemse. All the directors are available for re-election at the meeting.

Confirmation of appointment (Absa Group AGM resolution number 10 – 11 – ordinary resolutions)

In terms of the Company's articles of association, the appointment by the board of directors or any persons as directors of the Company during the year after the last AGM requires confirmation by shareholders at the first AGM of the Company following the appointment of such persons. Messrs P B Matlare and I R Ritossa were appointed as directors of the Company subsequent to the last AGM. The board recommends to shareholders that their appointments be confirmed.

Notes

[1]Retired as director on 21 April 2011.
[2]Independent director.
[3]Has been on the board for more than nine years.
[4]French, resigned as director on 21 September 2011.
[5]Executive director.
[6]British.
[7]Appointed as director on 5 December 2011.
[8]Mozambican.
[9]Australian, appointed as non-executive director on 21 September 2011.

Directors' interests in the Company's preference shares

As at the reporting date, the direct and indirect preference shareholding of directors in the Company was as follows:

	Number of shares			
	2011		2010	
	Direct	Indirect	Direct	Indirect
Present directors				
B P Connellan	**300**	**—**	300	—
G Griffin (Chairman)	**—**	**1 680**	—	1 680
L L von Zeuner (Deputy Chief Executive)[1]	**562**	**—**	562	—
Past director				
D C Arnold[2]	**n/a**	**n/a**	400	—
	862	**1 680**	1 262	1 680

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

Directors' and officers' personal financial interests in contracts

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

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

Directors' and prescribed officers' emoluments

The emoluments and services of executive directors are determined by the Group Remuneration and Human Resources Committee (GRHRC).

Directors' and prescribed officers' emoluments in respect of the Company's executive directors, non-executive directors and prescribed officers are disclosed in the Remuneration Review.

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 44 to the consolidated financial statements.

Acquisitions and disposals

The following interests were acquired/disposed of during the year under review:

Acquisitions

Subsidiaries and business combinations

The Bank acquired 76% of the units in the Absa Property Equity Fund (APEF) during April 2011 and, as a result, has taken on a majority share of the risks and rewards of the fund. APEF operates as a special purpose entity (SPE) specifically for the investment in community upliftment projects and is consolidated in terms of SIC-12 *Consolidation – Special Purpose Entities* (SIC-12). The APEF was disposed of in 2010 and reacquired in 2011.

The Bank acquired an additional 30% of the shares in Barrie Island Investments Proprietary Limited (Barrie Island) during January 2011. Barrie Island holds property investments.

The partnership in the IFU Property Fund was dissolved during the year under review. Overlook at Sugarloaf Incorporated (a new legal entity incorporated in the United States of America) was established to replace the IFU Property Fund. This did not affect the Bank's overall statement of financial position.

During the year under review, the Bank sold certain exposures to Commissioner Street No 4 (RF) Limited (Commissioner Street 4), a SPE established by the Bank. Commissioner Street 4 issued various classes of notes to investors.

Disposals

Associates and joint ventures

The following interests were disposed of during the year under review:

Sekunjalo Investments Limited was classified as an 'equity accounted' associate held by Absa Capital and Absa Business Bank. Absa Capital's investment was disposed of and the remaining investment held by Absa Business Bank was transferred to investment securities.

Refer to notes 13, 44 and 51 for additional information on the above acquisitions and disposals.

Notes

[1]Executive director.

[2]Retired as director on 21 April 2011.

Dividends

- On 15 February 2011, a dividend of 360,9 cents per ordinary share was announced to the ordinary shareholder registered on 11 March 2011.
- On 15 February 2011, a dividend of 2 887,6 cents per preference share was announced to preference shareholders registered on 11 March 2011.
- On 2 August 2011, a dividend of 414,3 cents per ordinary shares was announced to the ordinary shareholder registered on 26 August 2011.
- On 2 August 2011, a dividend of 2 858,3 cents per preference share was announced to preference shareholders registered on 26 August 2011.
- On 9 February 2012, a dividend of 620,1 cents per ordinary share was approved. The dividend was announced on 10 February 2012 to the ordinary shareholder registered on 30 March 2012. This dividend is payable on 2 April 2012.
- On 9 February 2012, a dividend of 2 827,2 cents per preference share was approved. The dividend was announced on 10 February 2012 to preference shareholders registered on 30 March 2012. The dividend is payable on 2 April 2012.

Segment restructurings planned for 2012

In October 2011, the Bank announced that the Retail Banking and Business Banking segments will be consolidated into one reporting segment. This is effective from 1 January 2012. As part of this restructuring, selected corporate products will be migrated from Absa Business Bank to Absa Capital as part of the creation of a Wholesale Bank under the Corporate Investment Banking and Wealth Management (CIBW) umbrella. The first phase which included the transfer of product lines and their supporting infrastructure from Absa Business Bank into the Wholesale cluster, has been completed. The second phase will include the migration of certain client accounts to CIBW. This phase is scheduled for completion by 31 March 2012.

Secretary

The previous Company Secretary, S Martin, resigned on 9 January 2012. The duties of the Company Secretary subsequent to this date, and up until 21 May 2012 were fulfilled by D W P Hodnett in his capacity as Acting Company Secretary. Effective 21 May, Nadine Drutman, was appointed as Company Secretary. Her contact details are as follows:

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

Telephone: +2711 350 5347
Email: groupsec@absa.co.za

Auditors

PricewaterhouseCoopers Inc. and Ernst & Young Inc. continued in office as auditors of the Bank. At the AGM of 3 May 2012, shareholders will be requested to re-appoint PricewaterhouseCoopers Inc. and Ernst & Young Inc. as auditors of the Bank for the 2012 financial year and it will be noted that Messrs J P Bennett and E L Pera will be the individual registered auditors that will undertake the audit.

Authorised and issued share capital

Authorised

The authorised share capital of the Company of R322 800 000 is divided into:

- **320 000 000** ordinary shares of R1,00 each;
- **250 000 000** 'A' ordinary shares of R0,01 each; and
- **30 000 000** non-cumulative, non-redeemable listed preference shares of R0,01 each.

Issued

There were no shares issued during the year under review.

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

- **302 609 359** (2010: 302 609 359) ordinary shares of R1,00 each.
- **71 502 632** (2010: 71 502 632) 'A' ordinary shares of R0,01 each.
- **4 944 839** (2010: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each.

Going concern

The directors assess the Bank's future performance and financial position on an ongoing basis and have no reason to believe that the Bank will not be a going concern in the year ahead. For this reason, these consolidated financial statements are prepared on a going-concern basis.

Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2011 and the date of authorisation of these consolidated financial statements (as defined per IAS 10 *Events after the Reporting Period* (IAS 10)).

Consolidated statement of financial position

as at 31 December

		Bank		
	Note	**2011 Rm**	2010[1] Rm	2009[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**19 505**	17 343	15 526
Statutory liquid asset portfolio	3	**57 473**	48 215	33 943
Loans and advances to banks	4	**55 803**	26 251	35 036
Trading portfolio assets	5	**79 603**	57 647	47 303
Hedging portfolio assets	5	**4 299**	4 662	2 558
Other assets	6	**12 948**	9 678	7 219
Current tax assets	7	**84**	5	107
Non-current assets held for sale	8	**35**	—	—
Loans and advances to customers	9, 10	**486 910**	495 733	501 050
Loans to Group companies	11	**7 164**	8 071	16 232
Investment securities	12	**8 331**	12 906	16 849
Investments in associates and joint ventures	13	**412**	406	473
Goodwill and intangible assets	14	**700**	643	522
Investment properties	15	**1 840**	1 771	1 705
Property and equipment	16	**7 268**	6 987	6 010
Deferred tax assets	17	**61**	92	86
Total assets		**742 436**	690 410	684 619
Liabilities				
Deposits from banks	18	**44 702**	21 740	40 160
Trading portfolio liabilities	19	**49 232**	43 530	36 957
Hedging portfolio liabilities	19	**2 456**	1 881	565
Other liabilities	20	**10 536**	7 788	9 089
Provisions	21	**1 457**	1 533	1 486
Current tax liabilities	7	**255**	929	31
Deposits due to customers	22	**431 762**	382 131	360 216
Debt securities in issue	23	**128 051**	162 526	169 788
Loans from Group companies	24	**1 438**	—	3 464
Borrowed funds	25	**14 051**	13 649	13 530
Deferred tax liabilities	17	**1 104**	2 073	1 915
Total liabilities		**685 044**	637 780	637 201
Equity				
Capital and reserves				
Attributable to equity holders of the Bank:				
Ordinary share capital	26	**303**	303	303
Ordinary share premium	26	**11 465**	11 465	10 465
Preference share capital	26	**1**	1	1
Preference share premium	26	**4 643**	4 643	4 643
Retained earnings		**37 217**	32 449	29 340
Other reserves	27	**3 605**	3 704	2 566
		57 234	52 565	47 318
Non-controlling interest		**158**	65	100
Total equity		**57 392**	52 630	47 418
Total liabilities and equity		**742 436**	690 410	684 619

Note

[1]Comparatives have been reclassified, refer to note 1.23.

Consolidated statement of comprehensive income

for the year ended 31 December

	Note	Bank 2011 Rm	Bank 2010 Rm
Net interest income		**22 110**	21 244
Interest and similar income	28	**49 210**	52 264
Interest expense and similar charges	29	**(27 100)**	(31 020)
Impairment losses on loans and advances	10.1	**(4 876)**	(5 578)
Net interest income after impairment losses on loans and advances		**17 234**	15 666
Non-interest income		**16 514**	14 787
Net fee and commission income		**13 393**	12 416
Fee and commission income	30	**14 421**	13 378
Fee and commission expense	30	**(1 028)**	(962)
Gains and losses from banking and trading activities	31	**2 504**	1 851
Gains and losses from investment activities	32	**54**	24
Other operating income	33	**563**	496
Operating profit before operating expenditure		**33 748**	30 453
Operating expenditure		**(22 462)**	(21 180)
Operating expenses	34	**(21 485)**	(20 440)
Other impairments	35	**(73)**	(109)
Indirect taxation	36	**(904)**	(631)
Share of post-tax results of associates and joint ventures	13.1	**47**	(8)
Operating profit before income tax		**11 333**	9 265
Taxation expense	37	**(3 140)**	(2 507)
Profit for the year		**8 193**	6 758
Other comprehensive income			
Foreign exchange differences on translation of foreign operations		**218**	(234)
Movement in cash flow hedging reserve		**(242)**	1 153
Fair value gains arising during the year		**1 964**	3 422
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		**(2 300)**	(1 820)
Deferred tax	17	**94**	(449)
Movement in available-for-sale reserve		**(24)**	170
Fair value (losses)/gains arising during the year		**(65)**	150
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	31	**20**	92
Deferred tax	17	**21**	(72)
Movement in retirement benefit asset		**(47)**	19
(Decrease)/increase in retirement benefit surplus	40	**(66)**	27
Deferred tax	17	**19**	(8)
Total comprehensive income for the year		**8 098**	7 866
Profit attributable to:			
Ordinary equity holder of the Bank		**7 901**	6 432
Preference equity holders of the Bank		**284**	320
Non-controlling interest		**8**	6
		8 193	6 758
Total comprehensive income attributable to:			
Ordinary equity holder of the Bank		**7 806**	7 540
Preference equity holders of the Bank		**284**	320
Non-controlling interest		**8**	6
		8 098	7 866
Earnings per share:			
Basic earnings per share (cents)	38	**2 112,0**	1 738,8
Diluted earnings per share (cents)	38	**2 112,0**	1 738,8

Consolidated statement of changes in equity

for the year ended 31 December

	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the year	**374 112**	**303**	**11 465**	**1**	**4 643**
Total comprehensive income for the year	—	—	—	—	—
Profit for the year	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid during the year	—	—	—	—	—
Contribution to the Absa Group Limited Share Incentive Trust	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—
Disposal of associates and joint ventures – release of reserves	—	—	—	—	—
Increase in the interest of non-controlling equity holders	—	—	—	—	—
Non-controlling interest arising from business combinations	—	—	—	—	—
Balance at the end of the year	**374 112**	**303**	**11 465**	**1**	**4 643**

	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the year	367 675	303	10 465	1	4 643
Total comprehensive income for the year	—	—	—	—	—
Profit for the year	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid during the year	—	—	—	—	—
Shares issued	6 437	0	1 000	—	—
Contribution to the Absa Group Limited Share Incentive Trust	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—
Disposal of associates and joint ventures – release of reserves	—	—	—	—	—
Increase in the interest of non-controlling equity holders	—	—	—	—	—
Non-controlling interest arising from business combinations	—	—	—	—	—
Balance at the end of the year	374 112	303	11 465	1	4 643
Notes	26	26	26	26	26

Note

All movements are reflected net of taxation, refer to note 17.

Consolidated statement of changes in equity

for the year ended 31 December

Bank

2011

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Total equity attributable to ordinary equity holders of the Bank Rm	Non-controlling interest Rm	Total Rm
32 449	3 704	(193)	2 267	(289)	1 422	263	234	52 565	65	52 630
8 138	(48)	(24)	(242)	218	—	—	—	8 090	8	8 098
8 185	—	—	—	—	—	—	—	8 185	8	8 193
(47)	(48)	(24)	(242)	218	—	—	—	(95)	—	(95)
(3 184)	—	—	—	—	—	—	—	(3 184)	—	(3 184)
(281)	—	—	—	—	—	—	—	(281)	—	(281)
155	(111)	—	—	—	—	(111)	—	44	—	44
155	(155)	—	—	—	—	(155)	—	—	—	—
—	44	—	—	—	—	44	—	44	—	44
(47)	47	—	—	—	—	—	47	—	—	—
(13)	13	—	—	—	—	—	13	—	—	—
—	—	—	—	—	—	—	—	—	21	21
—	—	—	—	—	—	—	—	—	64	64
37 217	3 605	(217)	2 025	(71)	1 422	152	294	57 234	158	57 392

2010

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Total equity attributable to ordinary equity holders of the Bank Rm	Non-controlling interest Rm	Total Rm
29 340	2 566	(363)	1 114	(55)	1 422	266	182	47 318	100	47 418
6 771	1 089	170	1 153	(234)	—	—	—	7 860	6	7 866
6 752	—	—	—	—	—	—	—	6 752	6	6 758
19	1 089	170	1 153	(234)	—	—	—	1 108	—	1 108
(3 420)	—	—	—	—	—	—	—	(3 420)	—	(3 420)
—	—	—	—	—	—	—	—	1 000	—	1 000
(236)	—	—	—	—	—	—	—	(236)	—	(236)
46	(3)	—	—	—	—	(3)	—	43	—	43
46	(46)	—	—	—	—	(46)	—	—	—	—
—	43	—	—	—	—	43	—	43	—	43
8	(8)	—	—	—	—	—	(8)	—	—	—
(60)	60	—	—	—	—	—	60	—	—	—
—	—	—	—	—	—	—	—	—	37	37
—	—	—	—	—	—	—	—	—	(78)	(78)
32 449	3 704	(193)	2 267	(289)	1 422	263	234	52 565	65	52 630
		27	27	27	27	27				

Consolidated statement of cash flows

for the year ended 31 December

		Bank	
	Note	2011 Rm	2010[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**62 965**	65 742
Interest, fee and commission expense		**(27 666)**	(31 358)
Net trading and other income		**(1 054)**	(3 410)
Cash payments to employees and suppliers		**(20 863)**	(19 511)
Dividends received from banking and trading activities		**184**	68
Income taxes paid		**(4 702)**	(1 884)
Cash flow from operating profit before changes in operating assets and liabilities		**8 864**	9 647
Net increase in trading and hedging portfolio assets		**(17 534)**	(4 844)
Net decrease/(increase) in loans and advances to customers		**4 015**	(7 814)
Net increase in other assets		**(38 037)**	(5 146)
Net increase in trading and hedging portfolio liabilities		**5 980**	7 128
Net increase in amounts due to customers and banks		**71 893**	15 446
Net decrease in other liabilities		**(31 717)**	(12 667)
Net cash generated from operating activities		**3 464**	1 750
Cash flow from investing activities			
Purchase of investment properties	15	**(36)**	(75)
Purchase of property and equipment	16	**(1 519)**	(2 142)
Proceeds from sale of property and equipment		**77**	115
Purchase of intangible assets	14	**(230)**	(257)
Proceeds from sale of intangible assets		**—**	34
Acquisition of businesses, net of cash	51	**(211)**	470
Acquisition of associates and joint ventures	13.5	**—**	(95)
Disposal of associates and joint ventures	8, 13.6	**356**	95
Disposal of subsidiaries, net of cash	51.3	**—**	(6)
Net (increase)/decrease in loans to associates and joint ventures	13.1	**(2)**	1
Net decrease in investment securities		**4 532**	2 632
Dividends received from investment activities		**59**	3
Net cash generated from investing activities		**3 026**	775
Cash flow from financing activities			
Issue of ordinary shares		**—**	1 000
Share buy-back		**(281)**	
Contribution to the Absa Group Limited Share Incentive Trust		**—**	(236)
Proceeds from borrowed funds		**—**	1 000
Repayment of borrowed funds		**—**	(1 500)
Dividends paid		**(3 184)**	(3 420)
Net cash utilised from financing activities		**(3 465)**	(3 156)
Net increase/(decrease) in cash and cash equivalents		**3 025**	(631)
Cash and cash equivalents at the beginning of the year		**4 773**	5 403
Effect of foreign exchange rate movements on cash and cash equivalents		**0**	1
Cash and cash equivalents at the end of the year	49	**7 798**	4 773

Note

[1]Comparatives have been reclassified, refer to note 1.23.

Accounting policies

for the year ended 31 December

1. Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies comply with IFRS, Interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the requirements of the Companies Act. Certain new disclosures have been added in the consolidated financial statements in order to comply with the new provisions as required by the recently effective Companies Act, which is mandatory for the first time for this financial year under review.

Standards and amendments to standards mandatory for the first time for this financial year under review

IFRS 3 *Business Combinations* (IFRS 3) (amendments): clarify that contingent consideration arising in a business combination previously accounted for in accordance with IFRS 3 (2004) that remains outstanding at the adoption date of IFRS 3 (2008), continues to be accounted for in accordance with IFRS 3 (2004); limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost, when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards.

These amendments were specifically considered for business acquisitions within the scope of IFRS 3 for the current year or prior year (where applicable) and had no material impact on the consolidated financial statements of the Bank.

IFRS 7 (amendments): add an explicit statement that quantitative disclosures should be made in the context of the qualitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments; clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk; require disclosure of the financial effect of collateral held as security and other credit enhancements for all financial assets, regarding the amount that best represents the maximum exposure to credit risk; remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired; remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired; clarify that the additional disclosures required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

The amendments have been applied retrospectively in the current financial year under review with additional disclosures included in the consolidated financial statements of the Bank.

IAS 24 *Related Party Disclosures* (IAS 24) (revised): have been retrospectively applied to related party disclosures. The revised standard clarifies and simplifies the definition of a related party to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. A partial exemption has been added for government-related entities to disclose details of all transactions with the government and other government-related entities.

This amendment has had minimal impact on the existing related party disclosures of the Bank.

IAS 32 *Financial Instruments: Presentation* (IAS 32) – amendments relating to classification of rights issues: require a financial instrument that gives the holder the right to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency to be classified as an equity instrument if, and only if, the entity offers the financial instrument pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Previously, these issues had to be accounted for as derivative liabilities.

The amendment has been applied retrospectively and has had minimal impact based on the nature of transactions covered by this amendment.

IAS 34 *Interim Financial Reporting* (IAS 34) (amendments): was amended to clarify significant events and transactions to be disclosed in interim financial reports. The amendment is intended to emphasise that these interim disclosures should update the relevant information presented in the most recent annual financial report. The amendment also clarifies how to apply this principle in respect of financial instruments and their fair value.

The amendments have been applied retrospectively in the current financial year under review (where applicable).

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

New and amended standards, and interpretations mandatory for the first time for this financial year under review but not currently relevant to the Bank (although they may affect the accounting for future transactions and events)

IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) (amendments): provides clarification to first-time adopters of IFRS. It also provides relief for first-time adopters of IFRS from having to reconstruct transactions that occurred before their date of transition to IFRS.

These amendments will have no impact on the Bank as the Bank adopted IFRS in full in the financial year ending 31 December 2005.

IAS 1 *Presentation of Financial Statements* (IAS 1) (amendments): clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes of the financial statements. The amendment is applied retrospectively.

The alternative presentation allowed by these amendments will not be applied by the Bank.

IAS 27 *Consolidated and Separate Financial Statements* (IAS 27) (amendments): clarify that the consequential amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates* (IAS 21), IAS 28 *Investments in Associates* (IAS 28) and IAS 31 *Interests in Joint Ventures* (IAS 31) resulting from IAS 27 should be applied prospectively, with the exception of paragraph 35 of IAS 28 and paragraph 46 of IAS 31, which should be applied retrospectively.

The amendments are minor amendments with no impact on the Bank's consolidated financial statements.

IFRIC 13 *Customer Loyalty Programmes* (IFRIC 13) (amendment): clarifies that when the fair value of award credits measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits is to be taken into account. The amendment is applied retrospectively.

Based on the structure of the current awards programme, these amendments will have no impact on the Bank's consolidated financial statements.

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (IFRIC 14) (amendments): correct an unintended consequence of IFRIC 14, with respect to voluntary prepaid contributions. The amendments apply when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Due to the surplus position of the Bank's defined benefit fund, this amendment had no impact on the Bank's results. The Bank does not apply the corridor approach.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (IFRIC 19): clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.

The principle is already being applied by the Bank and therefore is not expected to have any impact. This standard is applied from the perspective of the issuer of the equity instrument. This interpretation does not apply where the creditor is acting in the capacity of a shareholder, common control transactions, and where the issue of equity shares was part of the original terms of the liability.

Conceptual framework for financial reporting – objectives and qualitative characteristics: limits the range of users of general purpose financial reporting to existing or potential investors, lenders and other creditors; introduces more general terms to the financial information that must be provided to meet the user's needs; presents the qualitative characteristics of financial statements in a more structured and comprehensive manner as either fundamental or enhancing characteristics.

The revised chapters, which replace existing elements of the existing conceptual framework and which are effective immediately from 28 September 2010, will have no impact on the consolidated financial statements of the Bank. However, the impact of accounting policies not covered by existing standards may need to be reconsidered in future reporting periods.

1.1 Basis of presentation

The consolidated and Company financial statements have been prepared in accordance with IFRS and interpretations issued by the IFRIC, AC 500 standards as issued by the Accounting Practices Board or its successor, the going-concern principle, and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and Company financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.2 Use of estimates, assumptions and judgements

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those current estimates reported. The accounting policies that are deemed critical to the Bank's results and financial position, in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of assumptions and estimation, are discussed below.

1.2.1 Impairment of loans and advances

The Bank's accounting policy for losses arising from the impairment of customer loans and advances is described in note 1.7.7. Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the reporting date.

Management is required to exercise judgement in making assumptions and estimations when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

The Bank uses two alternative methods to calculate collective impairment allowances on homogeneous groups of loans that are not considered individually significant:

- When appropriate empirical information is available, the Bank utilises roll-rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the likelihood that loans will progress through the various stages of delinquency and ultimately prove irrecoverable. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio.
- In other cases, when the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll-rate methodology, the Bank adopts a formulaic approach which allocates progressively higher percentage loss rates the longer a customer's loan is overdue. Loss rates are based on historical experience and are supplemented by management judgement.

Both methodologies are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis because of the large number of individually insignificant loans in the portfolio.

In addition, the use of statistically assessed historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the reporting date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected in the statistical models. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment allowances derived solely from historical loss experience.

This key area of judgement is subject to uncertainty and is highly sensitive to factors such as loan portfolio growth, product mix, unemployment rates, bankruptcy trends, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, account management policies and practices, changes in laws and regulations, and other factors that can affect customer payment patterns. These judgement areas are included in models which are used to calculate impairments. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example, roll-rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

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

1.2 Use of estimates, assumptions and judgements *(continued)*

1.2.2 Goodwill impairment

The Bank's accounting policy for goodwill is described in note 1.11.1.

The process of identifying and evaluating goodwill impairment is inherently uncertain because it requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used. The review of goodwill impairment represents management's best estimate of the factors below:

- The future cash flows of the cash-generating units (CGUs) are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data in future years; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects at the time of the assessment.
- The discount rate used to discount the future expected cash flows is based on the Bank's weighted average cost of capital. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions outside of management's control and are therefore established on the basis of significant management judgement and are subject to uncertainty.

Note 14 includes details of the CGUs with significant balances of goodwill and states the key assumptions used to assess the goodwill in each of those CGUs for impairment.

1.2.3 Valuation of financial instruments

The Bank's policy for determining the fair value of financial instruments is described in note 55.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The main assumptions and estimates which management considers when applying a model with valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates.
- Selecting an appropriate discount rate for the instrument. Management bases the determination of this rate on its assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate.
- Judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the unobservable inputs are significant.

1.2 Use of estimates, assumptions and judgements *(continued)*

1.2.4 Impairment of available-for-sale financial assets

The Bank's accounting policy for impairment of available-for-sale financial assets is described in note 1.7.3.

Available-for-sale financial assets are measured at fair value, and changes in fair value are recognised in equity in the available-for-sale reserve until the financial assets are either sold or become impaired. An impairment loss is recognised if there is objective evidence of impairment as a result of loss events which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated. If an available-for-sale financial asset becomes impaired, the entire balance in equity relating to that asset is removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income as an impairment loss.

Management is required to exercise judgement in determining whether there is objective evidence that an impairment loss has occurred. Once an impairment has been identified, the amount of impairment loss is measured in relation to the fair value of the asset. More information on assumptions and estimates requiring management judgement relating to the determination of fair values of financial instruments is provided above in 'Valuation of financial instruments'.

The objective evidence required to determine whether an available-for-sale debt security is impaired comprises evidence of the occurrence of a loss event and evidence that the loss event results in a decrease in estimated future cash flows. Where cash flows are readily determinable, a low level of judgement may be involved. Where determination of estimated future cash flows requires consideration of a number of variables, some of which may be unobservable in current market conditions, more significant judgement is required.

There is no single factor to which the Bank's charge for impairment of available-for-sale debt instruments is particularly sensitive, because of the range of different types of securities held, and the wide range of factors which can affect the occurrence of loss events and the cash flows of securities, including different types of collateral.

1.2.5 Impairment of investments in associates and joint ventures

When indications exist that the carrying amount of the investment in associates and joint ventures would not be recoverable, an impairment is recognised. The recoverable amount is the higher of value in use and fair value less cost to sell and is based on the Bank's best estimate of the price the Bank would achieve in a sale transaction of the investment.

1.2.6 Deferred tax assets

The Bank's accounting policy for the recognition of deferred tax assets is described in note 1.20.2. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

The amount of deferred tax assets recognised is based on the evidence available about conditions at the reporting date, and requires significant judgements to be made by management. Management's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, future reversals of existing taxable temporary differences, and the availability of assessed losses. The recognition of the deferred tax asset is mainly dependent upon the projection of future taxable profits.

Management's projections of future taxable income are based on business plans, future capital requirements and ongoing tax planning strategies.

Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets.

1.2.7 Consolidation of SPEs

The Bank consolidates certain SPEs, which may or may not be directly or indirectly owned subsidiaries. These SPEs are consolidated when they are controlled by the Bank. Judgement is required in assessing and determining if the Bank controls SPEs.

1.2.8 Post-retirement benefits

The contributions towards defined benefit pension plans are determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See note 40 for the assumptions used.

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

1.2 Use of estimates, assumptions and judgements *(continued)*

1.2.9 Provisions

Various assumptions are applied in arriving at the carrying value of provisions that are recognised in terms of the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37). The carrying amounts of the liabilities are disclosed in note 21.

Management further relies on input from the Bank's legal counsel in assessing the probability of matters of a significant nature.

1.2.10 Share-based payments

Where the fair value of share awards relating to share-based payments is not based on Absa Group Limited's share price with a zero strike price, it is determined using option pricing models. The inputs to the option pricing models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The valuation of share awards is described in more detail in note 50.

1.2.11 Income taxes

The Bank is subject to income taxes in the countries in which it conducts business and the calculation of the Bank's tax charge and worldwide provisions for income taxes necessarily involves a degree of estimation and judgement. There are transactions and calculations for which the ultimate tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. These risks are managed in accordance with the Bank's Tax Principal Risk Framework. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Further information is included in note 17 around estimated tax positions where a judgement is applied.

1.2.12 Offsetting financial assets and liabilities

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

- In the absence of a contractual agreement that provides for offsetting, the Bank applies the common law principles in South Africa when determining whether there is a legally enforceable right to offset. The application of these common law principles are sometimes subject to a significant degree of interpretation. In these instances, legal advice is obtained to ensure that the application of the common law principles is correctly applied within the ambit of the law. Using the legal advice obtained, management assesses whether there is a legal right to offset accounts.
- When determining whether there is an intention to settle a financial asset and financial liability, management evaluates the underlying terms of the contract to identify whether there is a legal right to offset which could also indicate the Bank's intention to settle on a net basis. In addition, management considers whether there is past practice which indicates that amounts have been offset, for example, customer accounts could be offset before the customer enters into a process of liquidation or customer accounts could be offset when the customer exceeds the limit of the facility granted. Management also evaluates whether the customers accounts are managed on a net basis which would support the view that there is an intention to settle on a net basis. Through this process, management is able to substantiate the view that there is an intention to settle on a net basis.

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

1.3 Consolidation

The consolidated financial statements include those of Absa Bank Limited and all its subsidiaries, associates, SPEs and joint ventures. Accounting policies applied by all entities within the Bank are consistent with those of Absa Bank Limited.

1.3.1 Subsidiaries

Subsidiaries are all entities (including SPEs) over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

1.3 Consolidation *(continued)*

1.3.1 Subsidiaries (continued)

The Bank uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Bank. The consideration transferred includes the fair value at acquisition date of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* (IAS 12) and IAS 19 *Employee Benefits* (IAS 19) respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payments* (IFRS 2) at the acquisition date; 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* (IFRS 5) are measured in accordance with that standard.

On an acquisition-by-acquisition basis, the Bank recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment in the standalone financial statements of Absa Bank Limited.

Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments with a corresponding adjustment to goodwill during the measurement period. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) or IAS 37, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Bank's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit and loss component of the statement of comprehensive income.

Inter-company transactions, balances and unrealised claims on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed at a consolidated level, where necessary, to ensure consistency with the policies adopted by the Bank.

1.3.2 Investments in associates and joint ventures

Associates are those companies which are not subsidiaries and in which the Bank exercises significant influence on the financial and operating policies. Significant influence is normally evident when the Bank owns between 20% and 50% of a company's voting rights.

A joint venture is a contractual agreement between two or more parties to undertake an economic activity that is under joint control.

Investments in associates and joint ventures that are not deemed to be part of the Bank's venture capital activities are held at cost plus equity-accounted earnings less any accumulated impairment. The Bank's investment cost includes goodwill. Impairment of an associate or joint venture is evidenced by a significant or prolonged decline in fair value below cost and when the recoverable amount is the highest of value-in-use and fair value less cost to sell.

The results of associates and joint ventures are accounted for according to the equity method, based on their most recent audited financial statements. If the most recent available audited financial statements are for an accounting period that ended no more than three months prior to the Bank's year end, these are adjusted in respect of material adjustments between their reporting date and the Bank's reporting date. The Bank's share of its post-acquisition profits or losses is recognised in the statement of comprehensive income and the Bank's interest in the post-acquisition reserves of associates and joint ventures is treated as distributable reserves in the Bank's financial statements. When the Bank's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

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

1.3 Consolidation *(continued)*

1.3.2 Investments in associates and joint ventures *(continued)*

After application of the equity method, the Bank determines whether it is necessary to recognise an additional impairment loss on the Bank's investment in its associates and joint ventures. The Bank determines at each reporting date whether there is objective evidence that the investment in associate or joint venture is impaired. The primary indicators of potential impairment are considered to be adverse fair value movements, the disappearance of an active market for the investments, or adverse changes in the technological, economic, legal or tax environment that the entity operates in. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount (the higher of the asset's fair value less costs to sell and value in use) of the associate or joint venture and its carrying value and recognises the amount in the profit and loss component of the statement of comprehensive income.

Unrealised gains on transactions between the Bank and its associates and joint ventures are eliminated to the extent of the Bank's interest in the entities.

Investments in entities that form part of venture capital activities of the Bank have been designated at fair value through profit or loss and disclosed under 'Investment securities'. The designation has been made in accordance with IAS 39, based on the scope exclusion that is provided in IAS 28.

Venture capital associated investments are distinguished from other investments by considering the nature of the investments, expected returns and the manner in which they are managed by the Bank. These manifest as private equity investments. Private equity is medium- to long-term finance that is provided in return for an equity stake in potentially high-growth unquoted entities. The fair value of these investments is determined in accordance with international private equity and venture capital valuation guidelines.

1.3.3 Transactions with non-controlling interests

The Bank treats transactions with non-controlling interests as transactions with equity owners of the Bank. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Bank ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Bank had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

1.3.4 Special purpose entities (SPEs)

The Bank may enter into transactions with SPEs. A SPE is consolidated on the same basis as subsidiaries as set out in 1.3.1, if, based on an evaluation of the substance of the relationship with the Bank and the SPE's risks and rewards, the Bank concludes that it controls the SPE. Control exists when the Bank has the power to govern the financial and operating policies of entities so as to obtain benefits from its activities.

SPEs controlled by the Bank are established under terms that:

- impose strict limitations on the decision-making powers of the SPE's management;
- result in the Bank receiving the majority of the benefits related to the SPE's operations and net assets;
- enable the Bank to retain the majority of the residual or ownership risks related to the SPE or its assets; and
- the activities of the SPE are being conducted on behalf of the entity according to the entity's specific business needs.

1.3.5 Business combinations achieved in stages (step acquisitions)

When the Bank purchases additional interests in an entity in which it does not have control prior to acquisition, the previously held equity interest in the acquiree is remeasured at its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. If in any prior periods, any changes in the value of the equity interest in the acquiree have previously been recognised in other comprehensive income, then that change is recognised on the same basis as if the Bank had disposed directly of the previously held interest.

1.3 Consolidation *(continued)*

1.3.6 Common control

Common control transactions are business combinations in which the combining entities are ultimately controlled by the Bank. The Bank applies the predecessor accounting method when accounting for common control transactions.

The assets and liabilities of the combining entities are not adjusted to fair value but reflected at their carrying amounts at the date of the transaction. Any difference between the consideration paid/transferred and the net asset value 'acquired' is reflected within retained earnings. No new goodwill will be recognised as a result of the common control transaction.

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

1.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM has been identified as the Executive Committee (Exco) who makes strategic decisions.

The Bank has identified its reportable segments based on a combination of products and services offered to customers, external revenue and the location of the markets served. The segments also reflect how the Bank's businesses are managed and reported to the CODM. Refer to note 53 for more detail.

Information regarding the operation of each reportable segment is disclosed in the notes to the financial statements. The Group evaluates segment performance based on each segment's profit before income tax. In evaluating the results of the segments, the profit of the segments are compared with that of other entities operating in the financial services industry, as management believes such information is most relevant.

The Bank's segments report their profit or loss and their assets and liabilities based on the Bank's accounting policies. All transactions between the segments are conducted on an arm's length basis. Internal charges and transfer pricing adjustments are reflected in the performance of each segment.

1.5 Foreign currencies

1.5.1 Functional and presentation currency

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand, which is the holding Company's functional and presentation currency.

1.5.2 Foreign currency translations

The results and financial position of all Bank entities that have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- The assets and liabilities of foreign subsidiary companies are translated at the closing exchange rates ruling at the reporting date. Statement of comprehensive income items in respect of foreign entities are translated at the appropriate weighted average exchange rate for the year, where these approximate actual rates. Non-monetary items, such as equity and reserves, are translated at the closing exchange rate ruling at the reporting date. Gains and losses arising on translation are transferred to non-distributable reserves (foreign currency translation reserve) as a separate component of other comprehensive income.
- On consolidation, foreign exchange differences arising on the translation of the net investment in foreign entities, borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount of foreign exchange differences recognised in other comprehensive income relating to that particular foreign operation is recognised in the profit and loss component of the statement of comprehensive income in 'Operating expenses' or 'Other operating income'.

1.5.3 Foreign currency transactions

Foreign currency transactions are initially recorded at, and translated into the functional currency of the entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss component of the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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

1.5 Foreign currencies *(continued)*

1.5.3 Foreign currency transactions *(continued)*

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. These other changes in the carrying amount are recognised in the other comprehensive income component of the statement of comprehensive income, while translation differences related to changes in the amortised cost are recognised in the profit and loss component of the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gains or losses. Translation differences on non-monetary items, such as available-for-sale financial assets, are included in other comprehensive income.

1.6 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary equity holder of the Bank by the weighted average number of ordinary shares in issue during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary equity holder and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares.

1.7 Financial instruments

Financial instruments are initially measured at fair value and are subsequently measured on the basis as set out below. Transaction costs of instruments carried at fair value through profit or loss are recognised immediately through the profit and loss component of the statement of comprehensive income. For other categories of financial instruments, transaction costs (which includes incremental costs) and transaction income (i.e. initiation fees) are capitalised to the initial carrying amount.

Financial instruments are recognised on the date when the Bank enters into contractual arrangements with counterparties to purchase or sell the financial instruments.

The Bank is required to group financial instruments into classes that are appropriate to the nature of the information disclosed and take into account the characteristics of those financial instruments. Classes of financial instruments have been determined by referring to the nature and extent of risks arising from the financial instruments and how these are managed.

The Bank generally adopts an approach of not reclassifying financial instruments between different categories subsequent to initial recognition. In exceptional circumstances, where such reclassifications do occur, the Bank will apply the requirements of the IAS 39 amendments for reclassifications together with the IFRS 7 required disclosures.

1.7.1 Held-to-maturity

Held-to-maturity financial instruments are non-derivative instruments with fixed or determinable payments and a fixed maturity where the Bank has a positive intention and ability to hold the instruments to such date. These instruments are held at amortised cost, using the effective interest rate and reviewed for impairment at each reporting date.

If the Bank fails to keep these instruments to maturity, other than for specific circumstances defined by the Bank, it will be required to reclassify the entire class as available-for-sale. The instruments would then have to be measured at fair value and not amortised cost.

The Bank does not have a positive intention to hold to maturity a financial asset with a fixed maturity if:

- the Bank intends to hold the financial asset for an undefined period;
- the Bank stands ready to sell the financial asset in response to market interest rates or risks, liquidity needs, changes in availability of and the yield on alternative investments, changes in financing sources and terms or changes in foreign currency risk; or
- the issuer has a right to settle the financial asset at an amount significantly below its amortised cost.

1.7.2 Financial instruments at fair value through profit or loss

This category has three subcategories: financial instruments held for trading, financial instruments designated at fair value through profit or loss and derivatives.

1.7 Financial instruments *(continued)*

1.7.2 Financial instruments at fair value through profit or loss (continued)

Financial instruments classified as held for trading

Financial instruments such as treasury bills, debt securities, equity shares and short positions in securities are classified as held for trading if they have been acquired principally for the purpose of selling and repurchasing in the near term, or if they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

These financial instruments are disclosed in the statement of financial position as 'Trading portfolio assets or liabilities'. Subsequent to initial recognition, their fair values are remeasured, and all gains and losses from changes therein are recognised in the profit and loss component of the statement of comprehensive income in 'Gains and losses from banking and trading activities' as they arise.

Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below at initial recognition, and are so designated by management. The Bank may only designate financial instruments at fair value through profit or loss when the designation results in more relevant information, as follows:

- It eliminates or significantly reduces valuation or recognition inconsistencies that would arise from measuring financial assets or financial liabilities, or recognising gains or losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by the Bank are financial assets, loans to customers, financial liabilities and structured notes, where doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost.
- When groups of financial assets, financial liabilities or combinations thereof are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Under this criterion, certain private equity and other investments are the main class of financial instruments so designated. The Bank has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks.
- The Bank can also designate a financial instrument at fair value through profit or loss if it relates to a contract containing one or more embedded derivatives that significantly modify the cash flows resulting from that contract.

Measurement is initially at fair value, with transaction costs taken directly to the profit and loss component of the statement of comprehensive income. Subsequent to initial recognition, the fair value is remeasured, and gains and losses from changes therein are recognised in 'Gains and losses from banking and trading activities' and 'Gains and losses from investment activities', depending on the nature of the instrument, unless disclosing such fair value movements in another statement of comprehensive income line would eliminate an accounting mismatch.

Derivatives

Subsequent to initial recognition, derivatives are remeasured at fair value. Attributable transaction costs are recognised in the profit and loss component of the statement of comprehensive income when incurred. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in 'Gains and losses from banking and trading activities'. Changes in the fair value of derivatives used to economically hedge the Bank's interest rate risk are recognised in 'Net interest income' in the profit and loss component of the statement of comprehensive income.

1.7.3 Available-for-sale assets

Available-for-sale assets include both debt and equity instruments normally held for an indefinite period, but that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or other economic conditions. The category also includes longer-dated government stock held for regulatory liquid asset purposes, as well as certain investments in corporate bonds.

Subsequent to initial recognition, the fair value adjustments which represent gains and losses, net of applicable taxes, are reported in other comprehensive income until such investments are sold or otherwise disposed of, or until such investments are determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit and loss component of the statement of comprehensive income. However, interest on available-for-sale instruments calculated using the effective interest method is recognised in the profit and loss component of the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the profit and loss component of the statement of comprehensive income when the Bank's right to receive payment is established.

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

1.7 Financial instruments *(continued)*

1.7.3 Available-for-sale assets *(continued)*

Available-for-sale assets are regularly assessed for impairment. In assessing whether or not impairment has occurred, consideration is given to, inter alia, whether or not there has been a significant or prolonged decline in the fair value of the security below its cost. Factors considered in determining whether there has been a significant or prolonged decline in the equity instrument below its cost include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the reduced fair value;
- the cause of the reduced fair value and the financial condition and near-term prospects of the issuer;
- activity in the market of the issuer which may indicate adverse credit conditions; and
- the Bank's ability and intent to hold the instrument for a period of time sufficient to allow for any anticipated recovery.

Factors considered in determining whether there has been a significant or prolonged decline in debt instruments below their costs are the same as those mentioned in note 1.7.7 below.

If impairment is assessed to have occurred, the cumulative gain or loss that has been previously recognised directly in other comprehensive income is removed from other comprehensive income and is recognised in the profit and loss component of the statement of comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as all other financial assets. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss component of the statement of comprehensive income, the impairment loss shall be reversed, with the amount of the reversal recognised in the profit and loss component of the statement of comprehensive income. Reversals of impairment of equity instruments are not recognised in the profit and loss component of the statement of comprehensive income; increases in the fair value of equity instruments after impairment are recognised directly in other comprehensive income.

1.7.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any transaction costs on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the profit and loss component of the statement of comprehensive income. The carrying amount of loans considered to be impaired on the statement of financial position is reduced through the use of an appropriate impairment methodology.

Once a loan has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.7.5 Embedded derivatives

Certain financial instruments contain both a derivative and non-derivative host component. In such cases, the derivative component is termed an embedded derivative.

An embedded derivative is only separated and reported at fair value with gains and losses being recognised in the profit and loss component of the statement of comprehensive income, when the following requirements are met:

- where the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract;
- the terms of the embedded derivative are the same as those of a stand-alone derivative; and
- the combined contract is not held for trading or designated at fair value through profit or loss.

1.7.6 Financial liabilities

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

1.7 Financial instruments *(continued)*

1.7.7 Impairment of financial assets at amortised cost

An impairment assessment of financial assets at amortised cost is performed at each reporting date.

Amortised cost instruments are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of an amortised cost investment is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

Loans and receivables are stated net of identified and unidentified impairments.

A financial asset or group of financial assets is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (known as the loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably measured. In determining whether a loss event has occurred, advances are subjected to regular evaluations that take cognisance of, inter alia, past experience of the economic climate similar to the current economic climate, overall customer risk profile and payment record and the realisable value of any collateral.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank and may include the following loss events:

- Significant financial difficulty of the issuer or borrower.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- The Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider.
- It becoming probable that the borrower will enter insolvency or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses that group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the impairment loss is recognised in the profit and loss component of the statement of comprehensive income. If a loan receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of collateralised financial assets reflects the cash flows that may result from foreclosure, less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of the cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experienced for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (i.e. changes in unemployment rates, property prices, payment status, or other factors

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

1.7 Financial instruments *(continued)*

1.7.7 Impairment of financial assets at amortised cost *(continued)*

indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Loans or other receivables, together with the associated allowance, are written off when there are no realistic prospects of future recovery and all collateral has been realised or has been transferred to the Bank.

Details of the significant estimates and judgements made by the Bank in relation to identified and unidentified impairment are as follows:

Identified impairment

Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows of that instrument being assessed are taken into account, for example, the business prospects for the customer, the fair value of collateral, the Bank's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements are made in this process by management. 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 case by case.

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

Unidentified impairment

An impairment allowance is recognised when observable data indicates there is a measurable decrease in the estimated future cash flows from a group of financial assets since the original recognition of those assets, even though the decrease cannot yet be identified for the individual assets in the group. The purpose of collective assessment of impairment is to test for latent losses on a portfolio of loans that have not been individually evidenced.

In cases where the collective impairment of a portfolio cannot be individually evidenced, the Bank sets out to prove that a risk condition has taken place that will result in an impairment of assets (based on historic experience), but the losses will only be identifiable at an individual borrower level at a future date.

The emergence period concept is applied to ensure that only impairments that exist at the reporting date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event and the impairment being identified at an individual account level.

The probability of default for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This probability of default is then applied to the total population for which specific impairments have not been recognised.

The resulting figure represents an estimation of the impairment that occurred during the emergence period and therefore has not specifically been identified by the Bank at the reporting date.

The impairment allowance also takes into account the expected severity of loss at default, or the loss-given default (LGD), which is the amount outstanding when default occurs that is not subsequently recovered. Recovery varies by product and depends, for example, on the level of security held in relation to each loan, and the Bank's position relative to other claimants. The LGD estimates are based on historical default experience.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

To the extent that the unidentified impairments created by the banking operations of the Bank are insufficient to meet the minimum regulatory general provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to non-distributable reserves.

1.7 Financial instruments *(continued)*

1.7.8 Renegotiated loans

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would otherwise not consider. These loans are not considered to be past due after renegotiations but are treated as current loans after the loan has performed for a specified period. These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Restructuring activities include extended payment arrangements, approved external management plans and deferral of payments.

Following restructuring, a previously overdue customer is reset to normal status and managed together with other similar accounts once the customer demonstrates the ability to make contractual payments for a specific period. Restructuring policies and procedures are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. The policies are kept under constant review. Restructuring is most commonly applied to residential mortgages and credit card receivables.

1.7.9 Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have been discharged, cancelled or have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; and
- the Bank has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all of the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.7.10 Derecognition of financial liabilities

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

1.7.11 Fair value

Some of the Bank's financial instruments are carried at fair value through profit or loss such as those held for trading, designated by management under the fair value option and non-cash flow hedging derivatives.

Other non-derivative financial assets may be designated as available-for-sale.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The method of determining the fair value of financial instruments can be analysed into the following categories:

(a) Level 1 – Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

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

1.7 Financial instruments *(continued)*

1.7.11 Fair value *(continued)*

(b) Level 2 – Valuation techniques using market observable inputs. Such techniques may include:

- using recent arm's length market transactions;
- reference to the current fair value of similar instruments; and
- discounted cash flow analysis, pricing models or other techniques commonly used by market participants.

(c) Level 3 – Valuation techniques, as described in (b) above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The valuation techniques in (b) and (c) use inputs such as interest rate yield curves, equity prices, commodity and currency prices/ yields, volatilities of underlyings and correlations between inputs. The models used in these valuation techniques are calibrated against industry standards, economic models and to observed transaction prices, where available.

1.7.12 Scrip lending

Where the Bank acts as an agent (i.e. facilitates lending transactions on behalf of customers), the associated transactions are not accounted for on the Bank's statement of financial position, as the risks and rewards of ownership of these related assets and liabilities never transfer to the Bank.

The fees earned for the administration of scrip lending transactions are accounted for on an accrual basis in the period in which the service is rendered.

Where the Bank borrows securities but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the statement of financial position. The Bank's obligation to deliver securities that it has sold as a short seller is classified as a financial instrument held for trading. Any dividends earned on borrowed securities are refunded to the lender of the securities.

Securities lent are retained in the statement of financial position when substantially all the risks and rewards of ownership remain with the Bank, and a counterparty liability is included separately on the statement of financial position, as appropriate. Securities will only be repurchased when the lender defaults. This cash collateral (as a form of guarantee) is only deposited with the lender if required in terms of the Global Master Securities Lending Arrangement.

1.7.13 Hedge accounting

The Bank also uses derivative instruments as part of its asset and liability management activities to hedge exposures to interest rate, foreign currency and credit risks. The Bank applies either fair value or cash flow hedge accounting when transactions meet the criteria as set out in IAS 39.

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

The Bank assesses on an ongoing basis whether the hedge has been highly effective. A hedge is regarded as highly effective only when offsetting changes in fair value or cash flows attributable to the hedged risk during the period are within a range of between 80% and 125%.

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

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

1.7 Financial instruments *(continued)*

1.7.13 Hedge accounting(continued)

Fair value hedges

For qualifying interest rate fair value hedges, the change in fair value of the hedging derivative is recognised in the profit and loss component of the statement of comprehensive income. Changes in fair value of the hedged risk within the hedged item are reflected as an adjustment to the carrying value of the hedged item, which is also recognised in the profit and loss component of the statement of comprehensive income.

Any ineffectiveness is recognised immediately in 'Gains and losses from banking and trading activities' in the profit and loss component of the statement of comprehensive income. When hedge accounting ceases, any adjustment to a hedged item for which the effective interest method is used, is amortised to the profit and loss component of the statement of comprehensive income as part of the recalculated effective interest rate of the items over the remaining life.

Cash flow hedges

Gains or losses, arising from fair value adjustments associated with the effective portion of a derivative designated as a cash flow hedge, are recognised initially in other comprehensive income. Any ineffective portion of the hedging instrument is immediately recognised in the profit and loss component of the statement of comprehensive income in 'Gains and losses from banking and trading activities'. When the cash flows that the hedging instrument is hedging materialise, resulting in income or an expense, the associated gain or loss on the hedging instrument is simultaneously transferred from other comprehensive income to the corresponding line in the profit and loss component of the statement of comprehensive income.

When hedge accounting ceases, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the profit and loss component of the statement of comprehensive income. Where the hedged item is the purchase of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability as a basis adjustment.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit and loss component of the statement of comprehensive income.

1.7.14 Offsetting

Financial instruments are offset and the net amount reported in the statement of financial position when the entity holds a current legally enforceable right to set-off the recognised amounts and has an intention to either settle on a net basis, or realise the asset and settle the liability simultaneously.

1.7.15 Repurchase and reverse repurchase agreements

Where the Bank sells financial instruments and agrees to repurchase these at future dates, the risks and rewards of ownership remain with the Bank and the considerations received are included under deposits and current accounts. The investments are shown on the statement of financial position and valued according to the Bank's policy relevant to that category of investments.

Conversely, where investments are purchased subject to commitments to resell these at future dates and the risk of ownership does not pass to the Bank, the considerations paid are included under advances and not under investments.

Repurchase and reverse repurchase agreements may either be designated at fair value through profit or loss if the requirements in IAS 39 to designate as such are met or classified as loans and receivables. Repurchase and reverse agreements are included in various notes to financial statements, according to the nature of the financial instrument being repurchased.

1.7.16 Compound financial instruments

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

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

1.7 Financial instruments *(continued)*

1.7.17 Loan commitments

The Bank enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Bank subject to notice conditions. Provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities if it is probable that the facility will be drawn and result in recognition of an asset at an amount less than the amount advanced.

1.7.18 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.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. Other than where the fair value option is applied, subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit and loss component of the statement of comprehensive income, any fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the reporting date.

Any increase in the liability relating to guarantees is recognised in the profit and loss component of the statement of comprehensive income. Any liability remaining is recognised in the profit and loss component of the statement of comprehensive income when the guarantee is discharged, cancelled or expires.

1.8 Share capital

1.8.1 Ordinary share capital

Incremental costs directly attributable to issue ordinary shares and share options are recognised as a deduction from equity.

1.8.2 Preference share capital

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

Preference share capital is classified as a liability if it is redeemable on a specific future date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as an interest expense in the profit and loss component of the statement of comprehensive income.

Where preference shares contain both a liability and an equity component, such components are classified separately as financial liabilities and equity components.

1.9 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

1.9.1 Net interest income

Interest income and expense for all interest-bearing financial instruments, except for those held at fair value through profit or loss, are recognised in 'Net interest income' in the statement of comprehensive income using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition. When calculating the effective interest rate, the Bank estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate and includes the following:

- Origination fees relating to the creation or acquisition of a financial asset which may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instruments, preparing and processing documents and closing the transaction.

1.9 Revenue recognition *(continued)*

1.9.1 Net interest income *(continued)*

- Origination fees received on issuing financial liabilities measured at amortised cost.
- Commitment fees received by the Bank to originate a loan and the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of the financial instrument.

In calculating effective interest, the Bank estimates cash flows using projections based on its experience of customer behaviour considering all contractual terms of the financial instrument but excluding future credit losses. Where these estimates are revised, the carrying amount of the financial asset or liability is adjusted to reflect the change in estimated cash flows. Cash flows arising from the transaction costs of issuing financial instruments are also taken into account in the calculation.

Interest is accrued in respect of the residual of impaired advances, based on the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.9.2 Net income from financial instruments designated at fair value through profit or loss

Net income includes interest income, interest expense, dividend income and all gains and losses from changes in the fair value of financial instruments held at fair value through profit or loss.

Net income from financial instruments held at fair value through profit or loss and held or issued as part of the Bank's trading activities is accounted for as 'Gains and losses from banking and trading activities'.

Net income from financial instruments held at fair value through profit or loss and held or issued as part of the Bank's investment activities is accounted for as 'Gains and losses from investment activities'.

Net income from financial instruments used to economically hedge the Bank's interest rate risk is accounted for as 'Net interest income'.

Gains and losses from changes in the fair value of financial instruments held at fair value through profit or loss and issued or held as part of the Bank's banking activities (other than those used to economically hedge the Bank's interest rate risk) are accounted for as 'Gains and losses from banking and trading activities'. Interest income, interest expense and dividend income on these financial instruments are accounted for as 'Net interest income'.

1.9.3 Instalment credit agreements

Leases, instalment credit and rental agreements are regarded as leases. Rentals and instalment receivables, less unearned finance charges, are included under loans and advances. Finance charges are recognised as 'Interest and similar income' in the profit and loss component of the statement of comprehensive income over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

1.9.4 Net fee and commission income

Fee and commission income

The Bank earns fee and commission income from customers for: credit and bank cards; transaction processing fees; advisory, equity and underwriting services; lending and deposit-related transactions, such as loan commitments, standby letters of credit, and other deposit and loan servicing activities; and investment management-related fees.

Fee income is accounted for as follows:

- Fee and commission income that is integral to the effective interest rate on a financial instrument is included in the measurement of the effective interest rate.
- Income earned on the execution of a significant act is recognised as revenue when the act is completed. Loan syndication fees are recognised as revenue when the syndication has been completed or the syndication is probable and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as other participants. The commission on the allotment of shares to a customer is recognised when the shares have been allotted. Placement fees for arranging a loan between a borrower and an investor are recognised when the loan has been arranged.
- Income earned from the provision of services is recognised as revenue as the services are provided (i.e. investment or asset management, portfolio and other management advisory and service fees).

Fee and commission expense

Fee and commission expense relates to expenses that are directly linked to the production of fee and commission income and also includes transaction and service fees, which are expensed as the services are received. Fee and commission expense that is integral to the effective interest rate on a financial instrument is included in the measurement of the effective interest rate.

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

1.9 Revenue recognition *(continued)*

1.9.4 Net fee and commission income *(continued)*

Trust and other fiduciary activities

Income from trust and fiduciary activities arises as a result of holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions. This income specifically relates to the activities of stewardship and custody and relates to assets that are not recognised in the statement of financial position.

1.9.5 Gains and losses from derivative and trading portfolio instruments

This includes income arising from the margins that are achieved through market-making and customer business and from changes in market value caused by movements in interest and exchange rates, equity prices, commodities and other market variables. Gains or losses on assets or liabilities reported in the trading portfolio are included in the profit and loss component of the statement of comprehensive income under 'Gains and losses from banking and trading activities', together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

1.9.6 Dividends received on investments in equity instruments

Dividends received are recognised in the period in which the right to receipt is established. Dividends received are disclosed in 'Gains and losses from investment activities'.

1.9.7 Sale of assets under construction

Revenue from the sale of assets under construction is recognised when the legal title of the asset is transferred, provided that the Bank has no further significant acts to complete under the contract, and is disclosed in the profit and loss component of the statement of comprehensive income under 'Other operating income'.

1.9.8 Rental income

Rental income from investment properties is recognised in the profit and loss component of the statement of comprehensive income on a straight-line basis over the term of the lease where the lease is an operating lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease on a straight-line basis.

1.10 Commodities

Commodities, where the Bank has a shorter-term trading intention, are carried at fair value less cost to sell in accordance with the broker-trader exception in IAS 2 *Inventories* (IAS 2).

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

1.11 Intangible assets

1.11.1 Goodwill

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Bank's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss component of the statement of comprehensive income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is capitalised and reviewed annually for impairment or more frequently when there are indications that impairment may have occurred. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

1.11 Intangible assets *(continued)*

1.11.1 Goodwill (continued)

The first step of the impairment review process requires the identification of independent operating units by dividing the Bank's business into as many largely independent income streams as is reasonably practical. The goodwill is then allocated to these independent operating units. The first step of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second step reflects the allocation of the net assets acquired to the operating units and the difference between the consideration paid for those net assets and their fair value. The carrying value of the operating unit, including the allocated goodwill, is compared with the higher of its fair value less cost to sell and its value-in-use to determine whether any impairment exists. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (e.g. competition activity or regulatory change). In the absence of readily available market price data, these calculations are usually based on discounting expected cash flows at the Bank's weighted average cost of capital, the determination of which requires the exercise of judgement. An impairment loss in respect of goodwill is recognised in the profit and loss component of the statement of comprehensive income and is not reversed.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Goodwill on acquisition of associates and joint ventures is included in the carrying amount of these investments. Gains and losses on the disposal of such an entity include the carrying amount of the goodwill relating to the entity sold.

1.11.2 Computer software, customer lists and other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets, are carried at cost less any accumulated amortisation and any impairment losses.

Computer software development activities involve a plan or design for the production of new or substantially improved software. Development expenditure is capitalised only if development costs can be measured reliably, completion of the development of the software is technically and commercially feasible, the Bank can demonstrate that the intangible asset will be used to generate future economic benefits, the Bank intends to and has sufficient resources to complete development and to use the asset, and the Bank can demonstrate the ability to use or sell the intangible asset. The expenditure capitalised includes the cost of materials, staff costs and overhead costs that are directly attributable to preparing the software for intended use. Other development expenditure which does not meet the above requirements, is recognised in the profit and loss component of the statement of comprehensive income when the Bank has right of access to the goods or as the services are received.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Computer software development costs recognised as assets are amortised over their estimated useful lives.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Customer lists and other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use.

The value of intangible assets acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life, are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit and loss component of the statement of comprehensive income in 'Operating expenses'.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

1.11 Intangible assets *(continued)*

1.11.2 Computer software, customer lists and other intangible assets *(continued)*

An intangible asset is derecognised on disposal or when the Bank expects no future economic benefits to arise from the asset. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss component of the statement of comprehensive income when the asset is derecognised.

A summary of policies applied to the Bank's intangible assets is as follows:

	Customer lists	Development costs	Other
Useful lives	Finite	Finite	Finite
Amortisation method used	Amortised over the period of the expected future cash flows on a basis that reflects the pattern in which future economic benefits are expected to be received from the asset.	Amortised over the period of the expected use from the related project on a straight-line basis.	Amortised over the period of the expected future cash flows on a basis that reflects the pattern in which future economic benefits are expected to be received from the asset.
Internally generated or acquired	Acquired	Internally generated	Acquired
Annual amortisation rate (%)	8 – 20	20 – 33	10

1.12 Property and equipment

1.12.1 Property and equipment not subject to lease agreements

Property and equipment is initially recognised at cost. It is subsequently measured at cost, less accumulated depreciation and/or accumulated impairment losses, if any. Subsequent costs and additions are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss component of the statement of comprehensive income during the financial period in which they are incurred.

All property and equipment, other than land, is depreciated on a straight-line basis to write down their cost to their residual values over their estimated useful lives.

The Bank uses the following annual rates in calculating depreciation:

Item	Annual depreciation rate (%)
Computer equipment	20 – 33
Freehold property	2
Furniture and other equipment	10 – 15
Motor vehicles	25

Property under construction is initially measured at cost. Cost includes the cost of the land and construction costs to date.

All borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognised in the profit and loss component of the statement of comprehensive income in the period in which they are incurred.

1.12 Property and equipment *(continued)*

1.12.1 Property and equipment not subject to lease agreements (continued)

The fair value of property and equipment recognised as a result of a business combination is based on market values. Subsequent to the acquisition, the fair value of the property and equipment is considered to be its cost for measurement purposes. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss component of the statement of comprehensive income within 'Other operating income' in the year that the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

1.12.2 Property and equipment subject to lease agreements

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, i.e. whether fulfilment of the arrangement is dependent on the use of a specific asset or assets, or whether the arrangement conveys a right to use the asset.

Finance leases

Leases where the Bank as lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of minimum lease payments. Lease payments are apportioned using the effective interest method to identify the finance cost, which is charged to interest expenses over the lease term, and the capital repayment, which reduces the liability to the lessor. The property and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Operating leases

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Assets leased under operating leases are not recognised on the Bank's statement of financial position, while payments made are charged to the profit and loss component of the statement of comprehensive income on a straight-line basis over the period of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease on a straight-line basis.

1.12.3 Investment properties

Investment properties are properties held either to earn rental income, for capital appreciation or for both purposes, but not for sale in the ordinary course of business, for use in the supply of services or for administrative purposes. It includes property that is being constructed or developed for future use as investment property.

Investment properties are measured initially at their cost, including related transaction costs. After initial recognition, investment properties are carried at fair value with any changes therein recognised in the profit and loss component of the statement of comprehensive income.

An external, independent valuator company, having appropriate recognised professional qualifications and recent experience in the location and category of the properties being valued, values the Bank's investment properties each year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Valuations reflect, when appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Bank and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and, when appropriate, counter-notices, have been served validly and within the appropriate time.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting treatment.

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

1.12 Property and equipment *(continued)*

1.12.3 Investment properties (continued)

Investment properties are derecognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit and loss component of the statement of comprehensive income in the period of derecognition.

1.13 Repossessed properties

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

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

Gains or losses on disposal of repossessed properties are reported in 'Other operating income' or 'Operating expenses'.

1.14 Constructed assets held for sale

Constructed assets held for sale are initially recognised at cost and subsequently measured at the lower of cost and net realisable value. Costs include the cost of the land and construction costs to date. Construction assets held for sale are disclosed as 'Other assets' in the statement of financial position.

1.15 Non-current assets held for sale

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

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

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

1.16 Impairment of property, equipment and intangible assets

At each reporting date, or more frequently where events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount, property, equipment and intangible assets are assessed for impairment. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount, which is the higher of the asset's or the CGU's fair value less costs to sell, and its value-in-use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value-in-use is calculated by discounting the expected future cash in- or outflows to be obtained or incurred as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

1.16 Impairment of property, equipment and intangible assets *(continued)*

The carrying values of property, equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the profit and loss component of the statement of comprehensive income in the period in which it occurs.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years.

1.17 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

1.18 Provisions, contingent liabilities and commitments

Provisions are recognised when the Bank has a present constructive or legal obligation as a result of past events and it is probable that an outflow of resources, embodying economic benefits, will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects the market assessments of the time value of money and the increases specific to the liability.

Transactions are classified as contingent liabilities where the existence of the Bank's possible obligations depends on uncertain future events beyond the Bank's control or when the Bank has a present obligation that is not probable or which the Bank is unable to measure reliably.

Items are classified as commitments where the Bank commits itself to future transactions or if the items will result in the acquisition of assets.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract is lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

1.19 Employee benefits

1.19.1 Post-retirement benefits

The Bank has different pension plans with defined contribution and defined benefit structures.

Defined contribution structures

Under the defined contribution structures, fixed contributions payable by the Bank and members are accumulated to provide retirement benefits. The Bank has no legal or constructive obligation to pay any further contributions than these fixed contributions.

Contributions to any defined contribution plan are expensed as incurred.

Defined benefit structures

The defined benefit structures define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation.

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

1.19 Employee benefits *(continued)*

1.19.1 Post-retirement benefits *(continued)*

Defined benefit structures *(continued)*

The Bank's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and any unrecognised past-service cost and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high-quality government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension fund liability. When the calculation results in a benefit to the Bank, the recognised asset is limited to the net total of any unrecognised past-service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank nor can they be paid directly to the Bank. Fair value is based on market price information and, in the case of quoted securities, it is the published bid price. The value of any plan asset recognised is restricted to the sum of any past-service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The Bank makes provision for post-retirement benefits to eligible employees. The cost in relation to eligible employees is assessed in accordance with actuarial principles based on the projected unit credit methodology, and recognised in the profit and loss component in the statement of comprehensive income. Actuarial gains and losses are recognised in other comprehensive income in the statement of comprehensive income in the year in which they occur, after applying the asset ceiling test. Any other adjustments to the on-statement of financial position surplus or deficit are also recognised in the other comprehensive income component of the statement of comprehensive income as a result of applying the asset ceiling test. In respect of pensioners, the obligation is fully funded once the member reaches retirement.

The Bank's defined benefit structure is closed to new members and the structure will therefore run down as current membership dwindles.

Employees who retired prior to 1 April 1996 are eligible for the post-retirement medical aid benefits which are provided for under the Absa Group Pension Fund.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity-based benefits and termination benefits.

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

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

1.19.2 Share-based payments

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

Employee services settled in equity instruments

The fair value of the employee services received in exchange for the grant of awards is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards determined at the grant date, excluding the impact of any non-market vesting conditions (e.g. profitability). Non-market vesting conditions are included in the assumptions about the number of awards that are expected to become exercisable or the number of shares that the employee will

1.19 Employee benefits *(continued)*

1.19.2 Share-based payments *(continued)*

Employee services settled in equity instruments *(continued)*

ultimately receive. This estimate of the number of options that are expected to become exercisable is revised at each reporting date and the difference is charged or credited to the profit and loss component of the statement of comprehensive income, with a corresponding adjustment to equity. Amounts recognised for services received if the awards granted do not vest because of failure to satisfy a non-market vesting condition, are reversed through the profit and loss component of the statement of comprehensive income. If awards are forfeited after the vesting date, an amount equal to the value of the awards forfeited is debited against the share-based payment reserve and credited against retained earnings.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification. This expense will be expensed over the remaining vesting period of the award.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted EPS.

Employee services settled in cash

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

Determination of fair value

The fair value of share awards is measured using the Black-Scholes formula or Monte Carlo simulations. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general optionholder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value for equity-settled share-based payment awards.

1.20 Taxation

The taxation charge comprises current and deferred tax. Income taxation expense is recognised in the profit and loss component of the statement of comprehensive income, except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

1.20.1 Current tax

The current tax liability or asset is the expected tax payable or recoverable, using tax rates and tax laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

The taxation charge in the financial statements for amounts due to fiscal authorities in the various territories in which the Bank operates, includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liability arising. In arriving at such estimates, management assesses the relative merits and risks of the tax treatment for similar classes of transactions, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

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

1.20 Taxation *(continued)*

1.20.2 Deferred tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases and carrying amounts of property and equipment, certain financial instruments including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward. In relation to acquisitions, deferred tax is raised on the difference between the fair values of net assets acquired and their tax bases in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The rates enacted or substantially enacted at the reporting date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

1.20.3 Secondary Tax on Companies (STC)

The liability to pay dividends is only recognised once the dividends are declared.

STC is provided for at 10% on the net of dividends declared less dividends received (unless exempt from STC) by the Bank at the same time as the liability to pay the related dividends is recognised. STC credits that arise from dividends received and receivable that exceed dividends paid are accounted for as a deferred tax asset. STC is included in the ‘Taxation expense’ line in the profit and loss component of the statement of comprehensive income.

1.20.4 Value added tax (VAT)

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

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

Non-recoverable VAT on operating expenditure is disclosed separately in operating expenditure in the statement of comprehensive income.

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

1.21 Treasury shares

Where the Company or other members of the Group purchase the Company’s shares in the market, the repurchased shares are classified as either treasury shares held for investment purposes or treasury shares held for speculative purposes. In the case of treasury shares held for investment purposes, the par value of these shares is deducted from share capital and the remainder of the purchase price is deducted from share premium. In the case of treasury shares held for speculative purposes, the par value of these shares is deducted from share premium. Where any treasury shares are subsequently sold or reissued, the consideration received is included in shareholders’ equity. Treasury shares are deducted from the issued and weighted average number of shares.

1.21 Treasury shares *(continued)*

On a segment level, the gains or losses and dividends relating to treasury shares held for investment purposes are recognised in 'Gains and losses from investment activities', and the gains or losses and dividends relating to treasury shares held for speculative purposes are recognised in 'Gains and losses from banking and trading activities'. However, on a consolidated level, the gains or losses and dividends on treasury shares recognised in either 'Gains and losses from investment activities' or 'Gains and losses from banking and trading activities,' are eliminated.

The Group does not recognise any gains or losses through the profit and loss component of the statement of comprehensive income when its own shares are repurchased through the Corporate Centre.

1.22 Assets under management and administration

The Bank holds assets and liabilities on behalf of customers which are not reflected in the consolidated statement of financial position of the Bank as these are not financial instruments of the Bank. These instruments are held by the Bank in either a fiduciary, administrative, or custodial capacity. The Bank earns fees on these financial instruments on an ongoing basis.

1.23 Reclassifications

Some items within the statement of financial position for the years ended 31 December 2010 and 31 December 2009 were reclassified in the year under review:

1.23.1 Collateralised loans

The Bank has reclassified certain collateral to reflect the true nature of these trades as collaterised loans. This has resulted in comparatives being reclassified for 31 December 2010 as reflected in the table below.

		2010			2009	
Assets (Rm)	As previously reported	Reclassi-fication	Reclassified	As previously reported	Reclassi-fication	Reclassified
Loans and advances to banks	23 633	2 618	26 251	35 036	—	35 036
Other assets	12 954	(3 276)	9 678	7 219	—	7 219
Loans and advances to customers	485 588	658	486 246	490 205	—	490 205

1.23.2 Offsetting

Certain customers within the Bank have agreements in place whereby interest receivable or payable is calculated on the net balances of the cheque deposits and cheque advances. During the year under review, the Bank identified that the related cheque account balances owed or receivable were also being reported on a net basis. All balances within this portfolio were reassessed for appropriate presentation in terms of IAS 32 and the Bank's stated accounting policies, taking into account contractual arrangements and current business practice applied to these accounts.

As a result, certain assets and liabilities relating to these cheque accounts were reclassified so that these are presented on a gross basis. This has resulted in the comparatives being reclassified for 31 December 2010 and 31 December 2009 as reflected in the table below.

		2010			2009	
Assets (Rm)	As previously reported	Reclassi-fication	Reclassified	As previously reported	Reclassi-fication	Reclassified
Loans and advances to customers	486 246[1]	9 487	495 733	490 205	10 845	501 050
Deposits due to customers	372 644	9 487	382 131	349 371	10 845	360 216

Note

[1]This balance reflects the amount before the offsetting reclassification and after the reclassification of collateralised loans.

Accounting policies

as at 31 December

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

1.23 Reclassifications *(continued)*

1.23.3 The reclassifications had the following impact on the statement of financial position:

	2010		
	As previously reported Rm	Reclassifications Rm	Reclassified Rm
Assets			
Cash, cash balances and balances with central banks	17 343	—	17 343
Statutory liquid asset portfolio	48 215	—	48 215
Loans and advances to banks	23 633	2 618	26 251
Trading portfolio assets	57 647	—	57 647
Hedging portfolio assets	4 662	—	4 662
Other assets	12 954	(3 276)	9 678
Current tax assets	5	—	5
Loans and advances to customers	485 588	10 145	495 733
Loans to Group companies	8 071	—	8 071
Investment securities	12 906	—	12 906
Investments in associates and joint ventures	406	—	406
Goodwill and intangible assets	643	—	643
Investment properties	1 771	—	1 771
Property and equipment	6 987	—	6 987
Deferred tax assets	92	—	92
Total assets	680 923	9 487	690 410
Liabilities			
Deposits from banks	21 740	—	21 740
Trading portfolio liabilities	43 530	—	43 530
Hedging portfolio liabilities	1 881	—	1 881
Other liabilities	7 788	—	7 788
Provisions	1 533	—	1 533
Current tax liabilities	929	—	929
Deposits due to customers	372 644	9 487	382 131
Debt securities in issue	162 526	—	162 526
Loans from Group companies	—	—	—
Borrowed funds	13 649	—	13 649
Deferred tax liabilities	2 073	—	2 073
Total liabilities	628 293	9 487	637 780
Equity			
Capital and reserves			
Attributable to equity holders of the Bank:			
Ordinary share capital	303	—	303
Ordinary share premium	11 465	—	11 465
Preference share capital	1	—	1
Preference share premium	4 643	—	4 643
Retained earnings	32 449	—	32 449
Other reserves	3 704	—	3 704
	52 565	—	52 565
Non-controlling interest	65	—	65
Total equity	52 630	—	52 630
Total liabilities and equity	680 923	9 487	690 410

1.23 Reclassifications *(continued)*

1.23.3 The reclassifications had the following impact on the statement of financial position: (continued)

	2009		
	As previously reported Rm	Reclassifi-cations Rm	Reclassified Rm
Assets			
Cash, cash balances and balances with central banks	15 526	—	15 526
Statutory liquid asset portfolio	33 943	—	33 943
Loans and advances to banks	35 036	—	35 036
Trading portfolio assets	47 303	—	47 303
Hedging portfolio assets	2 558	—	2 558
Other assets	7 219	—	7 219
Current tax assets	107	—	107
Loans and advances to customers	490 205	10 845	501 050
Loans to Group companies	16 232	—	16 232
Investment securities	16 849	—	16 849
Investments in associates and joint ventures	473	—	473
Goodwill and intangible assets	522	—	522
Investment properties	1 705	—	1 705
Property and equipment	6 010	—	6 010
Deferred tax assets	86	—	86
Total assets	673 774	10 845	684 619
Liabilities			
Deposits from banks	40 160	—	40 160
Trading portfolio liabilities	36 957	—	36 957
Hedging portfolio liabilities	565	—	565
Other liabilities	9 089	—	9 089
Provisions	1 486	—	1 486
Current tax liabilities	31	—	31
Deposits due to customers	349 371	10 845	360 216
Debt securities in issue	169 788	—	169 788
Loans from Group companies	3 464	—	3 464
Borrowed funds	13 530	—	13 530
Deferred tax liabilities	1 915	—	1 915
Total liabilities	626 356	10 845	637 201
Equity			
Capital and reserves			
Attributable to equity holders of the Bank:			
Ordinary share capital	303	—	303
Ordinary share premium	10 465	—	10 465
Preference share capital	1	—	1
Preference share premium	4 643	—	4 643
Retained earnings	29 340	—	29 340
Other reserves	2 566	—	2 566
	47 318	—	47 318
Non-controlling interest	100	—	100
Total equity	47 418	—	47 418
Total liabilities and equity	673 774	10 845	684 619

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

1.24 Change in accounting policy

The application of the Bank's accounting policies are consistent with those adopted in the prior year, except for the following:

During the year, the Bank adopted the predecessor accounting method as the method for the treatment of common control transactions. The Bank previously accounted for common control transactions, where the transaction had substance, using the acquisition method under IFRS 3.

This change has been adopted in order to be consistent with the Bank's ultimate parent, Barclays Bank PLC.

The Bank has only had one material common control transaction since the adoption of IFRS in 2005. This transaction included the divisionalisation of Meeg Bank Limited, a subsidiary of Absa Group Limited, into Absa Bank Limited. Under the acquisition method of IFRS 3, R152 million was recognised as a gain on bargain purchase, being the difference between the net asset value and the purchase price. Furthermore, the carrying value of the assets and liabilities were deemed to approximate their fair values on the acquisition date and consequently no other fair value adjustments were effected.

Had the predecessor accounting method been used, the R152 million would have been recognised directly in retained earnings. Apart from the impact on the 2009 statement of comprehensive income, the change did not impact basic or diluted earnings per share. Therefore, the net result of the restatement on the comparative balance sheet and opening retained earnings balance is nil. Furthermore, the change did not impact any line item on the statement of financial position for any financial periods prior to the comparative information presented.

1.25 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations issued are not yet effective for the year under review and have not been applied in preparing these consolidated financial statements:

IFRS 1 (amendments) Removal of Fixed Dates and Severe Hyperinflation for First-time Adopters, whereby the first amendment replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRS, therefore eliminating the need for entities adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation.

The amendments, which are applicable to financial periods beginning on or after 1 July 2011, will have no impact on the consolidated financial statements of the Bank.

IFRS 7 (amendments), which is applicable to financial periods beginning on or after 1 July 2011, require additional quantitative and qualitative disclosures in respect of risk exposures arising from transferred financial assets. The amendments include a requirement to disclose by class of asset: the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Comparative disclosures are not required for any period beginning before the effective date.

The impact of this amendment will be assessed for future reporting periods.

IFRS 9 *Financial Instruments* (IFRS 9) was initially published in November 2009 as the first step in replacing IAS 39 and contains new requirements for the classification and measurement requirements for financial assets. The classification and measurement requirements of financial liabilities were added to IFRS 9 in October 2010. In July 2011, the International Accounting Standards Board (IASB) communicated in an Exposure Draft its intention to postpone the mandatory application of IFRS 9 to annual periods beginning on or after 1 January 2015 with early application still permitted.

In light of the impairment and hedging components of IFRS 9 not been finalised, a tentative decision was reached by the IASB on the 7th of November 2011 to change the effective date to annual periods beginning on or after 1 January 2015. The IASB decided not to require the restatement of comparative financial statements for the initial application of the classification and measurement requirements of IFRS 9, but instead to require modified disclosures on transition from the classification and measurement requirements of IAS 39 to those of IFRS 9.

1.25 New standards and interpretations not yet adopted *(continued)*

The Bank is currently in the process of assessing IFRS 9's full impact and initial indications are that it is likely to affect the Bank's accounting for certain types of financial assets. In terms of IFRS 9, the Bank's accounting for financial assets classified as available-for-sale will be affected, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to investments in equity instruments that are not held for trading. Investments in certain listed debt instruments currently classified as financial assets designated at fair value through profit or loss will be permitted to be measured at amortised cost. Investments in structured notes currently accounted for as host debt instruments (measured at amortised cost) and embedded derivatives (measured at fair value) are required to be measured at fair value in their entirety, with fair value gains and losses being recognised in profit or loss. IFRS 9 will also impact the measurement of financial liabilities currently classified as financial liabilities designated at fair value through profit or loss, as changes in fair value resulting from changes in the Bank's credit risk will be recognised in other comprehensive income and not in profit or loss.

IFRS 10 *Consolidated Financial Statements* (IFRS 10), which is applicable to financial periods beginning on or after 1 January 2013, requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 and SIC-12. The standard sets out how to apply the control principle to voting rights, circumstances involving agency relationships and circumstances when the investor has control over specified assets of the investee. Consolidation principles have remained unchanged and are now incorporated as part of IFRS 10. The standard is required to be applied retrospectively and will therefore impact the 31 December 2012 and 31 December 2011 comparatives.

The Bank is in the process of assessing the impact for future reporting periods.

IFRS 11 *Joint Arrangements* (IFRS 11), which is effective for financial periods beginning on or after 1 January 2013, supersedes IAS 31 and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* (SIC-13). The new standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations, and then accounting for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations (rights to assets and obligations) or joint ventures (rights to net assets). The proportionate consolidation method for accounting for joint ventures has now been eliminated and all joint ventures will be equity accounted. The standard is required to be applied retrospectively and will impact the comparative information presented in the 31 December 2013 consolidated financial statements.

IFRS 11 will not have a significant impact on the Bank as the Bank's investments in joint ventures are accounted for using the equity method, unless they have been designated at fair value through profit and loss.

IFRS 12 *Disclosure of Interests in Other Entities* (IFRS 12), which is applicable to financial periods beginning on or after 1 January 2013, requires extensive disclosures relating to an entity's interest in a subsidiary, joint arrangement, associates, jointly controlled entities and unconsolidated structured entities. Disclosure should enable a user to evaluate the nature of the risks associated with the interest in these entities and are intended to assist users to understand the effects of an entity's interest in other entities on its financial position, financial performance and cash flows. The standard is required to be applied retrospectively and will impact the comparative information presented in the 31 December 2013 consolidated financial statements.

The Bank is in the process of assessing the impact.

IFRS 13 *Fair Value Measurement* (IFRS 13), which is applicable to financial periods beginning on or after 1 January 2013, replaces guidance on fair value measurement in existing IFRS accounting standards by providing a single source of guidance to prescribe how fair value should be measured. The standard requires (with some exceptions) entities to classify fair value measurements into a 'fair value hierarchy' based on the nature of the inputs. The standard also requires entities to make various disclosures depending on the nature and level of the fair value measurement.

The impact will be assessed for future reporting periods.

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

1.25 New standards and interpretations not yet adopted *(continued)*

IAS 1 (amendments) Presentation of Items of Other Comprehensive Income, is applicable to financial periods beginning on or after 1 July 2012. The amendment revises the way other comprehensive income is presented by: preserving the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income to be presented together or as a separate 'statement of profit or loss' and 'statement of comprehensive income'; requiring entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss or not; and requiring the tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items, without changing the option to present items of other comprehensive income either before tax or net of tax.

The amendments are not expected to have a material impact on the consolidated financial statements.

IAS 12 (amendments) Deferred Taxes: Recovery of underlying assets, which is applicable to financial periods beginning on or after 1 January 2012, introduces an exception to the existing principle for the measurement of the deferred tax assets or liabilities arising on investment properties measured at fair value. The rebuttable presumption that investment properties measured at fair value is recovered entirely by sale. The rebuttable presumption also applies to the deferred tax liabilities or assets that arise from investment properties acquired in a business combination, if the acquirer subsequently uses the fair value model to measure these investments properties. The amendments also incorporate SIC-21 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders* (SIC-21) into IAS 12, and therefore the remaining guidance contained in SIC-21 is withdrawn accordingly. The amendment is applied retrospectively.

The amendment is expected to have a minimal impact. It will impact deferred tax balances on assets revalued to above its original cost at the IFRS transition done in 2005.

IAS 19 (2011), which is applicable for financial periods beginning on or after 1 January 2013, amends the previous version of IAS 19 with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes. The key amendments include eliminating the 'corridor approach' as permitted by the previous version of IAS 19, introducing more enhanced disclosures relating to defined benefit plans, modifying accounting for termination benefits and clarifying the classification of employee benefits, current estimates of mortality rates and other miscellaneous issues.

The impact will be assessed for future reporting periods.

IAS 27 (2011), is the amended version of IAS 27 which is applicable to financial periods beginning on or after 1 January 2013. The revised IAS 27 now only deals with the requirements for separate financial statements, and the requirements for consolidated financial statements are now contained in IFRS 10. The standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9. The standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements. The standard may be applied to an earlier accounting period; however this fact must be disclosed.

The impact will be assessed for future reporting periods.

IAS 28 (2011), is the amended version of the current IAS 28 which is applicable to financial periods beginning on or after 1 January 2013. This standard supersedes IAS 28 and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied. It also prescribes how investments in associates and joint ventures should be tested for impairment.

The impact will be assessed for future reporting periods.

1.25 New standards and interpretations not yet adopted *(continued)*

IFRIC 20 *Stripping Costs in the Production Phase of a Surface mine* (IFRIC 20), requires that the costs of stripping activity to be accounted for in accordance with the principles of IAS 2 to the extent that the benefit from the stripping activity is realised in the form of inventory produced. When the benefit is the improved access to ore, the entity would recognise these costs as a non-current asset, referred to as the 'stripping activity asset'. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity allocates the cost between the two assets using an allocation method based on a relevant production measure. After initial recognition, the stripping activity asset is carried at cost or at a revalued amount less depreciation or amortisation and less impairment losses.

The interpretation is applicable to financial periods beginning on or after 1 January 2013 and will have no impact on the Group's consolidated financial statements.

IAS 32 (amendments) (2011) Offsetting Financial Assets and Financial Liabilities, was issued in December 2011 and is effective for annual periods beginning on or after 1 January 2014. The offsetting requirements in IAS 32 have been retained, such that a financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity currently has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendment to IAS 32 provides more application guidance on when the criterion for offsetting would be considered to be met. The amended standard is applicable to financial periods beginning on or after 1 January 2014. An entity shall apply the amendments retrospectively. Earlier application is permitted. If an entity applies these amendments from an earlier date, it shall disclose that fact and shall also make the disclosures required by Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) issued in December 2011.

The effect of this amendment on the annual financial statements has yet to be determined, but is expected to have a minimal impact.

IFRS 7 (amendments) (2011) Offsetting Financial Assets and Financial Liabilities, was issued in December 2011 and is effective for annual periods beginning on or after 1 January 2013. The amendments require the disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. These disclosures are intended to facilitate comparison between entities preparing IFRS financial statements and entities preparing financial statements under US GAAP. An entity shall apply these amendments for annual periods beginning on or after 1 January 2013 and for interim periods within these annual periods. An entity shall provide the disclosures required by these amendments retrospectively.

This amendment will result in additional disclosures being presented in the annual financial statements.

	Bank 2011 Rm	Bank 2010 Rm
2. Cash, cash balances and balances with central banks		
Balances with the South African Reserve Bank (SARB)	12 279	12 912
Coins and bank notes	7 226	4 431
	19 505	17 343
Portfolio analysis		
Loans and receivables		
Balances with the SARB	12 279	12 912
Coins and bank notes	7 226	4 431
	19 505	17 343
3. Statutory liquid asset portfolio		
Land Bank bills	—	50
Republic of South Africa (RSA) government bonds	44 222	34 602
Reverse repurchase agreements (refer to note 42)	3	2 685
SARB debentures	200	—
Treasury bills	13 048	10 878
	57 473	48 215
Portfolio analysis		
Available-for-sale financial assets	33 327	26 656
Land Bank bills	—	50
RSA government bonds	20 079	15 728
SARB debentures	200	—
Treasury bills	13 048	10 878
Available-for-sale instruments in fair value hedging relationship		
RSA government bonds	23 342	18 096
Financial assets designated at fair value through profit or loss	804	3 463
Reverse repurchase agreements	3	2 685
RSA government bonds	801	778
	57 473	48 215

RSA government bonds, SARB debentures and treasury bills valued at **R2 289 million** (2010: R3 000 million) have been pledged with the SARB.

	Bank 2011 Rm	Bank 2010[1] Rm	Bank 2009[1] Rm
4. Loans and advances to banks			
Collateralised loans	**3 411**	2 618	—
Other	**45 653**	18 061	26 104
Reverse repurchase agreements (refer to note 42)	**6 739**	5 572	8 932
	55 803	26 251	35 036
Portfolio analysis			
Financial assets designated at fair value through profit or loss	**7 886**	7 548	2 403
Collateralised loans	**306**	501	—
Other	**1 672**	1 475	629
Reverse repurchase agreements	**5 908**	5 572	1 774
Loans and receivables	**47 917**	18 703	32 633
Collateralised loans	**3 105**	2 117	—
Other	**43 981**	16 586	25 475
Reverse repurchase agreement	**831**	—	7 158
	55 803	26 251	35 036

Loans with variable rates are **R49 039 million** (2010: R19 447 million; 2009: R25 784 million) and fixed rates are **R6 764 million** (2010: R6 805 million; 2009: R9 252 million).

Included above are loans and advances to banks with a carrying value of **R1 313 million** (2010: R1 445 million; 2009: R3 814 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42. The amounts pledged are the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

	Bank 2011 Rm	Bank 2010 Rm
5. Trading and hedging portfolio assets		
Commodities	**243**	654
Debt instruments	**27 114**	11 694
Derivative assets (refer to note 54.3)	**45 474**	43 329
Commodity derivatives	**298**	301
Credit derivatives	**205**	118
Equity derivatives	**1 085**	858
Foreign exchange derivatives	**12 151**	12 909
Interest rate derivatives	**31 735**	29 143
Equity instruments	**31**	68
Money market assets	**6 741**	1 902
Total trading portfolio assets	**79 603**	57 647
Hedging portfolio assets (refer to note 54.3)	**4 299**	4 662
	83 902	62 309
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**3 168**	3 813
Derivatives designated as fair value hedging instruments	**1 131**	849
Financial assets held for trading	**79 360**	56 993
Debt instruments	**27 114**	11 694
Derivative assets	**45 474**	43 329
Equity instruments	**31**	68
Money market assets	**6 741**	1 902
Non-financial instruments	**243**	654
	83 902	62 309

Note

[1]Comparatives have been reclassified, refer to note 1.23.

5. Trading and hedging portfolio assets *(continued)*

Included above are financial instruments related to the Bank's interest rate economic hedging programme with a notional value of **R6 381 million** (2010: R5 734 million) and a fair value of **R781 million** (2010: R639 million).

Trading portfolio assets with a carrying value of **R20 059 million** (2010: R8 249 million) were pledged as security for repurchase agreements (refer to note 42). In addition, trading portfolio assets with a carrying value of **Rnil** (2010: R742 million) were pledged as security for deposits. These assets are pledged for the duration of the respective agreements.

Included within debt instruments are financial assets traded in the debt capital market with an original maturity of more than one year such as government and corporate bonds.

Included within money market assets are highly liquid financial assets with an original maturity of one year or less, such as floating rate notes, negotiable certificates of deposit, treasury bills, promissory notes, commercial paper and bankers' acceptance notes.

	Bank		
	2011 Rm	2010[1] Rm	2009[1] Rm
6. Other assets			
Accounts receivable and prepayments	**4 405**	3 731	5 057
Initial margin	**1 489**	895	740
Deferred costs	**61**	51	30
Inventories	**887**	590	507
Cost	**973**	679	571
Write-down	**(86)**	(89)	(64)
Retirement benefit fund surplus (refer to note 40)	**628**	705	616
Settlement accounts	**5 478**	3 706	269
	12 948	9 678	7 219
Portfolio analysis			
Loans and receivables	**10 991**	7 893	5 889
Accounts receivable	**4 024**	3 292	4 880
Initial margin	**1 489**	895	740
Settlement accounts	**5 478**	3 706	269
Financial assets designated at fair value through profit or loss	**16**	—	—
Non-financial assets	**1 941**	1 785	1 330
	12 948	9 678	7 219

	Bank	
	2011 Rm	2010 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**84**	5
Current tax liabilities		
Amount due to revenue authorities	**255**	929
8. Non-current assets held for sale		
Balance at the beginning of the year	**—**	—
Disposal of assets previously disclosed under non-current assets held for sale	**(354)**	—
Transfer from investments in associates and joint ventures (refer to note 13.4)	**43**	—
Transfer from investment securities	**326**	—
Transfer to investment securities	**(15)**	
Transfer from property and equipment (refer to note 16)	**35**	—
Balance at the end of the year	**35**	—

On 30 June 2011, the Bank, through its Absa Capital and Absa Business Bank segments, transferred its investment in Sekunjalo Investments Limited, with a carrying value of R43 million, to non-current assets held for sale. A portion of this investment was subsequently sold in July 2011 and the remaining portion was transferred to investment securities.

The Bank, transferred through its Absa Capital segment, certain investments designated at fair value through profit or loss with a carrying value of R326 million to non-current assets held for sale on 30 June 2011. These investments were subsequently sold in August 2011.

The Bank, through its Corporate Real Estate business segment, concluded contracts for the sale of several properties during 2011, with transfer due to take place during 2012.

Note
[1]Comparatives have been reclassified, refer to note 1.23.

Notes to the consolidated financial statements

as at 31 December

	Bank		
	2011 Rm	2010[1] Rm	2009[1] Rm
9. Loans and advances to customers			
Cheque accounts	**31 370**	30 696	38 360
Corporate overdrafts and specialised finance loans	**10 681**	9 612	13 485
Credit cards	**16 072**	15 258	14 774
Foreign currency loans	**8 564**	5 602	6 659
Instalment credit agreements (refer to note 9.1)	**57 246**	56 874	58 181
Gross advances	**68 401**	67 424	68 551
Unearned finance charges	**(11 155)**	(10 550)	(10 370)
Reverse repurchase agreements (refer to note 42)	**1 613**	3 063	1 988
Loans to associates and joint ventures (refer to note 44.8)	**7 909**	8 025	7 878
Microloans	**1 690**	1 766	2 417
Mortgages	**287 710**	302 516	301 352
Other advances[2]	**3 179**	2 961	3 407
Overnight finance	**12 320**	7 647	12 340
Personal and term loans	**26 324**	25 262	18 705
Preference shares	**6 973**	6 637	7 967
Wholesale overdrafts	**26 647**	32 638	25 551
Gross loans and advances to customers	**498 298**	508 557	513 064
Impairment losses on loans and advances (refer to note 10)	**(11 388)**	(12 824)	(12 014)
	486 910	495 733	501 050
Portfolio analysis[3]			
Amortised cost items held in a fair value hedging relationship	**5 346**	3 634	2 070
Corporate overdrafts and specialised finance loans	**110**	118	24
Wholesale overdrafts	**5 236**	3 516	2 046
Financial assets designated at fair value through profit or loss	**10 187**	10 316	8 462
Corporate overdrafts and specialised finance loans	**—**	593	711
Foreign currency loans	**955**	703	884
Mortgages	**1 664**	1 161	1 388
Preference shares	**1 264**	1 245	—
Reverse repurchase agreements	**1 613**	3 063	1 988
Wholesale overdrafts	**4 691**	3 551	3 491
Loans and receivables	**482 765**	494 607	502 532
	498 298	508 557	513 064

Included above are securitised assets of **R7 436 million** (2010: R5 140 million; 2009: R4 313 million). Refer to note 43 for further details.

Included above are loans and advances to customers with a carrying value of **Rnil** (2010: R589 million; 2009: R989 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42. The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Included above are collaterised loans to the value of **R1 888 million** (2010: R658 million; 2009: R2 533 million) (refer to note 42).

Notes

[1]Comparatives have been reclassified, refer to note 1.23.

[2]Other advances include customer liabilities under acceptances and working capital solutions.

[3]During the year under review, a portion of the 'Wholesale overdrafts' under 'Loans and advances to customers' were reclassified from 'Loans and receivables' to 'Amortised cost items held in a fair value hedging relationship' in order to achieve fair presentation. This resulted in a reclassification of comparative information.

	Bank		
		2011	
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
9. Loans and advances to customers *(continued)*			
9.1 Instalment credit agreements			
Maturity analysis			
Less than one year	**22 185**	**(3 431)**	**18 754**
Between one and five years	**44 798**	**(7 458)**	**37 340**
More than five years	**1 418**	**(266)**	**1 152**
	68 401	**(11 155)**	**57 246**
		2010	
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	22 769	(3 398)	19 371
Between one and five years	43 337	(6 931)	36 406
More than five years	1 318	(221)	1 097
	67 424	(10 550)	56 874
		2009	
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	20 541	(3 035)	17 506
Between one and five years	46 548	(7 087)	39 461
More than five years	1 462	(248)	1 214
	68 551	(10 370)	58 181

The Bank enters into instalment credit agreements in respect of motor vehicles, equipment and medical equipment.

A significant portion of leases are denominated in South African rand. The average term of the finance leases entered into is five years.

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

Unguaranteed residual values of instalment credit agreements at the reporting date are **R4 819 million** (2010: R5 638 million; 2009: R4 726 million).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R1 517 million** (2010: R1 478 million; 2009: R1 691 million).

	Bank	
	2011 Rm	2010 Rm
10. Impairment losses on loans and advances		
Balance at the beginning of the year	**12 824**	12 014
Amounts written off during the year	**(5 787)**	(4 574)
Foreign exchange differences	**1**	(2)
Interest on impaired assets (refer to note 28)	**(1 176)**	(766)
	5 862	6 672
Impairments raised during the year (refer to note 10.1)	**5 526**	6 152
Balance at the end of the year (refer to note 9)	**11 388**	12 824

Notes to the consolidated financial statements

as at 31 December

	Bank 2011 Rm	Bank 2010 Rm
10. Impairment losses on loans and advances *(continued)*		
Comprising:		
Identified impairments	**10 618**	11 936
Unidentified impairments	**770**	888
	11 388	12 824
10.1 Statement of comprehensive income charge for the year ended 31 December		
Impairments raised during the year	**5 526**	6 152
Identified impairments	**5 642**	6 303
Unidentified impairments	**(116)**	(151)
Recoveries of loans and advances previously written off	**(650)**	(574)
	4 876	5 578
11. Loans to Group companies		
Fellow subsidiaries	**7 164**	8 071
Portfolio analysis		
Loans and receivables	**7 164**	8 071
12. Investment securities		
Debt instruments	**2 866**	6 349
Listed equity instruments	**505**	985
Unlisted equity and hybrid instruments	**4 960**	5 572
	8 331	12 906
Market value		
Directors' valuation of unlisted equity and hybrid instruments	**4 960**	5 572
Market value of debt instruments	**2 866**	6 349
Market value of listed equity instruments	**505**	985
	8 331	12 906
Portfolio analysis		
Available-for-sale financial assets (refer to note 12.1)	**1 118**	1 392
Debt instruments	**916**	1 193
Listed equity instruments	**54**	52
Unlisted equity and hybrid instruments	**148**	147
Financial assets designated at fair value through profit or loss	**7 213**	11 514
Debt instruments	**1 950**	5 156
Listed equity instruments	**451**	933
Unlisted equity and hybrid instruments	**4 812**	5 425
	8 331	12 906

	Bank 2011 Rm	Bank 2010 Rm
12. Investment securities *(continued)*		
12.1 Available-for-sale financial assets		
Carrying value at the beginning of the year	1 392	1 977
Cost plus fair value movements	1 529	2 089
Impairments[1]	(137)	(112)
Movement in investment securities	(274)	(560)
Net disposals	(393)	(544)
Fair value movements	119	(16)
Impairment charge in the statement of comprehensive income (refer to note 35)	—	(25)
Carrying value at the end of the year	1 118	1 392
Cost plus fair value movements	1 170	1 529
Impairments[1]	(52)	(137)
13. Investments in associates and joint ventures		
Listed investments	—	41
Unlisted investments	412	365
	412	406
13.1 Movement in carrying value		
Balance at the beginning of the year	406	473
Share of current year's post-tax results	47	(8)
Share of current year's results before taxation	67	54
Taxation on current year's results	(20)	(17)
Dividends received	—	(45)
Net movement resulting from acquisitions, disposals and transfers (refer to note 13.4)	(45)	(32)
Impairment reversal/(charge) in the statement of comprehensive income (refer to notes 13.4 and 35)	2	(29)
Increase/(decrease) in loans and receivables	2	(1)
Movement in amount recognised in other liabilities for the Bank's share of losses	—	3
Balance at the end of the year	412	406
13.2 Analysis of carrying value		
Listed investments		
Shares at book value	—	51
Shares at cost	—	57
Impairments	—	(6)
Share of post-acquisition reserves	—	(10)
	—	41
Unlisted investments		
Loans and receivables	2	—
Shares at cost	114	114
Share of post-acquisition reserves	296	251
	412	365

Note

[1]All impairments relate to equity instruments.

	Bank 2011 Rm	Bank 2010 Rm
13. Investments in associates and joint ventures *(continued)*		
13.3 Market value		
Directors' valuation of unlisted investments	**412**	365
Market value of listed investments	**—**	55
	412	420

	Bank 2011 Effective holding (%)	Bank 2011 Movement Rm	Bank 2010 Effective holding (%)	Bank 2010 Movement Rm
13.4 Net movement resulting from acquisitions, disposals and transfers				
Acquired during the year under review, at cost:				
There were no acquisitions during the year under review.				
Acquired during the prior year, at cost:				
Pinnacle Point Group Limited	**—**	**—**	—	95
Disposed during the year under review:				
There were no disposals during the year under review.				
Disposed during the prior year:				
Pinnacle Point Group Limited	**—**	**—**	—	(95)
Virgin Money South Africa Proprietary Limited	**—**	**—**	—	(0)
Transferred to investment securities during the prior year:				
Blue Financial Services Limited	**—**	**—**	6,7	(32)
Transferred to non-current assets held for sale during the year under review (refer to note 8):				
Sekunjalo Investments Limited[1]	**9**	**(43)**	—	—
Transferred to subsidiaries during the prior year:				
Sanlam Home Loans Proprietary Limited	**—**	**—**	100,0	—
		(43)		(32)

Note

[1]The net movement transferred to non-current assets held for sale is R43 million, which consists of a R45 million transfer and an impairment reversal of R2 million. Refer to note 13.1.

	Bank 2011 Rm	Bank 2010 Rm
13. Investments in associates and joint ventures *(continued)*		
13.5 Details of transfers and consideration paid on net assets acquired		
Cash consideration	—	95
13.6 Details of transfers and consideration received on net assets disposed		
Cash consideration	—	(95)
Transfer to investment securities	—	(32)
Transfer to non-current assets held for sale (refer to note 8)[1]	(43)	—
Transfer to subsidiaries	—	—
	(43)	(127)

Refer to note 44.8 for the full disclosure of the Bank's investments in associates and joint ventures.

	Bank 2011 Cost Rm	Bank 2011 Accumulated amortisation and/or impairments Rm	Bank 2011 Carrying value Rm	Bank 2010 Cost Rm	Bank 2010 Accumulated amortisation and/or impairments Rm	Bank 2010 Carrying value Rm
14. Goodwill and intangible assets						
Computer software development costs	1 192	(622)	570	963	(475)	488
Customer lists	1	(1)	—	1	(1)	—
Goodwill	199	(69)	130	196	(41)	155
Other	2	(2)	—	2	(2)	—
	1 394	(694)	700	1 162	(519)	643

Bank 2011	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of goodwill and intangible assets							
Computer software development costs	488	230	—	—	(148)	—	570
Customer lists	—	—	—	—	—	—	—
Goodwill	155	—	3	—	—	(28)	130
Other	—	—	—	—	—	—	—
	643	230	3	0	(148)	(28)	700

Note

[1]The net movement transferred to non-current assets held for sale is R43 million, which consist of a R45 million transfer and impairment reversal of R2 million. Refer to note 13.1.

	Bank						
	2010						
	Opening balance Rm	Additions Rm	Additions through business combi-nations Rm	Disposals Rm	Amorti-sation Rm	Impairment charge Rm	Closing balance Rm
14. Goodwill and intangible assets *(continued)*							
Reconciliation of goodwill and intangible assets *(continued)*							
Computer software development costs	367	257	—	(34)	(98)	(4)	488
Customer lists	—	—	1	—	(1)	—	—
Goodwill	155	—	—	—	—	—	155
Other	—	—	2	—	(2)	—	—
	522	257	3	(34)	(101)	(4)	643

Refer to note 1.11 for useful lives, amortisation methods and amortisation rates. The majority of computer software development costs were internally generated with the remainder externally acquired.

Included in computer software development costs is **R168 million** (2010: R229 million) relating to assets still under construction.

No borrowing costs were capitalised during the year under review.

	Bank	
	2011 Rm	2010 Rm
Composition of goodwill		
Abseq Properties Proprietary Limited	—	25
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
Ngwenya River Estate Proprietary Limited	**18**	18
	130	155

Significant assumptions made in reviewing impairments

Management has to consider at least annually whether the current carrying value of goodwill is impaired. This calculation is based on discounting expected risk adjusted pre-tax cash flows at a risk adjusted pre-tax interest rate appropriate to the operating unit, the determination of which requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which detailed forecasts are available, normally capped at five years, and to assumptions regarding the growth rate, although this is usually capped at inflation growth where higher growth is forecasted by the CGU. While forecasts are compared with actual performance and external sources of data, expected cash flows naturally reflect management's best estimate of future performance. The discount rate used in the impairment calculations is **14%** (2010:14%). Growth rates used in the impairment calculations range from **4% to 6%** (2010: 4% to 6%).

	Bank	
	2011 Rm	2010 Rm
15. Investment properties		
Balance at the beginning of the year	**1 771**	1 705
Additions	**36**	75
Additions through business combinations (refer to note 51)	**40**	—
Change in fair value (refer to notes 33 and 34)	**(43)**	—
Foreign exchange movements	**36**	(9)
Balance at the end of the year	**1 840**	1 771

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

Investment properties are fair valued annually based on an independent assessment, considering current property yields and market rates.

Bank

	2011 Cost Rm	2011 Accumulated depreciation and/or impairments Rm	2011 Carrying value Rm	2010 Cost Rm	2010 Accumulated depreciation and/or impairments Rm	2010 Carrying value Rm
16. Property and equipment						
Computer equipment	4 977	(3 459)	1 518	4 735	(3 150)	1 585
Freehold property	3 652	(253)	3 399	3 373	(203)	3 170
Furniture and other equipment	4 995	(2 685)	2 310	4 471	(2 303)	2 168
Leasehold property	387	(346)	41	417	(353)	64
Motor vehicles	4	(4)	—	4	(4)	—
	14 015	(6 747)	7 268	13 000	(6 013)	6 987

Bank

2011	Opening balance Rm	Additions Rm	Disposals[1] Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of property and equipment							
Computer equipment	1 585	586	(36)	—	(617)	—	1 518
Freehold property[1]	3 170	322	(47)	2	(48)	—	3 399
Furniture and other equipment	2 168	611	—	—	(469)	—	2 310
Leasehold property	64	—	(2)	—	(21)	—	41
	6 987	1 519	(85)	2	(1 155)	—	7 268

2010	Opening balance Rm	Additions Rm	Disposals Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of property and equipment							
Computer equipment	1 562	727	(73)	—	(631)	—	1 585
Freehold property	2 137	1 072	(12)	(1)	(26)	—	3 170
Furniture and other equipment	2 222	343	(2)	—	(382)	(13)	2 168
Leasehold property	89	—	(2)	—	(23)	—	64
	6 010	2 142	(89)	(1)	(1 062)	(13)	6 987

The fair value of freehold property is determined by both external and internal valuers. The most recent valuation was performed during 2011 and indicated that the fair value of the freehold property amounted to **R3 801 million** (2010: R3 730 million).

Leasehold property and computer equipment with a carrying value of **R147 million** (2010: R132 million) are encumbered under finance leases (refer to note 20).

Included in the above additions is **R221 million** (2010: R583 million) that relates to expenditure capitalised to the cost of the asset during the course of its construction. During the year under review, an amount of R1 745 million was transferred from assets under construction and brought into use. No borrowing costs were capitalised during the year under review.

Note

[1]Included in 'Disposals', is an amount of R35 million that relates to freehold property, which was transferred to non-current assets held for sale, refer to note 8.

	Bank 2011 Rm	Bank 2010 Rm
17. Deferred tax[1]		
17.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the year	**1 981**	1 829
Deferred tax asset released on STC credits (refer to note 17.4)	**38**	4
Net movement resulting from business combinations (refer to note 51)	**(1)**	1
Deferred tax on amounts charged directly to other comprehensive income	**(134)**	529
Available-for-sale investments		
Fair value measurement	**(21)**	72
Cash flow hedges	**(94)**	449
Fair value measurement	**(738)**	(60)
Transfer to the profit and loss component of the statement of comprehensive income	**644**	509
Retirement benefit asset	**(19)**	8
Charge to the profit and loss component of the statement of comprehensive income (refer to note 37)	**(857)**	(489)
Tax effect of translation and other differences	**16**	107
Balance at the end of the year	**1 043**	1 981
17.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**1 101**	1 736
Fair value adjustments on financial instruments	**(230)**	(117)
Impairment of loans and advances	**(138)**	5
Lease and rental debtor allowances	**96**	274
Other differences	**16**	12
Property allowances	**83**	(35)
Retirement benefit asset	**176**	198
Deferred tax liability	**1 104**	2 073
Deferred tax asset	**(61)**	(92)
Deferred tax asset – normal	**(34)**	(27)
Assessed losses	**(20)**	(12)
Fair value adjustments on financial instruments	**(5)**	(4)
Impairment of loans and advances	**(2)**	—
Other differences	**(7)**	(11)
Deferred tax asset – STC credits (refer to note 17.4)	**(27)**	(65)
Net deferred tax liability	**1 043**	1 981

Note

[1]During the year under review, the presentation of this note was amended to provide more information on the nature of temporary differences. This resulted in a reclassification of comparative information.

	Bank 2011 Rm	Bank 2010 Rm
17. Deferred tax *(continued)*		
17.3 Future tax relief		
The Bank has no estimated tax losses.		
17.4 Secondary taxation on companies (STC)		
Accumulated STC credits	**271**	654
Deferred tax asset raised (refer to note 17.2)	**27**	65
Movement in deferred tax asset for the year (refer to note 17.1)	**(38)**	(4)

If the total reserves of **R35 822 million** (2010: R36 153 million) as at the reporting date were to be declared as dividends, the STC impact at a rate of 10% would be **R3 582 million** (2010: R3 615 million).

In 2007, the Minister of Finance announced a two-phase approach to STC reform, which included the reduction of the STC tax rate to 10% and the replacement of STC with a new dividend tax on shareholders (dividend tax). When the dividend tax comes into effect on 1 April 2012, the tax will cease to be levied at a company level, and will instead be levied on the shareholders who receive the dividends.

Unutilised STC credits at the end of December 2011 will be utilised against the STC payable on the final dividend declared after the reporting date. Before the new withholding dividend tax comes into effect, deferred tax assets relating to unutilised STC credits up to 31 March 2012 will be utilised.

	Bank 2011 Rm	Bank 2010 Rm
18. Deposits from banks		
Call deposits	**15 539**	6 537
Fixed deposits	**5 905**	4 680
Foreign currency deposits	**6 809**	1 704
Other	**5 124**	4 605
Repurchase agreements (refer to note 42)	**11 325**	4 214
	44 702	21 740
Portfolio analysis		
Financial liabilities at amortised cost	**31 288**	16 241
Financial liabilities designated at fair value through profit or loss	**13 414**	5 499
Fixed deposits	**4 219**	4 282
Foreign currency deposits	**71**	3
Repurchase agreements	**9 124**	1 214
	44 702	21 740

Deposits with variable rates are **R26 709 million** (2010: R11 182 million) and fixed rates are **R17 993 million** (2010: R10 558 million).

	Bank 2011 Rm	Bank 2010 Rm
19. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 54.3)	**48 703**	43 519
Commodity derivatives	**154**	154
Credit derivatives	**666**	131
Equity derivatives	**3 399**	1 962
Foreign exchange derivatives	**13 353**	12 464
Interest rate derivatives	**31 131**	28 808
Short positions	**529**	11
Total trading portfolio liabilities	**49 232**	43 530
Hedging portfolio liabilities (refer to note 54.3)	**2 456**	1 881
	51 688	45 411
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**26**	94
Derivatives designated as fair value hedging instruments	**2 430**	1 787
Financial liabilities held for trading	**49 232**	43 530
Derivative liabilities	**48 703**	43 519
Short positions	**529**	11
	51 688	45 411
Included above are financial instruments related to the Bank's interest rate economic hedging programme with a notional value of **R1 070 million** (2010: R1 771 million) and a fair value of **R81 million** (2010: R102 million).		
20. Other liabilities		
Accruals	**891**	987
Audit fee accrual	**38**	27
Creditors	**5 307**	3 847
Deferred income	**218**	152
Liabilities under finance leases (refer to note 20.1)	**504**	621
Settlement balances	**3 095**	1 868
Share-based payment liability (refer to note 50)	**483**	286
	10 536	7 788
Portfolio analysis		
Financial liabilities at amortised cost	**8 906**	6 336
Creditors	**5 307**	3 847
Liabilities under finance leases	**504**	621
Settlement balances	**3 095**	1 868
Non-financial liabilities	**1 630**	1 452
	10 536	7 788

	Bank		
	2011		
	Minimum lease payments due Rm	Interest Rm	Principal Rm
20. Other liabilities *(continued)*			
20.1 Liabilities under finance leases			
Less than one year	**293**	**(56)**	**237**
Between one and two years	**215**	**(22)**	**193**
Between two and three years	**76**	**(2)**	**74**
	584	**(80)**	**504**

	2010		
	Minimum lease payments due Rm	Interest Rm	Principal Rm
20.1 Liabilities under finance leases			
Less than one year	262	(90)	172
Between one and two years	274	(57)	217
Between two and three years	204	(21)	183
Between three and four years	50	(1)	49
	790	(169)	621

Under the terms of the leases, no contingent rentals are payable. Refer to note 16 for details of property and equipment subject to finance leases.

Description	Address	Details
20.1.1 Terms and conditions of finance leases		
Absa Towers	160 Main Street, Johannesburg 170 Main Street, Johannesburg 10 Troye Street, Johannesburg	Original term of 18 years with negotiable escalation clauses and a renewal date of 31 March 2014.
Centro City	11 Trump Street, Johannesburg	Original term of 20 years with negotiable escalation clauses. This contract was cancelled in August 2011.
Roggebaai	31 Lower Long Street, Cape Town	Original term of 20 years with negotiable escalation clauses and a renewal date of 28 February 2014.
Volkskas Centre	230 Van der Walt Street, Pretoria	Original term of 20 years with negotiable escalation clauses and a renewal date of 31 March 2013.

	Bank 2011 Rm	Bank 2010 Rm
20. Other liabilities *(continued)*		
20.1 Liabilities under finance leases *(continued)*		
20.1.2 Minimum future income receivable from subleasing		
Receivable within one year	**1**	6
Receivable within two to five years	**1**	1
	2	7

	Bank 2011 Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
21. Provisions			
Balance at the beginning of the year	**811**	**722**	**1 533**
Additions	**939**	**306**	**1 245**
Amounts used	**(777)**	**(238)**	**(1 015)**
Reversals	**(1)**	**(305)**	**(306)**
Balance at the end of the year	**972**	**485**	**1 457**

	2010 Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	750	736	1 486
Additions	885	305	1 190
Amounts used	(815)	(36)	(851)
Reversals	(9)	(283)	(292)
Balance at the end of the year	811	722	1 533

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R1 142 million** (2010: R1 156 million).

Sundry provisions are made with respect to fraud cases, litigation and insurance claims.

	Bank		
	2011 Rm	2010[1] Rm	2009[1] Rm
22. Deposits due to customers			
Call deposits	**55 528**	54 686	61 980
Cheque account deposits	**130 953**	116 371	100 475
Credit card deposits	**1 884**	1 830	1 868
Fixed deposits	**124 341**	113 217	105 928
Foreign currency deposits	**6 898**	7 942	7 211
Notice deposits	**28 500**	11 365	10 293
Other[2]	**2 695**	3 664	8 069
Repurchase agreements with non-banks (refer to note 42)	**8 734**	7 035	1 712
Savings and transmission deposits	**72 229**	66 021	62 680
	431 762	382 131	360 216
Portfolio analysis			
Financial liabilities at amortised cost	**411 262**	365 276	347 663
Financial liabilities designated at fair value through profit or loss	**20 500**	16 855	12 553
Cheque account deposits	**5**	—	—
Fixed deposits	**11 761**	9 820	8 791
Other	**—**	—	2 050
Repurchase agreements with non-banks	**8 734**	7 035	1 712
	431 762	382 131	360 216

	Bank	
	2011 Rm	2010 Rm
23. Debt securities in issue		
Abacas – Commercial paper issued and floating rate notes	**—**	1 789
Credit linked notes	**8 976**	6 360
Floating rate notes	**69 854**	75 748
Negotiable certificates of deposit	**30 302**	64 460
Promissory notes	**3 168**	3 759
Structured notes and bonds	**1 451**	1 220
Senior notes	**14 300**	9 190
	128 051	162 526

Notes

[1]Comparatives have been reclassified, refer to note 1.23.

[2]Included in 'Other' are partnership contributions received, deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.

			Bank 2011 Rm	Bank 2010 Rm
23. Debt securities in issue *(continued)*				
Portfolio analysis				
Amortised cost items held in a fair value hedging relationship			10 774	9 559
Floating rate notes			5 868	5 188
Negotiable certificates of deposit			87	86
Senior notes[1]			4 819	4 285
Financial liabilities at amortised cost[1]			113 890	149 423
Financial liabilities designated at fair value through profit or loss			3 387	3 544
Negotiable certificates of deposit			8	34
Promissory notes			1 928	2 290
Structured notes and bonds			1 451	1 220
			128 051	162 526
24. Loans from Group companies				
Fellow subsidiaries			1 438	—
Portfolio analysis				
Financial liabilities at amortised cost			1 438	—
25. Borrowed funds				
Subordinated callable notes				
The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act.				
Interest rate	*Final maturity date*	*Note*		
8,75%	1 September 2017	i	1 500	1 500
8,80%	7 March 2019	ii	1 725	1 725
8,10%	27 March 2020	iii	2 000	2 000
10,28%	3 May 2022	iv	600	600
Three-month JIBAR + 2,10%	3 May 2022	v	400	400
CPI-linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	vi	1 886	1 886
6,00%	20 September 2019	vii	3 000	3 000
5,50%	7 December 2028	viii	1 500	1 500
Accrued interest			1 157	826
Fair value adjustment			283	212
			14 051	13 649
Portfolio analysis				
Amortised cost financial liabilities held in a fair value hedging relationship			5 507	5 470
Financial liabilities designated at fair value through profit or loss			771	739
Financial liabilities held at amortised cost			7 773	7 440
			14 051	13 649

Note

[1]During the year under review, a portion of senior note instruments were reclassified from 'Amortised cost items held in a fair value hedging relationship' to 'Financial liabilities at amortised cost'. This resulted in a reclassification of comparative information.

25. Borrowed funds *(continued)*

i The 8,75% fixed rate notes may be redeemed in full at the option of the Bank on 1 September 2012. Interest is paid semi-annually in arrear on 1 March and 1 September of each year, provided that the last date for payment shall be 1 September 2012. If the Bank does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month Johannesburg Interbank Agreed Rate (JIBAR) plus 1,13% quarterly in arrear on 1 March, 1 June, 1 September and 1 December.

ii The 8,80% fixed rate notes may be redeemed in full at the option of the Bank on 7 March 2014. Interest is paid semi-annually in arrear on 7 March and 7 September of each year, provided that the last date for payment shall be 7 March 2014. If the Bank does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 0,92% quarterly in arrear on 7 March, 7 June, 7 September and 7 December.

iii The 8,10% fixed rate notes may be redeemed in full at the option of the Bank on 27 March 2015. Interest is paid semi-annually in arrear on 27 March and 27 September of each year, provided that the last date for payment shall be 27 March 2015. If the Bank does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 1,185% quarterly in arrear on 27 March, 27 June, 27 September and 27 December.

iv The 10,28% fixed rate notes may be redeemed in full at the option of the Bank on 3 May 2017. Interest is paid semi-annually in arrear on 3 May and 3 November of each year, provided that the last date for payment shall be 3 May 2017. If the Bank does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 4,10% quarterly in arrear on 3 August, 3 November, 3 February and 3 May.

v The three-month JIBAR plus 2,10% floating rate notes may be redeemed in full at the option of the Bank on 3 May 2017. Interest is paid quarterly on 3 August, 3 November, 3 February and 3 May of each year, provided that the last date for payment shall be 3 May 2017. If the Bank does not exercise the redemption option, then the coupon rate payable after 3 May 2017 reprices from three-month JIBAR plus 2,10% to three-month JIBAR plus 4,10%.

vi The 6,25% CPI-linked notes may be redeemed in full at the option of the Bank on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September each year, provided that the last date for payment shall be 31 March 2013. If the Bank does not exercise the redemption option, then the CPI-linked rate payable will convert to JIBAR plus a spread which will be payable quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

vii The 6,00% CPI-linked notes may be redeemed in full at the option of the Bank on 20 September 2014. Interest is paid semi-annually in arrear on 20 March and 20 September of each year, provided that the last date for payment shall be 20 September 2014. If the Bank does not exercise the redemption option, a coupon step-up of 150 basis points (bps) shall apply.

viii The 5,50% CPI-linked notes may be redeemed in full at the option of the Bank on 7 December 2023. Interest is paid semi-annually in arrear on 7 June and 7 December each year, provided that the last date for payment shall be 7 December 2023. If the Bank does not exercise the redemption option, a coupon step-up of 150 bps shall apply.

All the above notes are listed on the Bond Exchange of South Africa (BESA).

In accordance with the Company's articles of association, the borrowing powers of the Company are unlimited.

	Bank 2011 Rm	Bank 2010 Rm
26. Share capital and premium		
26.1 Ordinary share capital		
Authorised		
320 000 000 (2010: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2010: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2010: 302 609 359) ordinary shares of R1,00 each	**303**	303
71 502 632 (2010: 71 502 632) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**11 465**	11 465
	11 768	11 768

Authorised shares
There were no changes to authorised share capital during the year under review.

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

Shares issued during the year under review
There were no shares issued during the year under review.

Shares issued during the prior year
On 4 August 2010, 6 436 471 'A' ordinary shares were issued at R155,36 per share, being R0,01 par value and R155,35 share premium, to Absa Group Limited.

All shares issued by the Company were paid in full.

	Bank 2011 Rm	Bank 2010 Rm
26.2 Preference share capital and premium		
Authorised		
30 000 000 (2010: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2010: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

The preference shares have a dividend rate of 63% of the prime overdraft lending rate. The holders of such shares shall not be entitled to voting rights unless a declared preference dividend remains in arrear and unpaid after six months from the due date thereof, or a resolution is proposed by the Company which directly affects the rights attached to the preference shares or the interest of the holders thereof.

27. Other reserves

27.1 Associates' and joint ventures' reserve

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

27.2 Available-for-sale reserve

The available-for-sale reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the instrument is derecognised or impaired, in which case the cumulative amount recognised in other comprehensive income is released to the profit and loss component of the statement of comprehensive income.

27.3 Cash flow hedging reserve

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

27.4 Foreign currency translation reserve

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

27.5 Share-based payment reserve

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

	Bank 2011 Rm	Bank 2010 Rm
28. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	2	2
Fair value adjustments on hedging instruments	1 063	1 023
Investment securities	317	448
Loans and advances to banks	961	1 214
Other	806	934
Reverse repurchase agreements	155	280
Loans and advances to customers	41 543	46 067
Cheque accounts	2 572	2 760
Corporate overdrafts and specialised finance loans	664	1 255
Credit cards	2 089	2 069
Foreign currency loans	110	167
Instalment credit agreements	5 559	6 024
Interest on impaired financial assets (refer to note 10)	1 176	766
Loans to associates and joint ventures	417	486
Microloans	505	651
Mortgages	21 672	24 847
Other advances[1]	286	857
Overnight finance	584	571
Personal and term loans	3 260	2 900
Preference shares	619	693
Wholesale overdrafts	2 030	2 021
Other interest	1 042	527
Statutory liquid asset portfolio	4 282	2 983
	49 210	52 264
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale items held in a fair value hedging relationship (refer to note 54.2)	428	462
Loans and advances to customers	41	135
Statutory liquid asset portfolio	387	327
Fair value adjustments on hedging instruments	1 589	917
Cash flow hedges (refer to note 54.2)	2 112	1 485
Economic hedges	(55)	(93)
Fair value hedges (refer to note 54.2)[2]	(468)	(475)
Interest on financial assets held at amortised cost and available-for-sale financial assets	46 088	49 653
Interest on financial assets designated at fair value through profit or loss	1 105	1 232
Hedging instruments[2]	(526)	106
Investment securities	217	344
Loans and advances	1 267	503
Statutory liquid asset portfolio	147	279
	49 210	52 264

Notes

[1]Includes items such as interest on factored debtors' books.

[2]During the year under review, the accrued interest portion has been separated from the mark-to-market value in the portfolio analysis disclosure in order to achieve fair presentation. This resulted in a reclassification of comparative information.

	Bank 2011 Rm	Bank 2010 Rm
29. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	1 350	1 586
Debt securities in issue	9 474	12 850
Deposits due to customers	15 475	16 979
Call deposits	3 072	3 231
Cheque account deposits	2 758	3 192
Credit card deposits	10	13
Fixed deposits	6 227	7 112
Foreign currency deposits	82	128
Notice deposits	777	456
Other	480	516
Savings and transmission deposits	2 069	2 331
Deposits from banks	1 101	534
Call deposits	572	219
Fixed deposits	504	281
Other	25	34
Fair value adjustments on hedging instruments	(482)	(1 102)
Interest incurred on finance leases	85	109
Other	97	64
	27 100	31 020
Portfolio analysis		
Fair value adjustments on amortised cost items held in a fair value hedging relationship (refer to note 54.2)	178	504
Borrowed funds	38	291
Debt securities in issue	140	213
Fair value adjustments on hedging instruments	(483)	(1 102)
Cash flow hedges (refer to note 54.2)[1]	(155)	(291)
Economic hedges[1]	(175)	(353)
Fair value hedges (refer to note 54.2)	(153)	(458)
Interest on financial liabilities designated at fair value through profit or loss	841	1 255
Debt securities in issue	260	630
Deposits due to customers	581	625
Interest on financial liabilities held at amortised cost	26 564	30 363
	27 100	31 020

Note

[1]During the year under review, fair value adjustments on 'Economic hedges' have been removed from 'Cash flow hedges' and presented separately. This resulted in a reclassification of comparative information.

	Bank 2011 Rm	Bank 2010 Rm
30. Net fee and commission income		
Asset management and other related fees	**78**	102
Consulting and administration fees	**110**	154
Credit-related fees and commissions	**12 443**	11 471
Cheque accounts	**3 292**	3 156
Credit cards[1, 2]	**1 070**	866
Electronic banking	**4 086**	3 823
Other[3]	**1 620**	1 220
Savings accounts	**2 375**	2 406
Insurance commission received	**436**	386
Merchant income[2]	**1 035**	922
Other	**97**	100
Project finance fees	**203**	205
Trust and other fiduciary services	**19**	38
Portfolio and other management fees	**14**	26
Trust and estate income	**5**	12
Fee and commission income	**14 421**	13 378
Fee and commission expense	**(1 028)**	(962)
Cheque processing fees	**(171)**	(173)
Other[2]	**(429)**	(329)
Transaction-based legal fees	**(227)**	(189)
Trust and other fiduciary services fees[2, 4]	**(64)**	(105)
Valuation fees	**(137)**	(166)
	13 393	12 416

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

	Bank 2011 Rm	Bank 2010 Rm
30.1 Included above are net fees and commissions linked to financial instruments not at fair value[5]		
Cheque accounts	**3 292**	3 156
Credit cards	**1 070**	865
Other[2]	**977**	807
Savings accounts	**2 375**	2 406
Fee and commission income	**7 714**	7 234
Fee and commission expense	**(796)**	(685)
	6 918	6 549

Notes

[1]Includes acquiring and issuing fees.

[2]During the year under review, 'Merchant income' and 'Trust and other fiduciary services fees' have been separately disclosed in order to achieve fair presentation. This resulted in a reclassification of comparative information.

[3]Includes service, credit-related fees and other commission on mortgage loans and foreign exchange transactions.

[4]During the year under review, management fees which were previously included in 'Debt collection fees' have been reclassified to 'Trust and other fiduciary services fees' in order to achieve fair presentation. This resulted in a reclassification of comparative information.

[5]During the year under review, net fees and commissions linked to financial instruments not at fair value have been reclassified to better reflect the nature of the underlying products. This resulted in a reclassification of comparative information.

Notes to the consolidated financial statements

for the year ended 31 December

	Bank 2011 Rm	Bank 2010 Rm
31. Gains and losses from banking and trading activities[1]		
Associates and joint ventures	—	87
Dividends received	—	45
Profit realised on disposal	—	42
Net gains on investments	432	99
Debt instruments designated at fair value through profit or loss	29	27
Equity instruments designated at fair value through profit or loss	423	164
Available-for-sale unwind from reserves	(20)	(92)
Net trading result	2 491	1 705
Net trading income excluding the impact of hedge accounting	2 435	1 605
Ineffective portion of hedges	56	100
Cash flow hedges (refer to note 54.2)	33	44
Economic hedges	30	71
Fair value hedges (refer to note 54.2)	(7)	(15)
Other	(419)	(40)
	2 504	1 851

'Net trading result' comprises gains and losses from instruments designated at fair value through profit or loss as well as gains and losses from instruments classified as held for trading.

The net trading income of **R2 435 million** (2010: R1 605 million), consists of the following:
- Losses on financial instruments designated at fair value through profit or loss of **R844 million** (2010: R1 061 million).
- Gains on financial instruments held for trading of **R3 279 million** (2010: R2 666 million).

Net losses on financial instruments designated at fair value through profit or loss consist of:
- Net gains of **R595 million** (2010: R705 million) on financial assets designed at fair value through profit or loss.
- Net losses of **R1 439 million** (2010: R1 766 million) relating to financial liabilities designated at fair value through profit or loss.

'Other' includes gains and losses from instruments designated at fair value through profit or loss as well as gains and losses from instruments classified as held for trading:
- Gains on financial instruments designated at fair value through profit or loss of **R105 million** (2010: R176 million).
- Losses on financial instruments held for trading of **R524 million** (2010: R216 million).

	Bank 2011 Rm	Bank 2010 Rm
32. Gains and losses from investment activities[1]		
Available-for-sale unwind from reserves	1	0
Net gains on investments		
Other[2]	53	24
	54	24
33. Other operating income		
Foreign exchange differences	37	34
Income from investment properties	16	11
Change in fair value of investment properties (refer to note 15)	0	—
Investment property rentals	16	11
Income from maintenance contracts	15	15
Profit on disposal of property and equipment	27	26
Profit on sale of repossessed properties	36	6
Gross sales	304	141
Cost of sales	(268)	(135)
Rental income	234	223
Sundry income[3]	198	181
	563	496

Notes

[1]During the year under review, the presentation of 'Gains and losses from banking and trading activities' and 'Gains and losses from investment activities', have been amended to align with market practice and to improve the quality of disclosure to the market. This resulted in a reclassification of comparative information.

[2]'Other' includes gains and losses from instruments designated at fair value through profit or loss.

[3]Includes service fees levied on sundry non-core business activities.

	Bank 2011 Rm	Bank 2010 Rm
34. Operating expenses		
Amortisation of intangible assets (refer to note 14)	**148**	101
Auditors' remuneration[1]	**149**	131
Audit fees – current year	**97**	92
Audit fees – underprovision	**5**	6
Audit related fees[1,2]	**37**	28
Other services	**10**	5
Cash transportation	**643**	625
Depreciation (refer to note 16)	**1 155**	1 062
Equipment costs	**173**	206
Rentals	**109**	116
Maintenance	**64**	90
Information technology[3]	**2 065**	1 969
Investment properties charges	**43**	4
Change in fair value (refer to note 15)	**43**	—
Other	**—**	4
Marketing costs	**928**	974
Operating lease expenses on properties	**880**	877
Other[4, 5]	**728**	956
Printing and stationery	**216**	235
Professional fees[3]	**934**	970
Property costs[5]	**1 042**	814
Staff costs	**11 722**	10 836
Bonuses	**1 098**	951
Current service costs on post-retirement benefits (refer to note 44.8)	**648**	525
Other[6]	**428**	466
Salaries	**8 897**	8 372
Share-based payments (refer to note 50)	**434**	280
Training costs	**217**	242
Telephone and postage	**659**	680
	21 485	20 440
35. Other impairments		
Financial instruments	**26**	38
Amortised cost	**26**	13
Available-for-sale (refer to note 12.1)	**—**	25
Other	**47**	71
Computer software development costs (refer to note 14)	**—**	4
Equipment (refer to note 16)	**—**	13
Goodwill (refer to note 14)	**28**	—
Investments in associates and joint ventures (refer to note 13.1)	**(2)**	29
Repossessed properties	**21**	25
	73	109

Notes

[1]During the year under review, 'Audit-related fees' were presented separately. This resulted in a reclassification of comparative information.

[2]Includes fees paid for assurance reports performed on behalf of various regulatory bodies.

[3]'Information technology' and 'Professional fees' include research and development costs totalling R101 million (2010: R133 million).

[4]Includes accommodation, travel and entertainment costs.

[5]During the year under review, 'Property costs' were moved from 'Other' and disclosed separately due to the significance thereof. This resulted in a reclassification of comparative information.

[6]Includes recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

35. Other impairments *(continued)*

The current year's impairment losses are reported in the following segments:

- Impairments on the financial instruments and investments in associates and joint ventures are reported in the 'Absa Capital' segment and as part of the segment reconciliation, namely 'Head Office' and inter-segment eliminations.
- Impairment relating to goodwill mainly arose as a result of the impairment in Abseq Properties Proprietary Limited in the 'ABB' segment (refer to note 14).
- Impairments on repossessed properties are reported in the 'Retail Banking' segment.

The prior year's impairment losses were reported in the following segments:

- Impairments on investments in associates and joint ventures were reported in the 'Absa Capital' and 'ABB' segments.
- Impairments on available-for-sale financial assets were reported in the 'Absa Capital' segment.
- Impairments on amortised cost financial instruments were reported in the 'Other' segment.
- Impairments on computer software development costs were reported in the 'Other' segment.
- Impairments on equipment were reported in the 'Absa Capital' segment.
- Impairments on repossessed properties were reported in the 'Retail Banking' segment.

	Bank	
	2011 Rm	2010 Rm
36. Indirect taxation		
Training levy[1]	**86**	79
VAT net of input credits	**818**	552
	904	631
37. Taxation expense		
Current		
Foreign taxation	**38**	288
South African current tax	**3 669**	2 702
South African current tax – prior year	**119**	6
STC	**171**	—
	3 997	2 996
Deferred		
Deferred tax (refer to note 17.1)	**(857)**	(489)
Accelerated tax depreciation	**(146)**	(153)
Allowances for loan losses	**(152)**	732
Other provisions	**(36)**	306
Other temporary differences	**(527)**	(1 392)
Retirement benefit asset	**4**	18
	3 140	2 507
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	**11 333**	9 265
Share of post-tax results of associates and joint ventures (refer to note 13)	**(47)**	8
	11 286	9 273
Tax calculated at a tax rate of 28%	**3 160**	2 596
Effect of different tax rates in other countries	**(36)**	77
Expenses not deductible for tax purposes	**118**	86
Income not subject to tax	**(325)**	(495)
Other	**52**	243
STC	**171**	—
	3 140	2 507

The effective STC rate is lower than the statutory rate of 10%, due to STC being provided for dividends declared net of dividends received, and unutilised STC credits from prior years.

Note

[1] During the year under review, 'Payments to third parties' of R1 million (2010: R2 million) has been included as part of 'Training levy' to reflect the true nature of this cost. This resulted in a reclassification of comparative information.

	Bank 2011 Rm	Bank 2010 Rm
38. Earnings per share		
Basic and diluted earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holder of the Bank, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the year.		
Diluted earnings are determined by adjusting the profit or loss attributable to the ordinary equity holder and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares. There are currently no instruments in issue that would have a dilutive impact.		
Basic and diluted earnings attributable to the ordinary equity holder of the Bank	**7 901**	6 432
Weighted average number of ordinary shares in issue (millions)	**374,1**	369,9
Issued shares at the beginning of the year	**374,1**	367,7
Effect of shares issued during the year (weighted)	**—**	2,2
Basic earnings per share/diluted earnings per share (cents)	**2 112,0**	1 738,8

	Bank 2011 Gross Rm	Bank 2011 Net[1] Rm	Bank 2010 Gross Rm	Bank 2010 Net[1] Rm
39. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to the ordinary equity holder of the Bank		**7 901**		6 432
Total headline earnings adjustment:		**56**		(20)
IFRS 3 – Goodwill impairment/(gain on bargain purchase) (refer to notes 35 and 51)	**28**	**28**	(72)	(72)
IAS 16[2] – Profit on disposal of property and equipment (refer to note 33)	**(27)**	**(22)**	(26)	(22)
IAS 28 and 31 – Headline earnings component of share of post-tax results of associates and joint ventures	**(0)**	**(0)**	(1)	(1)
IAS 28 and 31 – Profit on disposal of investments in associates and joint ventures (refer to note 31)	**—**	**—**	(42)	(42)
IAS 28 and 31 – Impairment (reversal)/charge of investments in associates and joint ventures (refer to note 35)	**(2)**	**(1)**	29	21
IAS 36[3] – Impairment of equipment (refer to note 35)	**—**	**—**	13	9
IAS 38[4] – Impairment of intangible assets (refer to note 35)	**—**	**—**	4	3
IAS 39 – Release of available-for-sale reserves (refer to note 31)	**20**	**14**	92	66
IAS 39 – Impairment of available-for-sale assets (refer to note 35)	**—**	**—**	25	18
IAS 40[5] – Change in fair value of investment properties (refer to note 33 and 34)	**43**	**37**	—	—
Headline earnings/diluted headline earnings		**7 957**		6 412
Headline earnings per share/diluted headline earnings per share (cents)		**2 127,0**		1 733,4

Note

[1]The net amount is reflected after tax and non-controlling interest.

[2]IAS 16 *Property, Plant and Equipment*.

[3]IAS 36 *Impairment of Assets*.

[4]IAS 38 *Intangible Assets*.

[5]IAS 40 *Investment Property*.

Notes to the consolidated financial statements

as at 31 December

	Bank 2011 Rm	Bank 2010 Rm
40. Retirement benefit obligations		
Surplus disclosed in 'Other assets'		
The Bank defined benefit plan (refer to notes 6 and 40.1)	628	705
Statement of comprehensive income charge included in staff costs		
The Bank defined benefit plan (refer to note 40.1)	12	(61)
Recognised in other comprehensive income		
Actuarial gains	(17)	(52)
Application of the asset ceiling adjustment	83	25
	66	(27)
40.1 Absa Group Pension Fund		
40.1.1 Defined benefit plan		
Funded obligation		
Present value of funded obligations	(5 538)	(5 126)
Fair value of plan assets	6 611	6 193
Net assets before statutory surpluses	1 073	1 067
Statutory surpluses as per the rules of the fund	(445)	(362)
Net surplus	628	705
Reconciliation of movement in obligation		
Balance at the beginning of the year	5 126	4 900
Actuarial losses	396	238
Benefits paid	(429)	(457)
Current service costs	3	1
Interest expense	442	444
Balance at the end of the year	5 538	5 126
Reconciliation of movement in plan assets		
Balance at the beginning of the year	6 193	5 853
Actuarial gains	413	290
Benefits paid	(429)	(457)
Employer contributions	1	1
Expected return on plan assets	433	506
Balance at the end of the year	6 611	6 193
Pension fund plan assets		
Debt instruments	2 361	1 514
Equity instruments	3 253	2 579
Other	997	2 100
	6 611	6 193

Pension fund assets include ordinary shares with a fair value of **R142 million** (2010: R64 million), other assets with a fair value of **R2 million** (2010: R2 million) and interest-bearing instruments issued by the Bank with a fair value of **R95 million** (2010: R180 million). Refer to note 44 for the full disclosure of related party transactions.

The Bank expects to contribute **R1 million** (2010: R1 million) to its defined benefit plan during the next financial year.

There was a return on assets of **R433 million** (2010: R506 million).

The expected return on assets is determined by calculating a total return estimate, based on weighted average returns for each class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums.

	Bank 2011 Rm	Bank 2010 Rm
Total expenses/(income) comprises:		
Current service costs (included in staff costs)	3	1
Expected return on plan assets	(433)	(506)
Interest expense	442	444
Total income	12	(61)
Recognised in other comprehensive income		
Actuarial gains	(17)	(52)
Application of the asset ceiling adjustment	83	25
	66	(27)
Cumulative actuarial gains recognised in other comprehensive income	867	884

	Bank				
	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
40. Retirement benefit obligations *(continued)*					
40.1 Defined benefit plan *(continued)*					
Historical information as at the reporting date					
Present value of defined benefit obligation	**(5 538)**	(5 126)	(4 900)	(4 833)	(4 497)
Fair value of plan assets	**6 611**	6 193	5 853	5 659	5 765
Net assets before statutory surpluses and investment reserve account	**1 073**	1 067	953	826	1 268
Investment reserve account	**—**	—	—	—	(864)
Statutory surpluses as per the rules of the fund	**(445)**	(362)	(337)	(391)	(299)
Net surplus	**628**	705	616	435	105
Experience adjustments on plan assets	**413**	290	145	(163)	179
Experience adjustments on plan liabilities	**(396)**	(238)	95	358	630

	Bank	
	2011	2010
The principal actuarial assumptions used for the defined benefit plan were as follows:		
Discount rate (%)	**8,4**	8,5
Expected return on plan assets (%)	**8,8**	7,3
Future salary increases (%)	**6,5 + merit**	6,25 + merit
Assumptions regarding future mortality experience are set based on advice from published statistics and experience.		
The average life expectancy in years of a pensioner retiring at the age of 60 is as follows:		
Male	**20,8**	20,6
Female	**25,7**	25,5

Expected rate of future pension increases

Depending on the member's choice with regard to threshold rates, pension increases are granted each year to the extent that the investment return exceeds the post-retirement valuation rates of 4,5%, 6,0% or 7,0% per annum (threshold rates). If in any year the investment return is less than the threshold rates, the difference is recouped at the next date of the pension increase.

40.2 Post-retirement benefits

Of the employees belonging to the Absa Group Pension Fund (the fund), **37 509** (2010: 34 623) were members of the defined contribution structure, while **36** (2010: 39) were members of the defined benefit structure.

The value of defined contribution assets at the reporting date amounted to **R13 708 million** (2010: R12 617 million). Current service costs on the defined contribution structure for the year amounted to **R712 million** (2010: R694 million).

The fund is financed by employer and employee contributions and investment income. Employer contributions in respect of the defined benefit structure are based on actuarial advice. The expense or income recorded in the profit and loss component of the statement of comprehensive income is determined by the sum of the current service cost, expected return on plan assets and interest expense. It is the Bank's policy to ensure that the fund is adequately funded to provide for the benefits of members, and particularly to ensure that any shortfall with regard to the defined benefit structure will be met by way of additional contributions.

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

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of the fund be carried out at least every three years. The most recent statutory valuation of the fund was effected on 1 April 2011 and confirmed that the fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 (the Act). This Act facilitates the determination of the surplus apportionment to members, while avoiding the inappropriate distribution of surpluses. The Act requires that a fund explicitly establish additional contingency reserves to ensure the financial soundness of the fund going forward. This valuation was performed using the projected unit benefit method in respect of the defined benefit structure. The surplus apportionment has been approved by the FSB during the year under review.

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

	Bank	
	2011 Rm	2010 Rm
41. Dividends per share		
Dividends paid to ordinary equity holder during the year		
15 February 2011 final dividend number 49 of 360,9 cents per ordinary share (16 February 2010: 244,8 cents)	**1 350**	900
2 August 2011 interim dividend number 50 of 414,3 cents per ordinary share (4 August 2010: 326,4 cents)	**1 550**	1 200
4 August 2010 special dividend to the ordinary and 'A' ordinary shareholder	**—**	1 000
	2 900	3 100
Dividends paid to ordinary equity holder relating to income for the year		
2 August 2011 interim dividend number 50 of 414,3 cents per ordinary share (4 August 2010: 326,4 cents)	**1 550**	1 200
4 August 2010 special dividend to the ordinary and 'A' ordinary shareholder	**—**	1 000
10 February 2012 final dividend number 51 of 620,1 cents per ordinary share (15 February 2011: 360,9 cents)	**2 320**	1 350
	3 870	3 550
The STC payable by the Bank in respect of the dividend approved and declared subsequent to the reporting date, amounts to **R232 million** (2010: R135 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date, in accordance with IFRS.		
Dividends paid to preference equity holders during the year		
15 February 2011 final dividend number 10 of 2 887,6 cents per preference share (16 February 2010: 3 280,3 cents)	**143**	162
2 August 2011 interim dividend number 11 of 2 858,3 cents per preference share (4 August 2010: 3 197,5 cents)	**141**	158
	284	320
Dividends paid to preference equity holders relating to income for the year		
2 August 2011 interim dividend number 11 of 2 858,3 cents per preference share (4 August 2010: 3 197,5 cents)	**141**	158
10 February 2012 final dividend number 12 of 2 827,2 cents per preference share (15 February 2011: 2 887,6 cents)	**140**	143
	281	301

The STC payable by the Bank in respect of the dividend approved and declared subsequent to the reporting date, amounts to **R14 million** (2010: R14 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date, in accordance with IFRS.

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

Reverse repurchase agreements and cash collateral on securities borrowed

Reverse repurchase agreements are accounted for as collateralised loans under loans and advances.

	Bank			
	Cash collateral on securities borrowed 2011 Rm	**Reverse repurchase agreements 2011 Rm**	Cash collateral on securities borrowed 2010 Rm	Reverse repurchase agreements 2010 Rm
Assets				
Statutory liquid assets portfolio (refer to note 3)	**—**	**3**	—	2 685
Loans and advances to banks (refer to note 4)	**3 411**	**6 739**	2 618	5 572
Loans and advances to customers (refer to note 9)	**1 888**	**1 613**	658	3 063
	5 299	**8 355**	3 276	11 320

As part of the reverse repurchase agreements, the Bank has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **R8 352 million** (2010: R8 343 million) of which **Rnil** (2010: R6 490 million) have been sold or repledged.

Repurchase agreements and cash collateral on securities lent

Securities lent or sold subject to a commitment to repurchase the securities are retained in the statement of financial position where substantially all the risks and rewards remain with the Bank. Amounts received from the counterparty are treated as deposits.

	Bank			
	Cash collateral on securities lent 2011 Rm	**Repurchase agreements 2011 Rm**	Cash collateral on securities lent 2010 Rm	Repurchase agreements 2010 Rm
Liabilities				
Deposits from banks (refer to note 18)	**421**	**11 325**	44	4 214
Deposits due to customers (refer to note 22)	**466**	**8 734**	10	7 035
	887	**20 059**	54	11 249

The assets transferred and not derecognised in the above repurchase agreements are valued at **R20 059 million** (2010: R8 249 million), refer to note 5. They are pledged as security for the term of the underlying repurchase agreement. The remainder of the repurchase agreements were secured by a portion of the statutory liquid asset portfolio of **R2 289 million** (2010: R3 000 million), refer to note 3.

	Bank 2011 Rm	Bank 2010 Rm
43. Assets transferred, but not derecognised		
In the ordinary course of business, the Bank enters into transactions that result in the transfer of assets to third parties or Special Purpose Entities (SPEs) that are not derecognised. The information below sets out the extent of such transfers.		
Transferred assets		
Commissioner Street 1	507	585
Commissioner Street 4	1 949	—
Homes securitisation	4 980	4 555
	7 436	5 140

Commissioner Street No 1 Proprietary Limited (Commissioner Street 1)

The Bank sold certain exposures to Commissioner Street 1, a SPE established by the Bank. Commissioner Street 1 issued various classes of notes to investors consisting of:

- class A1 senior secured floating rate notes;
- class A2 senior secured floating rate notes; and
- class B subordinated secured fixed rate notes.

The Bank invested in 100% of the B notes and 36,7% of the A2 notes. External investors invested in 100% of the A1 notes and 63,3% of the A2 notes. Due to the Bank being exposed to the majority of risks and rewards of Commissioner Street 1, the Bank failed to derecognise the exposures in terms of IAS 39 and is also required to consolidate Commissioner Street 1 in terms of SIC-12. The Bank therefore continues to recognise the exposures.

The loans are included in the statement of financial position under 'Loans and advances to customers'. Refer to note 23 for further details on the related liabilities.

Commissioner Street No 4 Proprietary Limited (Commissioner Street 4)

The Bank sold certain exposures to Commissioner Street 4, a SPE established by the Bank. Commissioner Street 4 issued various classes of notes to investors consisting of:

- class A1 floating rate notes;
- class A2 floating rate notes;
- class A3 floating rate notes;
- class A3 fixed rate notes;
- class A4 floating rate notes;
- class A4 fixed rate notes;
- class A5 fixed rate notes; and
- class A6 floating rate notes.

The Bank invested in 57% of the A3 floating rate note, 79% of the A4 floating rate note and 100% of the A6 notes. External investors invested in 100% of the A1, A2 and A5 notes, 43% of A3 notes and 21% of the A4 notes. Due to the Bank being exposed to the majority of risks and rewards of Commissioner Street 4, it is required to consolidate Commissioner Street 4 in terms of SIC-12. The Bank therefore continues to recognise the exposures on a consolidated basis. The loans are included in the statement of financial position under 'Loans and advances to customers'. Refer to note 23 for further details on the related liabilities.

Homes securitisation

The Bank transferred retail mortgages to Home Obligors Mortgage Enhanced Securities Proprietary Limited (Homes) in prior years. Homes is consolidated by Absa Group Limited based on the following conclusions reached in terms of SIC-12:

- Absa Group Limited bears credit risk through a subordinated loan advanced to Homes.
- Absa Group Limited receives a return on the subordinated loan, a service fee and the residual income in Homes.
- Absa Group Limited retains the majority of the residual or ownership risks relating to Homes through the subordinated loan.

Accordingly, the retail mortgages are included in the statement of financial position under 'Loans and advances to customers'. Refer to note 23 for further details on the related liabilities.

Details about other transactions where assets were transferred, but not derecognised, are disclosed in note 42.

44. Related parties

The Bank's ultimate parent company is Barclays Bank PLC, which owns **55,5%** (2010: 55,5%) of the ordinary shares in Absa Group Limited. The remaining **44,5%** (2010: 44,5%) of the shares are widely held on the JSE.

The following are defined as related parties of the Bank:

- key management personnel (refer to notes 44.1 and 44.2);
- the ultimate parent company (refer to note 44.3);
- fellow subsidiaries, associates and joint ventures of the ultimate parent company (refer to note 44.4);
- the parent company (refer to note 44.5);
- fellow subsidiaries, associates and joint ventures of the parent company (refer to note 44.6);
- subsidiaries (refer to note 44.7);
- associates, joint ventures and retirement benefit fund (refer to note 44.8);
- an entity controlled/jointly controlled or significantly influenced by any individual referred to above;
- post-employment benefit plans for the benefit of employees or any entity that is a related party of the Bank; and
- children and/or dependants and spouses or partners of the individuals referred to above.

IAS 24 requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Exco.

Balances and transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

44.1 Transactions with key management personnel

A number of banking and insurance transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with third parties. These include loans, deposits and foreign currency transactions. The related party transactions, outstanding balances at year-end, and related expenses and income with related parties for the year are as follows:

Bank

	Transactions with key management 2011 Rm	**Transactions with entities controlled by key management 2011 Rm**	Transactions with key management 2010 Rm	Transactions with entities controlled by key management 2010 Rm
Loans				
Balance at the beginning of the year	**16**	**742**	11	10
Loans issued	**64**	**97**	41	7
Loans repaid	**(66)**	**(220)**	(38)	(8)
Inception/(discontinuance) of related party relationships and other	**(1)**	**(8)**	2	733
Balance at the end of the year	**13**	**611**	16	742
Interest income	**1**	**55**	1	1

Loans include mortgages, asset finance transactions, overdraft and other credit facilities. Loans to key management personnel are provided on the same terms and conditions as loans to employees of the Bank, including interest rates and collateral requirements. There were no bad debt expenses and provision for bad debts that related to balances with key management personnel.

Bank

	Transactions with key management 2011 Rm	**Transactions with entities controlled by key management 2011 Rm**	Transactions with key management 2010 Rm	Transactions with entities controlled by key management 2010 Rm
Deposits				
Balance at the beginning of the year	**23**	**3**	19	5
Deposits received	**202**	**33**	158	90
Deposits repaid	**(196)**	**(33)**	(161)	(88)
Inception/(discontinuance) of related party relationships and other	**1**	**(0)**	7	(4)
Balance at the end of the year	**30**	**3**	23	3
Interest expense	**1**	**—**	1	0
Guarantees issued by the Bank	**50**	**29**	51	19

In addition to the specific guarantees, a number of key management personnel and entities controlled by key management personnel have unlimited surety with the Bank. There were no bad debt expenses and provision for bad debts that related to balances with key management personnel.

44. Related parties *(continued)*

44.1 Transactions with key management personnel *(continued)*

	Bank			
	Transactions with key management 2011 Rm	**Transactions with entities controlled by key management 2011 Rm**	Transactions with key management 2010 Rm	Transactions with entities controlled by key management 2010 Rm
Other investments				
Balance at the beginning of the year	**26**	**41**	84	42
Value of new investments/contributions	**81**	**2**	5	7
Value of withdrawals/disinvestments	**(66)**	**(4)**	(28)	(12)
Fees and charges	**(1)**	**(0)**	(0)	(0)
Investment return	**3**	**2**	10	5
Discontinuance of related party relationships and other	**(3)**	**—**	(45)	(1)
Balance at the end of the year	**40**	**41**	26	41

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R0,41 million** (2010: R0,38 million). Key management personnel received claims of **R0,17 million** (2010: R0,28 million).

There were no bad debt expenses and provisions for bad debts that related to balances with key management personnel.

	Bank	
	2011 Rm	2010 Rm
44.2 Key management personnel compensation		
Directors		
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**20**	27
Share-based payments	**27**	17
Termination benefits	**—**	10
	48	55
Other key management personnel		
Post-employment benefit contributions	**2**	1
Salaries and other short-term benefits	**42**	43
Share-based payments	**36**	33
Termination benefits	**3**	—
	83	77
44.3 Balances and transactions with the ultimate parent company[1]		
Balances		
Loans and advances to bank	**41 065**	15 174
Derivative assets	**10 524**	9 079
Nominal value of derivative assets	**637 611**	489 895
Other assets	**338**	952
Investment securities	**499**	434
Deposits from banks	**(5 784)**	(5 820)
Derivative liabilities	**(10 488)**	(8 999)
Nominal value of derivative liabilities	**(462 870)**	(375 175)
Other liabilities	**(1 167)**	(533)
Transactions		
Interest and similar income	**(111)**	(80)
Interest expense and similar charges	**67**	36
Net fee and commission income	**(17)**	(15)
Gains and losses from banking and trading activities	**(136)**	1 646
Other operating income	**(152)**	(42)
Operating expenditure	**(115)**	(252)

Trade balances must be settled in accordance with market conventions applicable to the underlying transaction. Non-trade balances must be settled by the close of the month immediately following the month in which the transaction occurred. Further, settlement must be in the currency required by the ultimate parent company. In exceptional cases, it may be impractical or inefficient to settle balances monthly. In such cases, the unsettled balances must be explicitly agreed to on a monthly basis in writing and full settlement must be made at least quarterly.

There were no bad debt expenses and provisions for bad debts that related to balances and transactions with the ultimate parent company.

Note

[1]Debit amounts are shown as positive; credit amounts are shown as negative.

44. Related parties *(continued)*

44.4 Balances and transactions with fellow subsidiaries, associates and joint ventures of the ultimate parent company[1]

Fellow subsidiaries, associates and joint ventures are those entities of Barclays Bank PLC.

	Bank 2011 Rm	Bank 2010 Rm
Balances		
Loans and advances to banks	**188**	412
Derivative assets	**—**	65
Nominal value of derivative assets	**—**	3 507
Other assets	**1**	(400)
Deposits from banks	**(559)**	(262)
Derivative liabilities	**(72)**	(7)
Nominal value of derivative liabilities	**(1 441)**	(292)
Other liabilities	**(52)**	266
Transactions		
Interest and similar income	**(2)**	—
Net fee and commission income	**(12)**	—
Operating expenditure	**152**	279

Trade balances must be settled in accordance with market conventions applicable to the underlying transaction. Non-trade balances must be settled by the close of the month immediately following the month in which the transaction occurred. Further, settlement must be in the currency required by the fellow subsidiary, associate or joint venture receiving the settlement. In exceptional cases, it may be impractical or inefficient to settle balances monthly. In such cases, the unsettled balances must be explicitly agreed to on a monthly basis in writing, and full settlement must be made at least quarterly.

There were no bad debt expenses and provisions for bad debts that related to balances and transactions with fellow subsidiaries, associates and joint ventures.

44.5 Balances and transactions with the parent company[1]

	Bank 2011 Rm	Bank 2010 Rm
Balances		
Loans and advances to banks	**215**	174
Other liabilities	**(138)**	(139)
Transactions		
Dividends paid	**3 184**	3 420
Interest expense and similar charges	**8**	10

44.6 Balances and transactions with fellow subsidiaries

Balances and transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The following are balances, and transactions entered into, transactions were entered into with fellow subsidiaries:

	Bank 2011 Rm	Bank 2010 Rm
Balances		
Loans to Group companies	**(25)**	—
Transactions		
Interest and similar income	**—**	(18)
Net fee and commission income	**—**	2

Various terms and conditions were agreed upon, taking into account transfer pricing and relevant tax requirements.

Note

[1]Debit amounts are shown as positive; credit amounts are shown as negative.

44. Related parties *(continued)*

44.7 Absa Bank Limited and its subsidiaries[1]

The information provided below is in respect of principal subsidiaries. Principal subsidiaries are those entities whose results or financial position, in the opinion of the directors, materially affected, from a qualitative and quantitative perspective, the figures shown in the consolidated financial statements.

Principal subsidiaries are assessed half yearly for the Bank and the list will change annually to reflect those entities whose results or financial position materially affected the Bank's results for the year under review.

			Bank	
Name	Nature of business	Country of incorporation	2011 % holding	2010 % holding
Absa Bank Limited	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers.	South Africa	100	100
Absa Capital Representative Office Nigeria Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	100	100
Absan Proprietary Limited[2]	Offers residential property related ownership solutions to individuals.	South Africa	100	100
Absa Rewards Company Limited	Structures, implements and maintains loyalty programmes for the Group.	South Africa	100	100
Absa Technology Finance Solutions Proprietary Limited	Financial Broker Executive Finance company	South Africa	100	100
Absa Vehicle and Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	100	100
Abseq Properties Proprietary Limited	Property development and investment company.	South Africa	85	85
Barrie Island Investments Proprietary Limited[3]	Property investment.	South Africa	70	40
Overlook at Sugarloaf Incorporated[4]	Real estate services	United States of America	100	—
Ngwenya River Estate Proprietary Limited	Residential property development	South Africa	100	100
The Ballito Junction Development Proprietary Limited	Retail property development company	South Africa	100	100
Special purpose entities				
Absa Property Equity Fund[5]	Unit trust	South Africa	n/a	n/a
Asset Backed Collateralised Securities Proprietary Limited (Abacas)	SPE for Absa Capital division	South Africa	n/a	n/a
Commissioner Street No 1 Proprietary Limited	SPE for Absa Capital division with asset backed securities.	South Africa	n/a	n/a
Commissioner Street No 4 Proprietary Limited[6]	SPE for Absa Capital division with asset backed securities.	South Africa	n/a	n/a

	2011 Rm	2010 Rm
Subsidiaries' aggregate profits and losses after taxation[7]	(255)	263

Notes

[1]A full list of subsidiaries is available, on request, at the registered address of the Bank.

[2]Name changed from Sanlam Homeloans Proprietary Limited.

[3]The Bank acquired an additional 30% of the shares in the entity during the year under review.

[4]The partnership in the IFU Property Fund was dissolved during the year under review, and Overlook at Sugarloaf Incorporated was established to replace the IFU Property Fund.

[5]The Absa Property Equity Fund was disposed of during 2010 and re-acquired during the year under review.

[6]The entity was incorporated during the year under review.

[7]Profit attributable to ordinary equity holder of the Bank, excluding share of post-tax results of associates and joint ventures.

44. Related parties *(continued)*

44.8 Associates, joint ventures and retirement benefit fund

The Bank provides certain banking and financial services to associates and joint ventures. The Bank also provides a number of current and interest-bearing cash accounts to the Absa Group Pension Fund. These transactions are generally conducted on the same terms as third-party transactions and are not individually material.

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

Bank

2011	Associates and joint ventures[1] Rm	Retirement benefit fund[1] Rm	Total[1] Rm
Value of Absa Group Pension Fund investments managed by the Bank	—	7 692	7 692
Value of Absa Group Limited shares held by the Absa Group Pension Fund	—	122	122
Value of Absa Bank Limited securities held by the Absa Group Pension Fund	—	1 720	1 720
Statement of financial position			
Other assets	0	—	0
Loans and advances to customers (refer to note 9)	7 909	—	7 909
Other liabilities	(1)	—	(1)
Deposits due to customers	—	(24)	(24)
Statement of comprehensive income			
Interest and similar income	(631)	—	(631)
Interest expense and similar charges	—	2	2
Fee and commission income	(95)	(19)	(114)
Fee and commission expense	166	—	166
Current service costs (refer to note 34)	—	648	648

2010	Associates and joint ventures[1] Rm	Retirement benefit fund[1] Rm	Total[1] Rm
Value of Absa Group Pension Fund investments managed by the Bank	—	7 193	7 193
Value of Absa Group Limited ordinary shares held by the Absa Group Pension Fund	—	116	116
Value of Absa Bank Limited securities held by the Absa Group Pension Fund	—	1 582	1 582
Statement of financial position			
Other assets	17	—	17
Loans and advances to customers (refer to note 9)	8 025	—	8 025
Derivative transactions	4	—	4
Other liabilities	(47)	—	(47)
Deposits due to customers	(0)	(30)	(30)
Statement of comprehensive income			
Interest and similar income	(617)	—	(617)
Interest expense and similar charges	—	1	1
Fee and commission income	(106)	(17)	(123)
Fee and commission expense	173	—	173
Current service costs (refer to note 34)	—	525	525

Pledges and securities

There are no associates and joint ventures with pledges and securities during the year under review.

Note

[1]Debit amounts are shown as positive; credit amounts are shown as negative.

44. Related parties *(continued)*

44.8 Associates, joint ventures and retirement benefit fund[1] *(continued)*

The information provided below is in respect of principal associates and joint ventures. Principal associates and joint ventures are those arrangements whose results or financial position, in the opinion of the directors, materially affected, from a qualitative and quantitative perspective, the figures shown in the Bank's annual consolidated financial statements.

Principal associates and joint ventures are assessed half yearly for the Bank and the list will change annually to reflect those entities whose results or financial position materially affected the Bank results for the year under review.

Name	Nature of business	Country of incorporation	2011 Ownership %	2010 Ownership %
Equity-accounted associates				
Sekunjalo Investments Limited[2]	Investment holding company	South Africa	**9**	26
Equity-accounted joint ventures				
FFS Finance South Africa Proprietary Limited	Provides financing solutions to Ford Motor Company customers.	South Africa	**50**	50
Integrated Processing Solutions Proprietary Limited	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	South Africa	**50**	50
Kilkishen Investments Proprietary Limited	Property development	South Africa	**50**	50
MAN Financial Services (S.A.) Proprietary Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	South Africa	**50**	50
Meadowood Investments 8 Proprietary Limited	Security special purpose vehicle	South Africa	**50**	50
Stand 1135 Houghton Proprietary Limited	Property development	South Africa	**50**	50
Associates and joint ventures designated at fair value through profit or loss	Various	South Africa	**Various**	Various

Notes

[1]A full list of associates and joint ventures is available, on request, at the registered address of the Bank.

[2]Transferred to non-current assets held for sale during the year.

Notes to the consolidated financial statements

for the year ended and as at 31 December

	Bank						
	2011						
Name	Carrying value Rm	Total assets[1] Rm	Total liabilities[1] Rm	Equity-accounted earnings Rm	Loans to entities Rm	Revenue Rm	Profit/(loss) after tax Rm
44. Related parties *(continued)*							
44.8 Associates, joint ventures and retirement benefit fund *(continued)*							
Equity-accounted associates							
Sekunjalo Investments Limited[2]	—	—	—	1	—	—	—
Equity-accounted joint ventures							
FFS Finance South Africa Proprietary Limited	325	7 839	(7 190)	66	5 605	828	113
Integrated Processing Solutions Proprietary Limited	26	133	(56)	3	—	287	6
Kilkishen Investments Proprietary Limited	35	109	(52)	2	0	12	6
MAN Financial Services (S.A.) Proprietary Limited	17	1 831	(1 798)	(25)	1 732	178	51
Meadowood Investments 8 Proprietary Limited	0	621	(759)	—	0	99	20
Stand 1135 Houghton Proprietary Limited	9	22	(22)	0	0	2	2
Associates and joint ventures designated at fair value through profit or loss	n/a	4 059	(13 710)	n/a	572	200 140	(21 342)
Note					9		

Notes

[1]The summary financial information includes 100% of the equity-accounted investees' total assets and liabilities.

[2]Transferred to non-current assets held for sale during the current year under review.

Name	Carrying value Rm	Total assets[1] Rm	Total liabilities[1] Rm	Equity-accounted earnings Rm	Loans to entities Rm	Revenue Rm	Profit/(loss) after tax Rm
	Bank 2010						
44. Related parties *(continued)*							
44.8 Associates, joint ventures and retirement benefit fund *(continued)*							
Equity-accounted associates							
Sekunjalo Investments Limited	41	728	(324)	2	—	516	9
Equity-accounted joint ventures							
FFS Finance South Africa Proprietary Limited	259	8 025	(7 508)	1	5 577	372	91
Integrated Processing Solutions Proprietary Limited	23	115	(39)	4	—	301	8
Kilkishen Investments Proprietary Limited	33	108	(52)	2	0	22	4
MAN Financial Services (S.A.) Proprietary Limited	41	1 925	(1 842)	(15)	1 843	203	(30)
Meadowood Investments 8 Proprietary Limited	0	550	(742)	—	0	106	29
Stand 1135 Houghton Proprietary Limited	9	19	(10)	1	—	14	2
Virgin Money South Africa Proprietary Limited[2]	—	—	—	(3)	—	—	—
Associates and joint ventures designated at fair value through profit or loss	n/a	2 096	(1 868)	n/a	605	82 962	(14 819)
Note					9		

Notes

[1]The summary financial information includes 100% of the equity-accounted investees' total assets and liabilities.

[2]Disposed of during 2010.

Notes to the consolidated financial statements

as at 31 December

	Bank	
	2011 Rm	2010 Rm
45. Assets under management and administration[1]		
Alternative asset management and exchange-traded funds	**16 615**	16 231
Private equity	**728**	732
Portfolio management	**5 136**	4 779
Unit trusts	**262**	119
	22 741	21 861
46. Financial guarantee contracts[2]		
Financial guarantee contracts	**356**	599

Financial guarantee contracts represent contracts where the Bank undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument.

This amount represents the maximum off-statement of financial position exposure.

47. Commitments

	2011 Rm	2010 Rm
Authorised capital expenditure		
Contracted but not provided for	**119**	882

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

	2011 Rm	2010 Rm
Operating lease payments due		
No later than one year	**1 073**	1 029
Later than one year and no later than five years	**2 062**	1 965
Later than five years	**488**	386
	3 623	3 380

The operating lease commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Bank. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

	2011 Rm	2010 Rm
Sponsorship payments due[3]		
Not later than one year	**209**	305
Later than one year and no later than five years	**299**	508
	508	813

The Bank has sponsorship commitments in respect of sports, arts and culture sponsorships. Certain sponsorship agreements expire in 2012 and are under review by management for renewal in the foreseeable future.

48. Contingencies

	2011 Rm	2010 Rm
Guarantees	**12 509**	11 052
Irrevocable debt facilities	**45 637**	46 348
Irrevocable equity facilities	**494**	750
Letters of credit	**4 560**	4 653
Other	**10**	43
	63 210	62 846

Irrevocable facilities are commitments to extend credit where the Bank does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Guarantees include performance guarantee contracts and payment guarantee contracts.

Notes

[1]During the year under review, assets managed by Absa Capital on behalf of clients, exchange-traded funds and alternative asset management funds have been included in order to align assets under management and administration to current market practice. This resulted in a reclassification of comparative information.

[2]Represents the maximum exposure, which is not necessarily the measurement recognised in the statement of financial position in accordance with IFRS.

[3]During the year under review, additional information has been included for sponsorships. This resulted in a reclassification of comparative information.

48. Contingencies *(continued)*

Legal proceedings

The Bank has been party to proceedings against it during the year, and as at the reporting date the following cases need further disclosure:

- **Ukwanda Leisure Holdings Proprietary Limited (Ukwanda):** Ukwanda was a client of derivatives broker Cortex Securities (Cortex). In December 2008, Ukwanda defaulted on its obligation to pay variation margins. Under JSE rules, the positions of the defaulting shareholders were closed out. Cortex was unable to meet its payment obligations as required by JSE rules. The Bank, as the clearing bank for Cortex, was obliged to underwrite Cortex's obligations to the JSE, which it duly did, in return for the underlying shares. The Bank had to make payment of an amount of R732 million as a result of the default and is claiming damages against Ukwanda for this amount. Ukwanda has counterclaimed in the amount of R1 064 million. The Bank is opposing the counterclaim.
- **Pinnacle Point Holdings Proprietary Limited (PPG):** New Port Finance Company and the trustees of the Winifred Trust (the plaintiffs) allege a local bank conducted itself unlawfully, and that the Bank was privy to such conduct. They have instituted proceedings against the Bank for damages in an amount of R1 387 million. The Bank is consulting with counsel to investigate this claim and finalise its defence.

The Bank is engaged in various other litigation proceedings involving claims by and against it which arise in the ordinary course of business. The Bank does not expect the ultimate resolution of any of the proceedings, to which the Bank is party, to have a significant adverse effect on the financial statements of the Bank. The Bank has not disclosed the contingent liabilities associated with these claims either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the conduct of the claims.

Provision is made for all liabilities which are expected to materialise.

Regulatory matters

The scale of regulatory change remains challenging and the global financial crisis is resulting in a significant tightening of regulation and changes to regulatory structures globally, especially for companies that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries globally which, in some cases, is leading to increased regulation. The nature and impact of future changes in the legal framework, policies and regulatory action cannot currently be fully predicted and are beyond the Bank's control, but especially in the area of banking regulation, are likely to have an impact on the Bank's businesses and earnings.

The Bank is continuously evaluating its compliance programmes and controls in general. As a consequence of these compliance programmes and controls, including monitoring and review activities, the Bank has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and made disclosures on material findings as and when appropriate.

	Bank 2011 Rm	Bank 2010 Rm
49. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**7 226**	4 431
Loans and advances to banks	**572**	342
	7 798	4 773

50. Share-based payments

During the year, **R44 million** (2010: R44 million) and **R390 million** (2010: R236 million) were charged to the statement of comprehensive income in respect of equity-settled and cash-settled share-based payment transactions, respectively.

Staff costs

The statement of comprehensive income charge for share-based payments is as follows (refer to note 34):

	Bank 2011 Rm	Bank 2010 Rm
Equity-settled arrangements:		
Absa Group Limited Executive Share Award Scheme (refer to note 50.3)	**38**	54
Absa Group Limited Performance Share Plan (refer to note 50.2)	**4**	(21)
Absa Group Limited Share Incentive Scheme (refer to note 50.1)	**2**	11
Cash-settled arrangements:		
Absa Group Limited Deferred Award Plan (refer to note 50.7)	**305**	153
Absa Group Limited Phantom Executive Share Award Scheme (refer to note 50.5)	**2**	(9)
Absa Group Limited Phantom Joiners Share Award Plan (refer to note 50.4)	**57**	70
Absa Group Limited Key Leaders Retention Plan (refer to note 50.8)	**26**	22
	434	280
Total carrying amount of liabilities for cash-settled arrangements (refer to note 20)	**483**	286

The intrinsic value of the liability reflects the difference between the fair value of the options vested as at the reporting date and the option exercise price and amounts to **Rnil** (2010: R16 million).

50.1 Absa Group Limited Share Incentive Scheme

In terms of the rules of the Share Incentive Trust, the maximum number of Absa Group Limited ordinary shares of Absa Group Limited that may be issued or transferred and/or in respect of which options may be granted to the participants, is limited to shares representing 10% of the total number of issued shares from time to time. This scheme is an equity-settled share-based payment arrangement and options are allocated to employees according to the normal human resources talent management processes. The options issued up to August 2005 (issue 192) had no performance criteria linked to them and vested in equal tranches after three, four and five years respectively. No dividends accrue to the optionholder over the vesting period. The options expire after a period of 10 years from the issuing date. Options issued since August 2005 (issue 193) have performance criteria linked to them, which require headline earnings per share to exceed an agreed benchmark over a three-year period from the grant date for the options to vest. Participants need to be employed by the Bank at the vesting date in order to be entitled to the options.

50. Share-based payments *(continued)*

50.1 Absa Group Limited Share Incentive Scheme *(continued)*

The number and weighted average exercise prices of share options are as follows:

	Bank 2011 Number of options '000	Bank 2011 Weighted exercise price R
Outstanding at the beginning of the year	2 602	76,13
Exercised during the year	(1 415)	75,11
Forfeited during the year	(14)	62,79
Transfers to Group subsidiaries	(55)	—
Outstanding at the end of the year	1 118	75,71
Of which are exercisable	1 118	75,71

	Bank 2010 Number of options '000	Bank 2010 Weighted exercise price R
Outstanding at the beginning of the year	5 164	76,82
Exercised during the year	(2 396)	76,85
Forfeited during the year	(147)	86,82
Transfers to Group subsidiaries	(19)	—
Outstanding at the end of the year	2 602	76,13
Of which are exercisable	2 548	75,24

Options exercised during the year resulted in **1 414 863** (2010: 2 396 079) shares being allocated at an average exercise price of **R75,11** (2010: R76,85) each. The related weighted average share price at the time of exercise was **R137,15** (2010: R133,90).

Share options outstanding at the reporting date in terms of the Share Incentive Trust have the following weighted average remaining contractual lives and exercise prices:

	Bank 2011 Average option exercise price R	Weighted average contractual remaining life Years	Weighted average fair value R	Number of options outstanding
Exercise price ranges				
25,16 – 35,97	33,67	0,43	11,32	80 705
31,99 – 35,01	35,01	1,43	11,98	130 866
44,36 – 68,93	49,59	2,5	36,33	355 138
72,36 – 94,63	90,16	3,61	28,68	525 099
100,30 – 113,75	103,85	4,03	39,01	26 668

50. Share-based payments *(continued)*

50.1 Absa Group Limited Share Incentive Trust Scheme *(continued)*

	Bank			
	2010			
	Average option exercise price R	Weighted average contractual remaining life Years	Weighted average fair value R	Number of options outstanding
Exercise price ranges				
28,73 – 37,43	37,43	0,47	14,23	107 500
25,16 – 35,97	33,58	1,46	11,36	153 611
31,99 – 35,01	35,01	2,43	12,02	188 900
44,36 – 68,93	49,27	3,47	30,72	929 567
72,36 – 94,63	90,63	4,62	30,27	1 059 761
100,30 – 113,75	103,19	5,38	45,36	162 502

The following shares and options are available for allocation by Absa Group Limited:

	Bank	
	2011	
	Percentage of total issued shares	**Number of shares ’000**
Maximum shares and options available	**10,0**	**71 821**
Shares and options subject to the trust	**(0,2)**	**(1 570)**
Balance of shares and options available	**9,8**	**70 251**

	2010	
	Percentage of total issued shares	Number of shares ’000
Maximum shares and options available	10,0	71 821
Shares and options subject to the trust	(0,5)	(3 236)
Balance of shares and options available	9,5	68 585

50.2 Absa Group Limited Performance Share Plan (PSP)

The PSP is an equity-settled share-based payment arrangement. Participants are awarded a number of nil-cost options. These options will be converted into Absa Group Limited ordinary shares after a three-year vesting period and on achieving the performance conditions attached to the award. The vesting of the PSP options will be subject to non-market and market-related performance conditions which will be measured over a three-year period, starting on the first day of the financial year in which the award is made. The options will vest after three years to the extent that the performance conditions are satisfied. These options are forfeited in total if Absa Group Limited's performance fails to meet the minimum performance criteria.

	Bank	
	Number of options	
	2011 ’000	2010 ’000
Outstanding at the beginning of the year	**2 968**	3 145
Exercised during the year	**(310)**	—
Forfeited during the year	**(1 486)**	(177)
Outstanding at the end of the year	**1 172**	2 968

The options outstanding at the reporting date have no exercise price and a weighted average contractual life of **0,2 years** (2010: 0,9 years). None of these options were exercisable at the reporting date.

The weighted average share price of options exercised during the current year is **R131,00**.

50. Share-based payments *(continued)*

50.3 Absa Group Limited Executive Share Award Scheme (ESAS)

The ESAS is an equity-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of Absa Group Limited ordinary shares. There is an initial three-year vesting period, after which the participant will receive their initial allocation as well as 20% matched options. If the bonus options remain in the ESAS for another two years, the participant receives another 10% matched options. Dividends, in the form of additional shares, are paid to participants in respect of the ordinary shares, awarded on exercise of the options, as if the shares were held from inception. The number of dividend shares awarded is therefore calculated on the initial share allocation and on the 20% and/or 10% matched shares, over the three- or five-year period. Employees that received a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus into the ESAS. Employees also had the option of utilising more of their bonus for voluntary ESAS options.

The following number of initial options allocated in terms of the scheme are eligible for the 20% and/or 10% matched options:

	Bank	
	Number of options	
	2011 '000	2010 '000
Outstanding at the beginning of the year	**2 009**	2 109
Exercised during the year	**(697)**	—
Forfeited during the year	**(21)**	(100)
Transfer to Group subsidiaries	**(5)**	—
Outstanding at the end of the year	**1 286**	2 009

The options outstanding at the reporting date have no exercise price and a weighted average contractual life of **2,1 years** (2010: 2,8 years).

The weighted average share price of options exercised during the current year is **R130,75**.

50.4 Absa Group Limited Phantom Joiners Share Award Plan (JSAP)

The JSAP is a cash-settled share-based payment arrangement that enables the Bank to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme, by offering the employees Absa Group Limited phantom awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accrue to the participant over the vesting period which can be over two, three, five or six years.

	Bank	
	Number of awards	
	2011 '000	2010 '000
Outstanding at the beginning of the year	**1 139**	879
Exercised during the year	**(513)**	(249)
Forfeited during the year	**(168)**	(72)
Granted during the year	**420**	581
Outstanding at the end of the year	**878**	1 139

The awards outstanding at the reporting date have no exercise price and a weighted average contractual life of **2,3 years** (2010: 2,5 years).

As the terms and conditions of this share scheme dictate that awards be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

Fair value assumptions of phantom share awards granted during the current and prior year

The fair value of the JSAP awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations for phantom awards that might be forfeited before the awards vest. At each reporting date, the Bank adjusts the liability to reflect differences:

- between the share price at grant date and the share price at valuation date; and
- between actual and expected forfeited awards.

50. Share-based payments *(continued)*

50.5 Absa Group Limited Phantom Executive Share Award Scheme (Phantom ESAS)

The Phantom ESAS is a cash-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost phantom awards, based on the allocation price of Absa Group Limited ordinary shares. If the participant is in the employ of the Bank after the three-year vesting period, the participant will receive 20% matched phantom awards. If the bonus award remains in the Phantom ESAS for another two years, the participant receives an additional 10% bonus phantom awards. Dividends in the form of cash, are paid to participants on settlement of the phantom awards as if the awards were held from inception. The number of dividend phantom awards is therefore calculated on the initial allocation and on the 20% and/or 10% bonus phantom awards, over the three- or five-year period. Employees that received a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the Phantom ESAS. Employees also had the option of utilising more of their bonus for voluntary phantom ESAS awards.

The following number of initial phantom awards allocated in terms of the scheme are eligible for the 20% and/or 10% matched phantom awards:

	Bank	
	Number of awards	
	2011 '000	2010 '000
Outstanding at the beginning of the year	**147**	438
Exercised during the year	**(65)**	(382)
Forfeited during the year	**(2)**	(33)
Granted during the year	**—**	124
Outstanding at the end of the year	**80**	147
Of which are exercisable	**43**	108

The phantom awards outstanding at the reporting date have no exercise price and a weighted average contractual life of **3,0 years** (2010: 2,9 years).

Fair value assumptions of share awards granted during the current and prior year

The fair value of the Phantom ESAS awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations of phantom awards that might be forfeited before the awards vest. At each reporting date, the Bank adjusts the liability to reflect differences:

- between the share price at grant date and the share price at valuation date; and
- between actual and expected forfeited awards.

50.6 Absa Group Limited Phantom Performance Share Plan (Phantom PSP)

The Phantom PSP is a cash-settled plan and any award payments made to participants are in cash. The Phantom PSP awards (and any associated notional dividend phantom awards) are awarded at no cost to the participants. The amount that is ultimately paid to the participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined after a three-year vesting period. The vesting of the Phantom PSP awards are subject to non-market performance conditions measured over a three-year period, starting on the first day of the financial year in which the award is made. The awards will vest after three years to the extent the performance conditions are satisfied. These awards are forfeited in total if Absa Group Limited's performance fails to meet the minimum performance criteria.

In the prior year, the outstanding awards failed to meet the minimum performance conditions and therefore have lapsed in total.

	Bank	
	Number of awards	
	2011 '000	2010 '000
Outstanding at the beginning of the year	**—**	1 095
Forfeited during the year	**—**	(1 095)
Outstanding at the end of the year	**—**	—

There are no phantom awards outstanding at the reporting date.

50. Share-based payments *(continued)*

50.7 Absa Group Limited Deferred Award Plan (DAP)

The DAP is a cash-settled share-based payment arrangement. The DAP awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest in equal tranches after one, two and three years, with each tranche subject to its own independent non-market related performance condition. The amount that is paid to the participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. If Absa Group Limited fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total.

	Bank	
	Number of awards	
	2011	2010
	’000	’000
Outstanding at the beginning of the year	**2 337**	—
Exercised during the year	**(735)**	—
Granted during the year	**2 610**	2 474
Forfeited during the year	**(219)**	(137)
Outstanding at the end of the year	**3 993**	2 337

The phantom awards outstanding have no exercise price and a weighted average contractual life of **1,5 years** (2010: 1,7 years). As the terms and conditions of this share scheme dictate that awards be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

50.8 Absa Group Limited Key Leaders Retention Plan (KLR)

The KLR is a cash-settled share-based payment arrangement. The retention awards (and any associated notional dividends) are awarded at no cost to the participants. The amount that is ultimately paid to the participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined after a three-year vesting period.

	Bank	
	Number of awards	
	2011	2010
	’000	’000
Outstanding at the beginning of the year	**543**	—
Granted during the year	**32**	560
Forfeited during the year	**(52)**	(17)
Outstanding at the end of the year	**523**	543

The phantom awards outstanding have no exercise price and a weighted average contractual life of **1,2 years** (2010: 2,1 years). As the terms and conditions of this share scheme dictate that awards be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

51. Acquisitions and disposals of businesses

51.1 Acquisitions of businesses during the year under review

A summary of the total net cash outflow and cash and cash equivalents related to business combinations is included below:

	Bank	
	2011	2010
Summary of net cash (outflow)/inflow due to acquisitions	**(211)**	61
Summary of total cash and cash equivalents acquired	**0**	409

51. Acquisitions and disposals of businesses *(continued)*

51.1 Acquisitions of businesses during the year under review *(continued)*

51.1.1 During April 2011, the Bank acquired 76% of the units in Absa Property Equity Fund (APEF) and, as a result, has taken on a majority share of the risks and rewards of the fund. APEF operates as a SPE specifically for the investment in community upliftment projects and is consolidated in terms of SIC 12. The APEF was disposed of in 2010 and reacquired in 2011.

	Bank 2011 Fair value recognised on acquisition Rm
Details of the net assets acquired are as follows:	
Cash, cash balances and balances with central banks	0
Other assets	1
Investment securities	277
Other liabilities	0
Non-controlling interest	(67)
Net assets acquired	**211**
Satisfied by:	
Cash outflow on acquisition	211
Fair value of net assets acquired	(211)
Goodwill	**—**
Net cash outflow due to acquisition	211
Total cash and cash equivalents acquired	0

Since its acquisition, the APEF contributed revenue of **R10 million** and a net profit before tax of **R13 million** to the Bank for the period 1 April 2011 to 31 December 2011. If the acquisition occurred on 1 January 2011, the Bank's revenue would have been **R17 million** higher and the net profit before tax for the year would have been **R18 million** higher.

51.1.2 The Bank, together with two other parties, have a shareholding in Barrie Island Investments Proprietary Limited (Barrie Island). During January 2011, the Bank entered into an agreement to purchase an additional 30% of the shares in Barrie Island from another shareholder who wished to exit the arrangement. Following this purchase, the Bank owns 70% of the shares of Barrie Island. As at the acquisition date, the investment was recognised at Rnil. A fair value adjustment of R3 million was processed as a loss in the statement of comprehensive income when the additional shares in Barrie Island were acquired. Barrie Island holds property in Alberton. The property is zoned for commercial and residential use. The goodwill in Barrie Island has been impaired, as Barrie Island has been consistently making losses and is not expected to be profitable in the near future.

	Bank 2011 Fair value recognised on acquisition Rm
Details of the net assets acquired:	
Cash, cash balances and balances with central banks	0
Investment properties	40
Other liabilities	(50)
Deferred tax asset	1
Fair value of existing interest	3
Non-controlling interest	3
Net liabilities incurred	**(3)**
Satisfied by:	
Cash outflow on acquisition	0
Fair value of liabilities incurred	3
Goodwill	**3**
Net cash outflow due to acquisition	0
Total cash and cash equivalents acquired	0

Since the additional purchase of shares in Barrie Island, there was no revenue and profit before tax impact to the Bank for the period to 31 December 2011.

51. Acquisitions and disposals of businesses *(continued)*

51.2 Acquisitions of businesses during the prior year

51.2.1 On 30 June 2010, the Virgin Money South Africa Proprietary Limited (VMSA) joint venture arrangement was terminated. This was a result of a contractually agreed arrangement where its future existence depended on the financial performance of the joint venture. Due to the underperformance of the joint venture, the arrangement was terminated and the Bank acquired the underlying business. The termination resulted in the Bank selling its 50% interest in VMSA for R1, while acquiring VMSA's credit and home loan business for R1. VMSA's credit card and home loan business contributed a net profit before tax of R40 million and revenue of R57 million to the Bank for the period from 30 June 2010 to 31 December 2010. If the acquisition occurred on 1 January 2010, the Bank's revenue would have been R116 million higher and the net profit before tax for the year would have been R21 million higher.

	Bank
	2010 Fair value recognised on acquisition Rm
Details of the net assets acquired and the gain on bargain purchase are as follows:	
Other assets	0
Intangible assets	3
Other liabilities	(1)
Deferred tax liabilities	(1)
Net assets acquired	1
Satisfied by:	
Cash flow on acquisition	0
Fair value of net assets acquired	(1)
Gain on bargain purchase	(1)
Net cash outflow due to acquisition	0
Total cash and cash equivalents acquired	0

This bargain purchase gain arose primarily due to the underperformance of the underlying VMSA credit card and home loan portfolio. No contingent liabilities were recognised as a result of the acquisition, and no contingent consideration is payable. No identifiable assets were identified of which the fair values could not be reliably measured. No material receivables were acquired as part of the transaction.

51.2.2 The Bank previously had a 50% share in the preference shares of Sanlam Home Loans Proprietary Limited (SHL), the holding company of three securitisation vehicles. The investment in SHL has previously been equity accounted as the Bank and Sanlam had joint control over SHL. On 1 August 2010, the Group acquired the remaining 50% preference shares in SHL, which resulted in the Bank controlling and consolidating SHL. SHL contributed a net profit before tax of R39 million and revenue of R12 million to the Bank for the period from 1 August 2010 to 31 December 2010. If the acquisition had occurred on 1 January 2010, the Group's revenue would have been R84 million higher and the net profit before tax for the year would have been R70 million higher.

	Bank
	2010 Fair value recognised on acquisition Rm
Details of net assets acquired and the gain on bargain purchase are as follows:	
Cash, cash balances and balances with central banks	409
Other assets	11
Loans and advances to customers	4 621
Other liabilities	(9)
Debt securities in issue	(3 687)
Shareholders' loans	(1 325)
Previously held interest	(10)
Net assets acquired	10
Satisfied by:	
Cash inflow on acquisition	(61)
Fair value of net assets acquired	(10)
Gain on bargain purchase	(71)
Net cash inflow on acquisition	61
Cash and cash equivalents acquired	409

51. Acquisitions and disposals of businesses *(continued)*

51.2 Acquisitions of businesses during the prior year *(continued)*

51.2.2 No goodwill resulted from the transaction and the excess of R71 million, together with the gain of R10 million recognised as a result of remeasuring the previously held interest to fair value, was realised in the statement of comprehensive income in other operating income. No contingent liabilities were recognised as a result of the acquisition, and no contingent consideration was payable. No identifiable assets were identified of which the fair values could not be reliably measured.

Subsequent to the acquisition, the debt securities in issue were redeemed in full.

Mortgage loans with a fair value of R4 621 million were acquired as a result of the acquisition. The gross contractual capital amounts receivable were R4 685 million on the acquisition date and an impairment provision of R64 million was carried against these loans on the acquisition date.

The joint venture agreement was terminated due to the underperformance of the mortgage loan portfolio and consequently the Group obtained full control of SHL. The underperformance of the mortgage loan portfolio gave rise to the gain on bargain purchase as the joint venture partner was willing to sell its 50% stake at below the fair value of the underlying assets and liabilities.

51.3 Disposal of businesses during the year under review

There were no disposals during the year under review.

51.4 Disposal of businesses during the prior year

51.4.1 APEF operated as a SPE for the investment of community upliftment projects. This fund was previously consolidated under SIC-12 as the Bank held between 75% and 93% of units (depending on the total number of units in issue at a specific point in time and was thereby exposed to the majority of risks and rewards of the fund.

Between January 2010 and August 2010, the Bank disposed of some of its units, thereby decreasing its effective shareholding to below 50% of the units in issue. At this point, the fund was deconsolidated due to the Bank no longer being exposed to the majority of the risks and rewards of the fund.

No gain or loss was recognised on deconsolidation of the fund due to the underlying assets being measured at fair value.

The remainder of the investment retained after deconsolidation was disposed of during September 2010 and October 2010.

	Bank 2010 Rm
Details of the net assets disposed of are as follows:	
Cash, cash balances and balances with central banks	22
Investment securities	136
Net assets disposed of	**158**
Satisfied by:	
Non-controlling interest	(78)
Fair value of interest retained	(64)
Cash inflow on disposal	16
Total cash and cash equivalents disposed of	(22)
Net cash and outflow on disposal	**(6)**

52. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial instruments not held at fair value:

	Bank			
	2011		2010[1]	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the SARB	12 279	12 279	12 912	12 912
Coins and bank notes	7 226	7 226	4 431	4 431
Cash, cash balances and balances with central banks (refer to note 2)	19 505	19 505	17 343	17 343
Loans and advances to banks (refer to note 4)	47 917	47 917	18 703	18 702
Other assets (refer to note 6)	10 991	10 991	7 893	7 893
Retail Banking	306 263	306 807	311 961	312 648
Cheque accounts	2 261	2 261	2 365	2 365
Credit cards	14 733	14 733	13 454	13 455
Instalment credit agreements	37 542	37 814	36 727	37 105
Loans to associates and joint ventures	4 836	4 836	4 827	4 827
Microloans	1 368	1 470	1 359	1 482
Mortgages	233 026	233 196	241 427	241 612
Other	4	4	20	20
Personal and term loans	12 493	12 493	11 782	11 782
Absa Capital	48 303	48 303	46 283	46 419
Absa Business Bank	116 670	117 118	123 265	123 639
Cheque accounts	25 513	25 513	17 451	17 451
Commercial asset finance	17 975	18 004	18 471	18 495
Commercial property finance	40 253	40 672	46 129	46 479
Term loans	32 929	32 929	41 214	41 214
Other and intergroup eliminations	141	141	272	272
Loans and advances to customers – net of impairment (refer to note 9)	471 377	472 369	481 783	482 978
Loans to Group companies (refer to note 11)	7 164	7 164	8 071	8 071
Total	556 954	557 946	533 791	534 987
Financial liabilities				
Deposits from banks (refer to note 18)	31 288	31 296	16 241	16 242
Other liabilities (refer to note 20)	8 906	8 906	6 336	6 336
Call deposits	55 528	55 528	54 686	54 808
Cheque account deposits	130 948	130 948	116 371	116 371
Credit card deposits	1 884	1 884	1 830	1 830
Fixed deposits	112 580	112 705	103 397	103 821
Foreign currency deposits	6 898	6 898	7 942	7 942
Notice deposits	28 500	28 506	11 365	11 371
Other deposits	2 695	2 694	3 664	3 663
Saving and transmission deposits	72 229	72 229	66 021	66 021
Deposits due to customers (refer to note 22)	411 262	411 392	365 276	365 827
Debt securities in issue (refer to note 23)	113 890	114 219	149 423	150 203
Loans from Group companies (refer to note 24)	1 438	1 438	—	—
Borrowed funds (refer to note 25)	7 773	8 497	7 440	8 109
Total	574 557	575 748	544 716	546 717

Note

[1]Comparatives have been reclassified, refer to note 1.23.

53. Segment report

53.1 Summary of segments

The Bank has identified its reportable segments based on a combination of products and services offered to customers, external revenue and the location of the markets served. The segments also reflect how the Bank's businesses are managed and reported to the CODM.

The following summary describes the operations in each of the Bank's reportable segments:

- Absa Business Bank (ABB): provides a comprehensive range of commercial banking products and services to large, medium and small businesses.
- Absa Capital: offers corporate, investment banking and wealth management services. The business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients and high net worth individuals.
- Other: consists of various non-banking activities and includes investment income earned by the Bank, as well as income earned by the London branch and Corporate Real Estate Services (CRES).
- Retail Banking: offers various products and services to customers through the following divisions:
  - Home Loans: offers residential property-related finance solutions direct to the customer through face-to-face outlets and electronic channels.
  - Vehicle and Asset Finance (VAF): offers customised vehicle and asset finance products and services through vehicle dealers as well as directly to customers through face-to-face outlets and electronic channels.
  - Card: provides both credit and debit cards, and merchant acquiring across South Africa. It includes Woolworths Financial Services, which offers in-store and credit cards, as well as short-term insurance products.
  - Personal Loans: offers unsecured instalment loans, including fixed and variable loans through face-to-face channels.
  - Retail Bank: offers financial solutions to individuals in South Africa and Absa's African operations, ranging from those entering the market with basic banking needs, to affluent individuals who require more sophisticated banking.

Segment comparatives have been reclassified during the year under review for the structure changes listed below:

- Absa Technology Finance Solutions Proprietary Limited was moved from VAF within Retail Banking to ABB.
- Debit Card was moved within Retail Banking from Retail Bank to Card.
- Personal loan centres were moved within Retail Banking from Personal Loans to Retail Bank.
- Absa Development Company division was moved from ABB to Retail Bank within Retail Banking.
- The Bank's corporate client base was transferred from ABB to Absa Capital following an initiative to optimise product delivery to its corporate clients.

These changes have no effect on the profit and loss of the Bank.

Bank

	2011			
	South Africa Rm	**Rest of Africa Rm**	**Other foreign countries Rm**	**Total Rm**
53.2 Segment report per geographical segment				
Net interest income – external	**22 219**	**—**	**113**	**22 332**
Non-interest income – external	**17 635**	**—**	**24**	**17 659**
Total assets	**736 714**	**1**	**5 721**	**742 436**

	2010			
	South Africa Rm	Rest of Africa Rm	Other foreign countries Rm	Total Rm
53.2 Segment report per geographical segment				
Net interest income – external	21 217	—	111	21 328
Non-interest income – external	14 753	—	17	14 770
Total assets	685 444	0	4 966	690 410

53. Segment report *(continued)*

53.3 Segment report per market segment

	Retail Banking		Absa Business Bank	
	2011 Rm	2010[1] Rm	**2011 Rm**	2010[1] Rm
Statement of comprehensive income				
Net interest income	**12 523**	11 571	**7 487**	7 302
Net interest income – external	**23 643**	25 162	**4 693**	5 705
Net interest income – internal	**(11 120)**	(13 591)	**2 794**	1 597
Impairment losses on loans and advances	**(3 792)**	(4 389)	**(843)**	(1 092)
Non-interest income	**9 825**	9 451	**3 903**	3 805
Non-interest income – external	**9 106**	8 852	**3 897**	3 788
Non-interest income – internal	**719**	599	**6**	17
Operating expenses	**(12 476)**	(12 012)	**(6 174)**	(5 908)
Depreciation and amortisation	**(352)**	(324)	**(23)**	(20)
Other operating expenses	**(12 124)**	(11 688)	**(6 151)**	(5 888)
Other impairments	**(20)**	(25)	**(50)**	(1)
Indirect taxation	**(291)**	(176)	**(60)**	(59)
Share of post-tax results of associates and joint ventures	**66**	(2)	**(28)**	(11)
Operating profit before income tax	**5 835**	4 418	**4 235**	4 036
Taxation expense	**(1 804)**	(1 314)	**(1 349)**	(1 215)
Profit for the year	**4 031**	3 104	**2 886**	2 821
Profit attributable to:				
Ordinary equity holder of the Bank	**4 031**	3 104	**2 878**	2 815
Preference equity holders of the Bank	**—**	—	**—**	—
Non-controlling interest	**—**	—	**8**	6
	4 031	3 104	**2 886**	2 821
Headline earnings	**4 032**	2 990	**2 936**	2 810

Notes

[1]Comparatives have been reclassified, refer to notes 1.23 and 53.1 for additional information.

[2]Head office and inter-segment eliminations do not represent a reportable segment, but the reconciliation to the Bank results in terms of IFRS 8 *Operating Segments* (IFRS 8).

Notes to the consolidated financial statements

for the year ended and as at 31 December

Absa Capital		Other		Head office and inter-segment eliminations[2]		Bank	
2011 Rm	2010[1] Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010[1] Rm
1 916	2 398	522	(258)	(338)	231	22 110	21 244
(9 281)	(10 350)	1 753	676	1 524	135	22 332	21 328
11 197	12 748	(1 231)	(934)	(1 862)	96	(222)	(84)
(70)	(97)	(2)	—	(169)	—	(4 876)	(5 578)
3 185	2 700	(346)	(309)	(53)	(860)	16 514	14 787
6 641	2 882	(295)	(291)	(1 690)	(461)	17 659	14 770
(3 456)	(182)	(51)	(18)	1 637	(399)	(1 145)	17
(3 146)	(2 914)	(250)	(84)	561	478	(21 485)	(20 440)
(105)	(104)	(154)	(108)	(669)	(606)	(1 303)	(1 162)
(3 041)	(2 810)	(96)	24	1 230	1 084	(20 182)	(19 278)
9	(66)	(2)	(14)	(10)	(3)	(73)	(109)
(80)	(82)	(99)	(81)	(374)	(233)	(904)	(631)
(6)	2	—	—	15	3	47	(8)
1 808	1 941	(177)	(746)	(368)	(384)	11 333	9 265
(528)	(502)	216	362	325	162	(3 140)	(2 507)
1 280	1 439	39	(384)	(43)	(222)	8 193	6 758
1 280	1 439	(245)	(704)	(43)	(222)	7 901	6 432
—	—	284	320	—	—	284	320
—	—	—	—	—	—	8	6
1 280	1 439	39	(384)	(43)	(222)	8 193	6 758
1 278	1 486	(257)	(658)	(32)	(216)	7 957	6 412

53. Segment report *(continued)*

53.3 Segment report per market segment *(continued)*

	Retail Banking 2011 Rm	Retail Banking 2010[1] Rm	Absa Business Bank 2011 Rm	Absa Business Bank 2010[1] Rm
Operating performance (%)				
Net interest margin on average interest-bearing assets[3]	**3,00**	2,63	**4,38**	4,70
Impairment losses on loans and advances as a percentage of average loans and advances to customers[3]	**1,22**	1,41	**0,72**	0,91
Non-interest income as a percentage of total operating income[4]	**44,0**	45,0	**34,3**	34,3
Revenue growth[4]	**6**	2	**3**	1
Cost growth[4]	**(4)**	(10)	**(5)**	(12)
Cost-to-income ratio[4]	**55,8**	57,1	**54,2**	53,2
Cost-to-assets ratio[3]	**2,8**	2,6	**3,3**	3,6
Statement of financial position (Rm)				
Loans and advances to customers	**306 263**	311 961	**118 244**	124 901
Investment securities	**—**	0	**1 640**	2 243
Other assets	**146 192**	142 491	**80 475**	53 019
Total assets	**452 455**	454 452	**200 359**	180 163
Deposits due to customers	**121 155**	111 634	**170 920**	152 320
Debt securities in issue	**—**	—	**—**	—
Other liabilities	**328 699**	340 900	**27 034**	25 342
Total liabilities	**449 854**	452 534	**197 954**	177 662
Financial performance[3] (%)				
Return on average economic capital	**26,4**	17,8	**25,9**	25,3
Return on average risk-weighted assets	**2,82**	2,04	**2,03**	2,29
Return on average assets	**0,91**	0,65	**1,59**	1,69
Other[3]				
Banking customer base by segment (millions)	**10,9**	10,6	**0,4**	0,4
Attributable income from the rest of Africa	**(53)**	(36)	**(41)**	(30)

Notes

[1]Comparatives have been reclassified, refer to note 1.23 and 53.1 for additional information.

[2]Head office and inter-segment eliminations do not represent a reportable segment, but the reconciliation to the Bank results in terms of IFRS 8.

[3]Unaudited.

[4]These ratios have been calculated by management based on extracted audited information contained in the annual financial statements.

Absa Capital		Other		Head office and inter-segment eliminations[2]		Bank	
2011 Rm	2010[1] Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010[1] Rm
n/a	n/a	**n/a**	n/a	**n/a**	n/a	**3,80**	3,62
0,12	0,15	**n/a**	n/a	**n/a**	n/a	**1,00**	1,12
62,4	53,1	**n/a**	n/a	**n/a**	n/a	**42,8**	41,0
0	23	**n/a**	n/a	**n/a**	n/a	**7**	2
(8)	(32)	**n/a**	n/a	**n/a**	n/a	**(5)**	(16)
61,7	57,2	**n/a**	n/a	**n/a**	n/a	**55,6**	56,7
0,9	0,8	**n/a**	n/a	**n/a**	n/a	**3,1**	3,0
62 062	58 362	**524**	622	**(183)**	(113)	**486 910**	495 733
6 421	10 139	**42**	—	**228**	524	**8 331**	12 906
290 728	276 453	**89 561**	77 782	**(359 761)**	(367 974)	**247 195**	181 771
359 211	344 954	**90 127**	78 404	**(359 716)**	(367 563)	**742 436**	690 410
139 024	117 580	**—**	—	**663**	597	**431 762**	382 131
107 795	148 061	**20 256**	14 465	**—**	—	**128 051**	162 526
111 199	78 152	**21 328**	19 113	**(363 029)**	(370 384)	**125 231**	93 123
358 018	343 793	**41 584**	33 578	**(362 366)**	(369 787)	**685 044**	637 780
14,6	17,0	**n/a**	n/a	**n/a**	n/a	**20,9**	16,8
1,45	1,58	**n/a**	n/a	**n/a**	n/a	**2,07**	1,71
0,36	0,41	**n/a**	n/a	**n/a**	n/a	**1,13**	0,93
0,1	0,1	**n/a**	n/a	**n/a**	n/a	**11,4**	11,1
54	70	**—**	—	**(3)**	—	**(43)**	4

53. Segment report *(continued)*

53.4 Retail Banking segment

	Home Loans		Vehicle and Asset Finance	
	2011 Rm	2010 Rm	**2011 Rm**	2010[1] Rm
Statement of comprehensive income				
Net interest income	**3 660**	3 145	**1 882**	1 657
Net interest income – external	**16 746**	18 481	**4 362**	4 453
Net interest income – internal	**(13 086)**	(15 336)	**(2 480)**	(2 796)
Impairment losses on loans and advances	**(2 145)**	(2 196)	**(774)**	(879)
Non-interest income	**291**	335	**337**	358
Non-interest income – external	**103**	156	**299**	326
Non-interest income – internal	**188**	179	**38**	32
Operating expenses	**(1 107)**	(1 088)	**(944)**	(869)
Other	**(35)**	14	**52**	26
Operating profit before income tax	**664**	210	**553**	293
Taxation expense	**(216)**	(44)	**(150)**	(67)
Profit for the year	**448**	166	**403**	226
Profit attributable to:				
Ordinary equity holder of the Bank	**448**	166	**403**	226
Headline earnings	**448**	96	**403**	226
Operating performance (%)				
Impairment losses on loans and advances as a percentage of average loans and advances to customers[2]	**0,99**	0,99	**1,88**	2,17
Cost-to-income ratio[3]	**28,0**	31,3	**42,5**	43,1
Statement of financial position (Rm)				
Loans and advances to customers	**213 386**	221 602	**42 314**	41 436
Total assets	**234 114**	242 722	**46 382**	50 242
Deposits due to customers	**—**	—	**9**	9
Total liabilities	**233 762**	242 594	**45 919**	49 907
Financial performance[2] (%)				
Return on average economic capital	**6,6**	1,3	**13,0**	7,0
Return on average risk-weighted assets	**0,74**	0,15	**1,44**	0,82

Note

[1]Comparatives have been reclassified, refer to note 1.23 and 53.1 for additional information.

[2]Unaudited.

[3]These ratios have been calculated by management based on extracted audited information contained in the annual financial statements.

Notes to the consolidated financial statements

for the year ended and as at 31 December

	Card		Personal Loans		Retail Bank		Retail Banking	
	2011 Rm	2010[1] Rm	**2011 Rm**	2010[1] Rm	**2011 Rm**	2010[1] Rm	**2011 Rm**	2010[1] Rm
	1 642	1 535	**1 779**	1 674	**3 560**	3 560	**12 523**	11 571
	2 061	1 974	**2 423**	2 335	**(1 949)**	(2 081)	**23 643**	25 162
	(419)	(439)	**(644)**	(661)	**5 509**	5 641	**(11 120)**	(13 591)
	(123)	(295)	**(479)**	(508)	**(271)**	(511)	**(3 792)**	(4 389)
	2 115	1 935	**329**	286	**6 753**	6 537	**9 825**	9 451
	1 999	1 880	**254**	236	**6 451**	6 254	**9 106**	8 852
	116	55	**75**	50	**302**	283	**719**	599
	(1 235)	(1 220)	**(584)**	(704)	**(8 606)**	(8 131)	**(12 476)**	(12 012)
	(23)	(26)	**(5)**	(4)	**(234)**	(213)	**(245)**	(203)
	2 376	1 929	**1 040**	744	**1 202**	1 242	**5 835**	4 418
	(730)	(549)	**(320)**	(229)	**(388)**	(425)	**(1 804)**	(1 314)
	1 646	1 380	**720**	515	**814**	817	**4 031**	3 104
	1 646	1 380	**720**	515	**814**	817	**4 031**	3 104
	1 646	1 378	**720**	515	**815**	775	**4 032**	2 990
	0,86	2,36	**3,87**	4,76	**1,11**	1,94	**1,22**	1,41
	32,9	35,2	**27,7**	35,9	**83,4**	80,5	**55,8**	57,1
	14 733	13 453	**12 387**	11 843	**23 443**	23 627	**306 263**	311 961
	23 352	21 098	**13 489**	12 887	**135 118**	127 503	**452 455**	454 452
	1 883	1 826	**6**	4	**119 257**	109 795	**121 155**	111 634
	22 356	20 197	**13 057**	12 578	**134 760**	127 258	**449 854**	452 534
	97,2	59,0	**51,9**	36,2	**35,6**	33,2	**26,4**	17,8
	9,80	7,33	**5,10**	4,11	**3,57**	3,31	**2,82**	2,04

53. Segment report *(continued)*

53.5 Absa Business Bank segment

	2011 Rm	2011 Excluding equity portfolio Rm	2010[1] Rm	2010[1] Excluding equity portfolio Rm
Statement of comprehensive income				
Net interest income	7 487	7 753	7 302	7 639
Impairment losses on loans and advances	(843)	(845)	(1 092)	(1 092)
Non-interest income	3 903	3 790	3 805	3 382
Operating expenses	(6 174)	(6 072)	(5 908)	(5 846)
Other	(138)	(103)	(71)	(75)
Operating profit before income tax	4 235	4 523	4 036	4 008
Taxation expense	(1 349)	(1 348)	(1 215)	(1 216)
Profit for the year	2 886	3 175	2 821	2 792
Profit attributable to:				
Ordinary equity holder of the Bank	2 878	3 176	2 815	2 792
Non-controlling interest	8	—	6	—
	2 886	3 176	2 821	2 792
Headline earnings	2 936	3 172	2 810	2 825

	2011 Rm	2010[1] Rm
Statement of financial position (Rm)		
Loans and advances to customers	118 244	124 901
Total assets	200 359	180 163
Deposits due to customers	170 920	152 320
Total liabilities	197 954	177 662

Note

[1]Comparatives have been reclassified, refer to note 1.23 and 53.1 for additional information.

	Note	2011 Rm	2010[1] Rm
53. Segment report *(continued)*			
53.6 Absa Capital segment			
Statement of comprehensive income			
Net interest income		**1 916**	2 398
Impairment losses on loans and advances		**(70)**	(97)
Non-interest income		**3 185**	2 700
Gains and losses from banking and trading activities	53.6.1	**2 378**	2 095
Other non-interest income		**807**	605
Operating expenses		**(3 146)**	(2 914)
Other		**(77)**	(146)
Operating profit before income tax		**1 808**	1 941
Taxation expense		**(528)**	(502)
Profit for the year		**1 280**	1 439
Profit attributable to:			
Ordinary equity holder of the Bank		**1 280**	1 439
Preference equity holders of the Bank		**—**	—
Non-controlling interest		**—**	—
		1 280	1 439
Headline earnings		**1 278**	1 439
Note			
53.6.1 Gains and losses from banking and trading activities			
Net gains on investments		**381**	150
Debt instruments designated at fair value through profit or loss		**29**	27
Equity instruments designated at fair value through profit or loss		**352**	123
Net trading result		**2 036**	2 018
Net trading income excluding impact of hedge accounting		**2 007**	1 940
Ineffective portion of hedges		**29**	78
Cash flow hedges		**21**	88
Fair value hedges		**8**	(10)
Other		**(39)**	(73)
		2 378	2 095

Net trading result

Includes gains and losses from instruments 'designated at fair value through profit or loss' as well as gains and losses from instruments classified as 'held for trading'. The net trading result of **R2 036 million** (2010: R2 018 million), includes net gains of **R595 million** (2010: R705 million) on financial assets designated at fair value through profit or loss and net losses of **R1 438 million** (2010: R1 767 million) relating to financial liabilities at fair value through profit or loss.

Other

Includes gains and losses from instruments 'designated at fair value through profit or loss' as well as gains and losses from instruments classified as 'held for trading'. Other losses of **R39 million** (2010: R73 million) includes net gains of **R44 million** (2010: R128 million) on financial assets designated at fair value through profit or loss.

Note

[1]Comparatives have been reclassified, refer to notes 1.23 and 53.1 for additional information.

	Bank 2011 Rm	Bank 2010[1] Rm
53. Segment report *(continued)*		
53.6 Absa Capital segment *(continued)*		
Statement of financial position		
Loans and advances to customers	**62 062**	58 362
Total assets	**359 211**	344 954
Deposits due to customers	**139 024**	117 850
Total liabilities	**358 018**	343 793
Off-statement of financial position		
Assets under management and administration	**22 741**	21 861

54. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Bank's accounting policies.

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

54.1 Derivatives held for trading

As part of the Bank's trading activities, it enters into derivative transactions in the normal course of business.

54.2 Derivatives held for hedging

As part of the Bank's hedging activities, it enters into derivative transactions which are designated as either fair value or cash flow hedges for recognised assets or liabilities or forecasted transactions.

54.2.1 Derivatives designated as fair value hedges

Fair value hedges are used by the Bank to protect against changes in fair value of financial instruments due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Bank's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

The Bank recognised the following gains and losses on hedging instruments and hedging items:

	Bank 2011 Rm	Bank 2010 Rm
Gains on hedged items (assets) (refer to note 28)	**428**	462
Losses on hedging instruments (assets) (refer to note 28)	**(468)**	(475)
Losses on hedged items (liabilities) (refer to note 29)	**(178)**	(504)
Gains on hedging instruments (liabilities) (refer to note 29)	**153**	458

Hedge effectiveness is measured using a statistical method and results would have to be within the 80% to 125% range in order for hedge accounting to be applied.

The amount of movement in fair value that was recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Bank 2011 Rm	Bank 2010 Rm
Ineffectiveness (outside range) (refer to note 31)	**(7)**	(15)
Ineffectiveness (inside range)	**(72)**	(107)

54.2.2 Derivatives designated as cash flow hedges

The objective of cash flow hedges is to protect against changes in future interest cash flows resulting from the impact of changes in market interest rate risk and reinvestment or reborrowing of current balances.

The Bank uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Bank applies hedge accounting for its non-trading interest rate risk in major currencies by analysing the expected cash flows on a group basis.

The Bank is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Bank designates interest rate swaps as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows due to changes in interest rates.

54. Derivatives *(continued)*

54.2 Derivatives held for hedging *(continued)*

54.2.2 Derivatives designated as cash flow hedges *(continued)*

The following schedule indicates the periods when the cash flows from the hedged item are expected to occur and when they are expected to affect the profit and loss component of the statement of comprehensive income as at the reporting date. The cash flows presented below are on an undiscounted basis (before taxation).

Bank

	2011						
	Less than 1 year Rm	**1 – 2 years Rm**	**2 – 3 years Rm**	**3 – 4 years Rm**	**4 – 5 years Rm**	**More than 5 years Rm**	**Total Rm**
Forecast receivable cash flow[1]	**1 889**	**1 129**	**383**	**36**	**—**	**—**	**3 437**
Forecast payable cash flow[1]	**(5)**	**—**	**(7)**	**(14)**	**(84)**	**(24)**	**(134)**
Net cash flow before taxation	**1 884**	**1 129**	**376**	**22**	**(84)**	**(24)**	**3 303**

	2010[2]						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast receivable cash flow[1]	2 290	1 296	466	40	—	—	4 092
Forecast payable cash flow[1]	(17)	—	(13)	(38)	(87)	(46)	(201)
Net cash flow before taxation	2 273	1 296	453	2	(87)	(46)	3 891

The following net gains/(losses) on cash flow hedges were recycled from other comprehensive income to the profit and loss component of the statement of comprehensive income:

Bank

	2011 Rm	2010 Rm
Interest and similar income (refer to note 28)	**2 112**	1 485
Interest expense and similar charges (refer to note 29)[1]	**155**	291
Gains and losses from banking and trading activities (refer to note 31)	**33**	44
	2 300	1 820

The amount of movement in fair value that has been recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

Bank

	2011 Rm	2010 Rm
Ineffectiveness (outside range) (refer to note 31)	**33**	44
Ineffectiveness (inside range)	**66**	(95)

Notes

[1]These balances are shown before taxation.

[2]During the year under review, the figures were amended in order to align with Barclays Bank PLC. This resulted in a reclassification of comparative information.

54. Derivatives *(continued)*

54.3 Detailed breakdown of derivatives

The Bank uses the following derivative instruments for both hedging and non-hedging purposes:

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (i.e. fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument, at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer.

Bank

	2011				2010	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Trading						
Foreign exchange derivatives						
Foreign exchange forwards	57 159	(516)	833	(1 349)	22 703	802
Currency swaps	500 798	(818)	10 700	(11 518)	310 804	(655)
Over-the-counter (OTC) foreign exchange options	26 844	131	617	(486)	18 469	298
OTC foreign exchange options purchased	15 602	617	617	—	9 517	630
OTC foreign exchange options written	11 242	(486)	0	(486)	8 952	(332)
Other OTC foreign exchange derivatives	—	—	—	—	—	—
Exchange-traded derivatives	248 545	0	—	0	285 747	0
Eurodollar futures	247 388	—	—	—	285 718	—
Exchange-traded options written	38	0	—	0	0	0
Exchange-traded futures	1 119	0	—	0	29	—
Embedded derivatives	40	1	1	0	0	0
Total foreign exchange derivatives	833 386	(1 202)	12 151	(13 353)	637 723	445
Interest rate derivatives						
Forward rate agreements (FRAs)	1 693 452	(111)	1 347	(1 458)	1 316 018	(454)
Currency interest rate swaps	158 563	(991)	3 193	(4 184)	131 495	(616)
Swaps	2 611	(7)	17	(24)	32 175	(85)
Interest rate swaps	1 253 696	1 857	25 923	(24 066)	1 176 896	1 400
OTC options on FRAs and swaps	208 010	59	737	(678)	158 715	56
OTC options on FRAs and swaps purchased	111 025	737	737	—	88 010	379
OTC options on FRAs and swaps written	96 985	(678)	—	(678)	70 705	(323)
OTC bond option contracts	2 042	(37)	28	(65)	—	—
OTC bond options purchased	619	28	28	—	—	—
Other bond options written	1 423	(65)	0	(65)	—	—
Other OTC interest rate derivatives	2 159	(15)	19	(34)	296	33
Exchange-traded derivatives	4 681	0	0	—	10 904	1
Exchange-traded options on FRAs and swaps purchased	4 681	0	0	—	10 027	2
Exchange-traded options on FRAs and swaps written	—	—	—	—	877	(1)
Embedded derivatives	9 378	(151)	471	(622)	—	—
Total interest rate derivatives	3 334 592	604	31 735	(31 131)	2 826 499	335
Balance carried forward	4 167 978	(598)	43 886	(44 484)	3 464 222	780

Bank

	2011 Notional amount Rm	2011 Net fair value Rm	2011 Fair value assets Rm	2011 Fair value liabilities Rm	2010 Notional amount Rm	2010 Net fair value Rm
54. Derivatives *(continued)*						
54.3 Detailed breakdown of derivatives *(continued)*						
Balance brought forward	4 167 978	(598)	43 886	(44 484)	3 464 222	780
Equity derivatives						
OTC options purchased	8 907	685	685	—	11 606	422
OTC options written	11 210	(1 948)	—	(1 948)	16 062	(1 239)
Equity futures	17 195	33	224	(191)	5 936	(47)
Other OTC equity derivatives	22 807	(873)	175	(1 048)	45 519	(287)
OTC equity derivatives	60 119	(2 103)	1 084	(3 187)	79 123	(1 151)
Exchange-traded derivatives	1 419	(12)	1	(13)	16 292	47
Exchange-traded options purchased	176	1	1	—	7 942	112
Exchange-traded options written	1 191	(13)	—	(13)	8 350	(65)
Exchange-traded futures	52	0	0	—	—	—
Embedded derivatives	5 898	(199)	—	(199)	—	—
Total equity derivatives	67 436	(2 314)	1 085	(3 399)	95 415	(1 104)
Commodity derivatives						
Agricultural forwards	332	24	80	(56)	104	6
OTC agricultural options	295	(8)	0	(8)	154	(10)
OTC agricultural options purchased	150	0	0	—	27	1
OTC agricultural options written	145	(8)	—	(8)	127	(11)
OTC options on gold	12	—	1	(1)	226	(1)
OTC gold options purchased	12	—	1	(1)	142	5
OTC gold options written	—	—	—	—	84	(6)
Other OTC commodity derivatives	5 767	127	211	(84)	3 000	119
OTC commodity derivatives	6 406	143	292	(149)	3 484	114
Exchange-traded agricultural derivatives	2 481	1	6	(5)	16 395	33
Exchange-traded agricultural derivatives purchased	—	—	—	—	184	—
Exchange-traded agricultural derivatives written	—	—	—	—	256	—
Exchange-traded agricultural futures	2 481	1	6	(5)	15 955	33
Total commodity derivatives	8 887	144	298	(154)	19 879	147
Credit derivatives						
Credit derivatives purchased (swaps)	6 236	33	78	(45)	—	—
Credit derivatives written (swaps)	9 743	(519)	57	(576)	—	—
OTC credit derivatives purchased (options)	—	—	—	—	2 197	(58)
OTC credit derivatives written (options)	—	—	—	—	6 884	70
Embedded derivatives	10 590	25	70	(45)	5 781	(25)
Total credit derivatives	26 569	(461)	205	(666)	14 862	(13)
Total trading	4 270 870	(3 229)	45 474	(48 703)	3 594 378	(190)
Balance carried forward	4 270 870	(3 229)	45 474	(48 703)	3 594 378	(190)

	Bank					
	2011				2010	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
54. Derivatives *(continued)*						
54.3 Detailed breakdown of derivatives *(continued)*						
Balance brought forward	4 270 870	(3 229)	45 474	(48 703)	3 594 378	(190)
Hedging						
Cash flow hedges						
Interest rate swaps	148 899	3 142	3 168	(26)	126 962	3 719
Total cash flow hedges	148 899	3 142	3 168	(26)	126 962	3 719
Fair value hedges						
Currency swaps	11 071	(360)	—	(360)	6 966	(556)
Interest rate swaps	141 901	(939)	1 131	(2 070)	31 919	(382)
Total fair value hedges	152 972	(1 299)	1 131	(2 430)	38 885	(938)
Total hedges	301 871	1 843	4 299	(2 456)	165 847	2 781
Total derivative instruments	4 572 741	(1 386)	49 773	(51 159)	3 760 225	2 591

Derivative assets and liabilities subject to counterparty netting agreements amounted to **R41 778 million** (2010: R30 522 million). Additionally, the Bank held **R3 908 million** (2010: R990 million) of collateral against the net derivative asset exposure. OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association (ISDA) Master Agreement is used by the Bank. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Bank's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates on hand. The extent to which instruments are favourable or unfavourable and therefore the aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

Fair value

The amounts disclosed represent the fair value as at the reporting date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

55. Fair value hierarchy disclosures

55.1 Valuation methodology

The table below shows the Bank's financial instruments that are recognised and subsequently measured at fair value and are analysed by valuation techniques. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out in the table below:

	Bank 2011 Valuations with reference to observable prices Level 1[1] Rm	Valuations based on observable inputs Level 2[1] Rm	Valuations based on un-observable inputs Level 3[2] Rm	Total Rm
Available-for-sale financial assets	34 341	—	104	34 445
Statutory liquid asset portfolio (refer to note 3)	33 327	—	—	33 327
Investment securities (refer to note 12)	1 014	—	104	1 118
Financial assets designated at fair value through profit or loss	1 844	11 345	12 917	26 106
Statutory liquid asset portfolio (refer to note 3)	801	3	—	804
Loans and advances to banks (refer to note 4)	—	7 886	—	7 886
Other assets (refer to note 6)	—	—	16	16
Loans and advances to customers (refer to note 9)	—	3 366	6 821	10 187
Investment securities (refer to note 12)	1 043	90	6 080	7 213
Financial assets held for trading	26 064	56 439	1 156	83 659
Derivative assets (refer to note 5)	34	45 231	209	45 474
Hedging assets (refer to note 5)	—	4 299	—	4 299
Trading assets (refer to note 5)	26 030	6 909	947	33 886
Total financial assets	62 249	67 784	14 177	144 210
Financial liabilities designated at fair value through profit or loss	771	29 480	7 821	38 072
Deposits from banks (refer to note 18)	—	13 414	—	13 414
Deposits due to customers (refer to note 22)	—	12 888	7 612	20 500
Debt securities in issue (refer to note 23)	—	3 178	209	3 387
Borrowed funds (refer to note 25)	771	—	—	771
Financial liabilities held for trading	529	50 976	183	51 688
Derivative liabilities (refer to note 19)	—	48 520	183	48 703
Hedging liabilities (refer to note 19)	—	2 456	—	2 456
Trading liabilities (refer to note 19)	529	—	—	529
Total financial liabilities	1 300	80 456	8 004	89 760

Notes

[1]The nature of the valuation techniques is summarised in note 55.2.

[2]The nature of the valuation techniques is summarised in note 55.3.

	Bank 2010[1] Valuations with reference to observable prices Level 1[2] Rm	Valuations based on observable inputs Level 2[2] Rm	Valuations based on unobservable inputs Level 3[3] Rm	Total Rm
55. Fair value hierarchy disclosures *(continued)*				
55.1 Valuation methodology *(continued)*				
Available-for-sale financial assets	27 953	—	95	28 048
Statutory liquid asset portfolio (refer to note 3)	26 656	—	—	26 656
Investment securities (refer to note 12)	1 297	—	95	1 392
Financial assets designated at fair value through profit or loss	4 047	17 882	10 912	32 841
Statutory liquid asset portfolio (refer to note 3)	778	2 685	—	3 463
Loans and advances to banks (refer to note 4)	—	7 548	—	7 548
Other assets (refer to note 6)	—	—	—	—
Loans and advances to customers (refer to note 9)	—	4 554	5 762	10 316
Investment securities (refer to note 12)	3 269	3 095	5 150	11 514
Financial assets held for trading	10 867	49 724	1 064	61 655
Derivative assets (refer to note 5)	158	43 073	98	43 329
Hedging assets (refer to note 6)	—	4 662	—	4 662
Trading assets (refer to note 5)	10 709	1 989	966	13 664
Total financial assets	42 867	67 606	12 071	122 544
Financial liabilities designated at fair value through profit or loss	770	17 295	8 572	26 637
Deposits from banks (refer to note 18)	—	5 499	—	5 499
Deposits due to customers (refer to note 22)	31	8 325	8 499	16 855
Debt securities in issue (refer to note 23)	—	3 471	73	3 544
Borrowed funds (refer to note 25)	739	—	—	739
Financial liabilities held for trading	11	44 809	591	45 411
Derivative liabilities (refer to note 19)	—	42 928	591	43 519
Hedging liabilities (refer to note 19)	—	1 881	—	1 881
Trading liabilities (refer to note 19)	11	—	—	11
Total financial liabilities	781	62 104	9 163	72 048

55.2 Valuations based on observable inputs

Valuations based on observable inputs include:

Level 1

Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes highly liquid government and other bonds, active listed equities, exchange-traded commodities and exchange-traded derivatives.

Level 2

Financial instruments valued using inputs other than quoted prices as described above for Level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

This category includes certain private equity investments, loans and advances, investments in debt instruments, commodity derivatives, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

Notes

[1]Comparatives have been reclassified, refer to note 1.23.

[2]The nature of the valuation techniques is summarised in note 55.2.

[3]The nature of the valuation techniques is summarised in note 55.3.

55. Fair value hierarchy disclosures *(continued)*

55.3 Valuations based on unobservable inputs

Valuations based on unobservable inputs include:

Level 3

Financial instruments valued using inputs that are not based on observable market data (unobservable data) such as an entity's own assumptions about assumptions of market participants in pricing the asset or liability.

This category includes certain private equity investments, loans and advances, investments in debt instruments, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

In determining the value of Level 3 financial instruments, the following are the principal inputs that can require judgement:

(i) Volatility

Volatility is a key input in the valuation of options across all asset classes. For some asset classes, volatility is unobservable.

(ii) Basis risk

Basis risk is a key input in the valuation of cross currency swaps. For some currency pairs or maturities, basis risk is unobservable.

(iii) Credit spreads

Credit spreads are key inputs in the valuation of credit default swaps, credit linked notes and debt instruments or liabilities. For some issuers or tenors, credit spreads are unobservable.

(iv) Yield curves

Yield curves are key inputs in the valuation of certain debt instruments. For some debt instruments, yield curves are unobservable.

(v) Future earnings and marketability discounts

Future earnings and marketability discounts are key inputs in the valuation of certain private equity investments. Forecast earnings and marketability discounts are unobservable for some investments.

(vi) Comparator multiples

Comparator multiples and point of difference applied to chosen multiples are key inputs in the valuation of certain private equity investments. Price earnings multiples and point of difference applied to chosen multiples are unobservable for some investments.

(vii) Discount rates

Discount rates are key inputs in the valuation of certain private equity investments. Discount rates are unobservable for some investments.

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

Debt securities and treasury and other eligible bills

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

Equity instruments

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

Also included in equity instruments are non-public investments, which include investments in venture capital organisations. The fair value of these investments is determined using appropriate valuation methodologies which, dependent on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price:earnings comparisons. For each investment, the relevant methodology is applied consistently over time.

Derivatives

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

Loans and advances

Loans and advances are valued using discounted cash flow models, applying either market rates, where applicable, or, where the counterparty is a bank, rates currently offered by other financial institutions for placings with similar characteristics.

Deposits, debt securities in issue and borrowed funds

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

55. Fair value hierarchy disclosures *(continued)*

55.4 Movements on financial instruments subsequently measured at fair value using valuations based on unobservable inputs (Level 3)

A reconciliation of the opening balances to closing balances is set out below:

Bank

	2011				
	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss			Financial assets held for trading
	Investment securities Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm
Opening balance	95	—	5 762	5 150	966
Net interest income	—	—	16	20	—
Gains and losses from banking and trading activities	—	—	597	215	62
Gains and losses from investment activities	—	—	—	—	—
Other comprehensive income	5	—	—	—	—
Purchases	—	16	1 386	583	41
Sales	—	—	(646)	(858)	—
Issues	—	—	720	(6)	—
Settlements	4	—	(972)	(464)	(122)
Transferred to/(from) assets/liabilities	—	—	—	55	—
Movement in/(out) of Level 3[1, 2]	—	—	(42)	1 385	—
Closing balance	104	16	6 821	6 080	947

	2010				
	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss			Financial assets held for trading
	Investment securities Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm
Opening balance	176	—	4 504	5 960	—
Net interest income	—	—	(227)	—	—
Gains and losses from banking and trading activities	3	—	(267)	34	—
Gains and losses from investment activities	—	—	—	51	—
Other comprehensive income	(22)	—	—	—	—
Purchases	—	—	2 556	2 449	966
Sales	—	—	(116)	(2 811)	—
Issues	—	—	—	—	—
Settlements	(104)	—	(1 212)	(477)	—
Movement in/(out) of Level 3[1]	42	—	524	(56)	—
Closing balance	95	—	5 762	5 150	966

Notes

[1]Transfers out of Level 3 principally reflect transfers to Level 2 within the fair value hierarchy of equity-related derivative instruments, as the remaining maturity of these instruments has entered the range for which the unobservable parameter can be observed.

[2]During the year under review, the Bank reassessed the parameters incorporated into the valuation models for certain unlisted equity investments. Due to these parameters now predominantly being unobservable inputs, this portfolio was transferred from Level 2 into Level 3 in accordance with the Bank's accounting policies.

Bank

2011

Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss: Other liabilities Rm	Financial liabilities designated at fair value through profit or loss: Deposits due to customers Rm	Financial liabilities designated at fair value through profit or loss: Debt securities in issue Rm	Financial liabilities held for trading: Net derivatives Rm	Total financial liabilities including net derivatives Rm
11 973	—	8 499	73	493	9 065
36	—	—	—	4	4
874	—	772	(14)	(94)	664
—	—	—	—	—	—
5	—	—	—	—	—
2 026	—	—	—	(43)	(43)
(1 504)	—	—	—	(8)	(8)
714	—	67	195	9	271
(1 554)	—	(1 071)	(1)	(388)	(1 460)
55	—	—	—	—	—
1 343	—	(655)	(44)	1	(698)
13 968	—	7 612	209	(26)	7 795

2010

Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss: Other liabilities Rm	Financial liabilities designated at fair value through profit or loss: Deposits due to customers Rm	Financial liabilities designated at fair value through profit or loss: Debt securities in issue Rm	Financial liabilities held for trading: Net derivatives Rm	Total financial liabilities including net derivatives Rm
10 640	274	10 435	246	325	11 280
(227)	—	—	—	—	—
(230)	—	867	6	(23)	850
51	—	—	—	—	—
(22)	—	—	—	—	—
5 971	376	—	—	(11)	365
(2 927)	—	—	—	—	—
—	—	619	3	101	723
(1 793)	(650)	(3 152)	(5)	14	(3 793)
510	—	(270)	(177)	87	(360)
11 973	—	8 499	73	493	9 065

Bank

	2011				
	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss		Financial assets held for trading	
	Investment securities Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm	Total financial assets excluding derivatives Rm
55. Fair value hierarchy disclosures *(continued)*					
55.5 Total unrealised gains and losses for the year on the Level 3 positions held at the reporting date					
Net interest income/(charges)	—	44	—	—	44
Gains and (losses) from banking and trading activities	—	586	57	62	705
	—	630	57	62	749

	2010				
	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss		Financial assets held for trading	
	Investment securities Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm	Total financial assets excluding derivatives Rm
55.5 Total unrealised gains and losses for the year on the Level 3 positions held at the reporting date					
Net interest income/(charges)	—	(112)	—	—	(112)
Gains and (losses) from banking and trading activities	142	190	102	—	434
	142	78	102	—	322

Financial liabilities designated at fair value through profit or loss		Financial liabilities held for trading	
Deposits due to customers Rm	**Debt securities in issue Rm**	**Net derivatives Rm**	**Total financial liabilities including net derivatives Rm**
—	—	—	—
(772)	**14**	**151**	**(607)**
(772)	**14**	**151**	**(607)**

Financial liabilities designated at fair value through profit or loss		Financial liabilities held for trading	
Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
—	—	—	—
(861)	4	(261)	(1 118)
(861)	4	(261)	(1 118)

55. Fair value hierarchy disclosures *(continued)*

55.6 Sensitivity analysis of valuations using unobservable inputs

As part of the Bank's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

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

Bank

		2011			
		Potential effect recorded in profit and loss		Potential effect recorded directly in equity	
	Significant unobservable parameters[1]	Favourable Rm	Un-favourable Rm	Favourable Rm	Un-favourable Rm
Loans and advances designated at fair value through profit or loss	i, iii, iv, v, vi, vii	257	304	—	—
Net derivatives	i, iii	78	96	—	—
Private equity	iii, v, vi, vii	799	926	5	43
Structured notes and deposits designated at fair value through profit or loss	iv	57	57	—	—
Trading assets	i	29	27	—	—
		1 220	1 410	5	43

		2010			
		Potential effect recorded in profit and loss		Potential effect recorded directly in equity	
	Significant unobservable parameters[1]	Favourable Rm	Un-favourable Rm	Favourable Rm	Un-favourable Rm
Loans and advances designated at fair value through profit or loss	i, iii, iv, v, vi, vii	141	455	—	—
Net derivatives	i, iii	10	9	—	—
Private equity	iii, v, vi, vii	769	769	39	43
Structured notes and deposits designated at fair value through profit or loss	iv	46	51	—	—
Trading assets	i	7	7	—	—
		973	1 291	39	43

Note

[1]Refer to note 55.3.

55. Fair value hierarchy disclosures *(continued)*

55.6 Sensitivity analysis of valuations using unobservable inputs *(continued)*

The following table reflects how the unobservable parameters were changed in order to evaluate the sensitivities of Level 3 financial instruments:

Instrument	Parameter	Positive variance in parameters	Negative variance in parameters
Credit derivatives	Credit spreads	100 bps	–100 bps
Equity derivatives	Volatilities	10%	–10%
Foreign currency options	Volatilities	10%	–10%
Foreign currency swaps and foreign interest rate products	Basis risk and yield curve	100 bps	–100 bps
Loans and advances designated at fair value through profit or loss	Credit spreads	100 bps	–100 bps
Private equity	Future earnings and marketability discounts Comparator multiples Discount rates	15%	–15%
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100 bps	–100 bps

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

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

	Bank 2011 Rm	Bank 2010 Rm
Opening balance	**73**	24
New transactions	**(46)**	84
Amounts recognised in the profit and loss component of the statement of comprehensive income during the year under review	**(78)**	(35)
Closing balance	**(51)**	73

57. Financial risks

In light of King III, the Bank has enhanced its risk management disclosures by combining accounting and regulatory disclosures in order to provide greater transparency to stakeholders in their evaluation of the Bank's performance. All financial risk disclosures are included in the Bank's Capital and Risk Management Report.

57.1 Capital management

The disclosure marked as audited relating to capital are set out on pages 9 to 16 of the Capital and Risk Management Report.

57.2 Credit risk

The disclosures marked as audited relating to credit risk are set out on pages 17 to 39 of the Capital and Risk Management Report.

57.3 Market risk

The disclosures marked as audited relating to market risk are set on pages 40 to 53 of the Capital and Risk Management Report.

57.4 Liquidity risk

The disclosures marked as audited relating to liquidity risk are set out on pages 54 to 63 of the Capital and Risk Management Report.

Company statement of financial position

as at 31 December

		Company		
	Note	**2011 Rm**	2010[1] Rm	2009[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**19 505**	17 343	15 442
Statutory liquid asset portfolio	3	**57 473**	48 215	33 943
Loans and advances to banks	4	**55 803**	26 250	32 992
Trading portfolio assets	5	**80 677**	57 795	47 377
Hedging portfolio assets	5	**4 299**	4 662	2 558
Other assets	6	**12 622**	9 307	6 821
Current tax assets	7	**—**	—	98
Non-current assets held for sale	8	**35**	—	—
Loans and advances to customers	9, 10	**479 924**	489 932	492 701
Loans to Group companies	11	**8 325**	8 998	13 585
Investment securities	12	**7 938**	10 851	12 504
Investments in associates and joint ventures	13	**76**	127	206
Subsidiaries	14	**3 279**	3 406	3 570
Intangible assets	15	**571**	488	367
Property and equipment	16	**7 257**	6 974	5 996
Deferred tax assets	17	**27**	65	69
Total assets		**737 811**	684 413	668 229
Liabilities				
Deposits from banks	18	**45 078**	21 901	40 260
Trading portfolio liabilities	19	**49 232**	43 530	36 957
Hedging portfolio liabilities	19	**2 456**	1 881	565
Other liabilities	20	**10 095**	7 410	8 250
Provisions	21	**1 448**	1 526	1 481
Current tax liabilities	7	**258**	942	—
Deposits due to customers	22	**429 943**	380 032	354 199
Debt securities in issue	23	**126 632**	160 248	164 852
Loans from Group companies	24	**1 438**	—	—
Borrowed funds	25	**14 051**	13 649	13 530
Deferred tax liabilities	17	**932**	1 903	1 760
Total liabilities		**681 563**	633 022	621 854
Equity				
Capital and reserves				
Attributable to equity holders of the Company:				
Ordinary share capital	26	**303**	303	303
Ordinary share premium	26	**11 465**	11 465	10 465
Preference share capital	26	**1**	1	1
Preference share premium	26	**4 643**	4 643	4 643
Retained earnings		**36 471**	31 435	28 529
Other reserves	27	**3 365**	3 544	2 434
Total equity		**56 248**	51 391	46 375
Total liabilities and equity		**737 811**	684 413	668 229

Note

[1]Comparatives have been reclassified, refer to note 1.1.

Company statement of comprehensive income

for the year ended 31 December

	Note	Company 2011 Rm	Company 2010 Rm
Net interest income		21 590	20 762
Interest and similar income	28	48 357	51 033
Interest expense and similar charges	29	(26 767)	(30 271)
Impairment losses on loans and advances	10.1	(4 471)	(5 494)
Net interest income after impairment losses on loans and advances		17 119	15 268
Non-interest income		16 609	14 748
Net fee and commission income		13 264	12 342
Fee and commission income	30	14 290	13 297
Fee and commission expense	30	(1 026)	(955)
Gains and losses from banking and trading activities	31	2 517	1 779
Gains and losses from investment activities	32	452	420
Other operating income	33	376	207
Operating profit before operating expenditure		33 728	30 016
Operating expenditure		(22 132)	(21 031)
Operating expenses	34	(21 183)	(20 189)
Other impairments	35	(44)	(212)
Indirect taxation	36	(905)	(630)
Operating profit before income tax		11 596	8 985
Taxation expense	37	(3 203)	(2 488)
Profit for the year		8 393	6 497
Other comprehensive income			
Foreign exchange differences on translation of foreign operations		226	(222)
Movement in cash flow hedging reserve		(242)	1 153
Fair value gains arising during the year		1 964	3 422
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		(2 300)	(1 820)
Deferred tax	17	94	(449)
Movement in available-for-sale reserve		(52)	183
Fair value (losses)/gains arising during the year		(93)	163
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	31	20	92
Deferred tax	17	21	(72)
Movement in retirement benefit asset		(47)	19
(Decrease)/increase in retirement benefit surplus		(66)	27
Deferred tax	17	19	(8)
Total comprehensive income for the year		8 278	7 630
Profit attributable to:			
Ordinary equity holder of the Company		8 109	6 177
Preference equity holders of the Company		284	320
		8 393	6 497
Total comprehensive income attributable to:			
Ordinary equity holder of the Company		7 994	7 310
Preference equity holders of the Company		284	320
		8 278	7 630
Earnings per share:			
Basic earnings per share (cents)	38	2 167,6	1 669,9
Diluted earnings per share (cents)	38	2 167,6	1 669,9

Company statement of changes in equity

for the year ended 31 December

Company

	2011				
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the year	**374 112**	**303**	**11 465**	**1**	**4 643**
Total comprehensive income for the year	—	—	—	—	—
Profit for the year	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid during the year	—	—	—	—	—
Contribution to the Absa Group Limited Share Incentive Trust	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Balance at the end of the year	**374 112**	**303**	**11 465**	**1**	**4 643**

	2010				
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the year	367 675	303	10 465	1	4 643
Total comprehensive income for the year	—	—	—	—	—
Profit for the year during the year	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid during the year	—	—	—	—	—
Shares issued	6 437	0	1 000	—	—
Contribution to the Absa Group Limited Share Incentive Trust	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Balance at the end of the year	374 112	303	11 465	1	4 643
Notes	26	26	26	26	26

Note

All movements are reflected net of taxation, refer to note 17.

Company statement of changes in equity

for the year ended 31 December

Company

2011 Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Total Rm
31 435	3 544	(176)	2 267	(231)	1 422	262	51 391
8 346	(68)	(52)	(242)	226	—	—	8 278
8 393	—	—	—	—	—	—	8 393
(47)	(68)	(52)	(242)	226	—	—	(115)
(3 184)	—	—	—	—	—	—	(3 184)
(281)	—	—	—	—	—	—	(281)
155	(111)	—	—	—	—	(111)	44
155	(155)	—	—	—	—	(155)	—
—	44	—	—	—	—	44	44
36 471	3 365	(228)	2 025	(5)	1 422	151	56 248

2010 Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Total Rm
28 529	2 434	(359)	1 114	(9)	1 422	266	46 375
6 516	1 114	183	1 153	(222)	—	—	7 630
6 497	—	—	—	—	—	—	6 497
19	1 114	183	1 153	(222)	—	—	1 133
(3 420)	—	—	—	—	—	—	(3 420)
—	—	—	—	—	—	—	1 000
(236)	—	—	—	—	—	—	(236)
46	(4)	—	—	—	—	(4)	42
46	(46)	—	—	—	—	(46)	—
—	42	—	—	—	—	42	42
31 435	3 544	(176)	2 267	(231)	1 422	262	51 391
		27	27	27		27	

Company statement of cash flows

for the year ended 31 December

	Note	Company 2011 Rm	2010[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**61 959**	63 490
Interest, fee and commission expense		**(27 733)**	(29 603)
Net trading and other income		**1 004**	(3 877)
Cash payments to employees and suppliers		**(20 656)**	(19 395)
Dividends received from banking and trading activities		**—**	69
Income taxes paid		**(4 692)**	(1 830)
Cash flow from operating profit before changes in operating assets and liabilities		**9 882**	8 854
Net increase in trading and hedging portfolio assets		**(20 033)**	(4 794)
Net decrease/(increase) in loans and advances to customers		**5 616**	(14 898)
Net increase in other assets		**(38 260)**	(7 294)
Net increase in trading and hedging portfolio liabilities		**5 980**	7 128
Net increase in amounts due to customers and banks		**50 431**	37 338
Net decrease in other liabilities		**(8 454)**	(23 780)
Net cash generated from operating activities		**5 162**	2 554
Cash flow from investing activities			
Purchase of property and equipment	16	**(1 519)**	(2 141)
Proceeds from sale of property and equipment		**76**	115
Purchase of intangible assets	15	**(231)**	(257)
Proceeds from sale of intangible assets	15	**—**	34
Acquisition of associates and joint ventures	13.5	**—**	(95)
Disposal of associates and joint ventures	8, 13.6	**360**	95
Net decrease in investment securities		**2 700**	1 906
Dividends received from investment activities		**—**	399
Net cash generated from investing activities		**1 386**	56
Cash flow from financing activities			
Issue of ordinary shares		**—**	1 000
Share buy-back		**(281)**	—
Contribution to the Absa Group Limited Share Incentive Trust		**—**	(236)
Proceeds from borrowed funds		**—**	1 000
Repayment of borrowed funds		**—**	(1 500)
Dividends paid		**(3 184)**	(3 420)
Net cash utilised from financing activities		**(3 465)**	(3 156)
Net increase/(decrease) in cash and cash equivalents		**3 083**	(546)
Cash and cash equivalents at the beginning of the year		**4 774**	5 320
Cash and cash equivalents at the end of the year	46	**7 857**	4 774

Note

[1]Comparatives have been reclassified, refer to note 1.1.

1. Summary of significant accounting policies

The financial statements of Absa Bank Limited (the Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Bank. For detailed accounting policies refer to the Bank's financial statements.

1.1 Reclassifications

Some items within the statement of financial position for the years ended 31 December 2010 and 31 December 2009 were reclassified in the current year:

1.1.1 Collateralised loans

The Company has reclassified certain collateralised loans to reflect the true nature of these trades as collateralised loans. This has resulted in comparatives being reclassified for 31 December 2010 as reflected in the table below.

	2010			2009		
Assets (Rm)	As previously reported	Reclassification	Reclassified	As previously reported	Reclassification	Reclassified
Loans and advances to banks	23 632	2 618	26 250	32 992	—	32 992
Other assets	12 583	(3 276)	9 307	6 821	—	6 821
Loans and advances to customers	479 787	658	480 445	481 856	—	481 856

1.1.2 Offsetting

Certain customers within the Company have agreements in place whereby interest receivable or payable is calculated on the net balances of the cheque deposits and cheque advances. During the year under review, the Company identified that the related cheque account balances owed or receivable were also being reported on a net basis. All balances within this portfolio were reassessed for appropriate presentation in terms of IAS 32 and the Company's stated accounting policies, taking into account contractual arrangements and current business practice applied to these accounts.

As a result, certain assets and liabilities relating to these cheque accounts were reclassified so that these are presented on a gross basis. This has resulted in the comparatives being reclassified for 31 December 2010 and 31 December 2009 as reflected in the table below.

	2010			2009		
Assets (Rm)	As previously reported	Reclassification	Reclassified	As previously reported	Reclassification	Reclassified
Loans and advances to customers	480 445[1]	9 487	489 932	481 856	10 845	492 701
Deposits due to customers	370 545	9 487	380 032	343 354	10 845	354 199

Note

[1]This balance reflects the amount before the offsetting reclassification and after the reclassification of collateralised loans.

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

1.1 Reclassifications *(continued)*

1.1.3 The reclassifications had the following impact on the statement of financial position:

	2010		
	As previously reported Rm	Reclassifications Rm	Reclassified Rm
Assets			
Cash, cash balances and balances with central banks	17 343	—	17 343
Statutory liquid asset portfolio	48 215	—	48 215
Loans and advances to banks	23 632	2 618	26 250
Trading portfolio assets	57 795	—	57 795
Hedging portfolio assets	4 662	—	4 662
Other assets	12 583	(3 276)	9 307
Loans and advances to customers	479 787	10 145	489 932
Loans to Group companies	8 998	—	8 998
Investment securities	10 851	—	10 851
Investments in associates and joint ventures	127	—	127
Subsidiaries	3 406	—	3 406
Intangible assets	488	—	488
Property and equipment	6 974	—	6 974
Deferred tax assets	65	—	65
Total assets	674 926	9 487	684 413
Liabilities			
Deposits from banks	21 901	—	21 901
Trading portfolio liabilities	43 530	—	43 530
Hedging portfolio liabilities	1 881	—	1 881
Other liabilities	7 410	—	7 410
Provisions	1 526	—	1 526
Current tax liabilities	942	—	942
Deposits due to customers	370 545	9 487	380 032
Debt securities in issue	160 248	—	160 248
Borrowed funds	13 649	—	13 649
Deferred tax liabilities	1 903	—	1 903
Total liabilities	623 535	9 487	633 022
Equity			
Capital and reserves			
Attributable to equity holders of the Company:			
Ordinary share capital	303	—	303
Ordinary share premium	11 465	—	11 465
Preference share capital	1	—	1
Preference share premium	4 643	—	4 643
Retained earnings	31 435	—	31 435
Other reserves	3 544	—	3 544
Total equity	51 391	—	51 391
Total liabilities and equity	674 926	9 487	684 413

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

1.1 Reclassifications *(continued)*

1.1.3 The reclassifications had the following impact on the statement of financial position:

	2009		
	As previously reported Rm	Reclassifications Rm	Reclassified Rm
Assets			
Cash, cash balances and balances with central banks	15 442	—	15 442
Statutory liquid asset portfolio	33 943	—	33 943
Loans and advances to banks	32 992	—	32 992
Trading portfolio assets	47 377	—	47 377
Hedging portfolio assets	2 558	—	2 558
Other assets	6 821	—	6 821
Current tax assets	98	—	98
Loans and advances to customers	481 856	10 845	492 701
Loans to Group companies	13 585	—	13 585
Investment securities	12 504	—	12 504
Investments in associates and joint ventures	206	—	206
Subsidiaries	3 570	—	3 570
Intangible assets	367	—	367
Property and equipment	5 996	—	5 996
Deferred tax assets	69	—	69
Total assets	657 384	10 845	668 229
Liabilities			
Deposits from banks	40 260	—	40 260
Trading portfolio liabilities	36 957	—	36 957
Hedging portfolio liabilities	565	—	565
Other liabilities	8 250	—	8 250
Provisions	1 481	—	1 481
Deposits due to customers	343 354	10 845	354 199
Debt securities in issue	164 852	—	164 852
Borrowed funds	13 530	—	13 530
Deferred tax liabilities	1 760	—	1 760
Total liabilities	611 009	10 845	621 854
Equity			
Capital and reserves			
Attributable to equity holders of the Company:			
Ordinary share capital	303	—	303
Ordinary share premium	10 465	—	10 465
Preference share capital	1	—	1
Preference share premium	4 643	—	4 643
Retained earnings	28 529	—	28 529
Other reserves	2 434	—	2 434
Total equity	46 375	—	46 375
Total liabilities and equity	657 384	10 845	668 229

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

1.2 Change in accounting policy

The application of the Company's accounting policies are consistent with those adopted in the prior year, except for the following:

During the year, the Company adopted the predecessor accounting method as the method for the treatment of common control transactions. The Company previously accounted for common control transactions, where the transaction had substance, using the acquisition method under IFRS 3.

This change has been adopted in order to be consistent with the Company's ultimate parent, Barclays Bank PLC.

The Company has only had one material common control transaction since the adoption of IFRS in 2005. This transaction included the divisionalisation of Meeg Bank Limited, a subsidiary of Absa Group Limited, into Absa Bank Limited. Under the acquisition method of IFRS 3, R152 million was recognised as a gain on bargain purchase being the difference between the net asset value and the purchase price. Furthermore, the carrying value of the assets and liabilities were deemed to approximate their fair values on the acquisition date and consequently no other fair value adjustments were effected.

Had the predecessor accounting method been used, the R152 million would have been recognised directly in retained earnings. Apart from the impact on the 2009 statement of comprehensive income, the change did not impact basic or diluted earnings per share. Therefore, the net result of the restatement on the comparative balance sheet and opening retained earnings balance is nil. Furthermore, the change did not impact any line item on the statement of financial position for any financial periods prior to the comparative information presented.

	Company 2011 Rm	Company 2010 Rm
2. Cash, cash balances and balances with central banks		
Balances with the South African Reserve Bank (SARB)	12 279	12 912
Coins and bank notes	7 226	4 431
	19 505	17 343
Portfolio analysis		
Loans and receivables		
Balances with the SARB	12 279	12 912
Coins and bank notes	7 226	4 431
	19 505	17 343
3. Statutory liquid asset portfolio		
Land Bank bills	—	50
Republic of South Africa (RSA) government bonds	44 222	34 602
Reverse repurchase agreements (refer to note 42 of the Bank's financial statements)	3	2 685
SARB debentures	200	—
Treasury bills	13 048	10 878
	57 473	48 215
Portfolio analysis		
Available-for-sale financial assets	33 327	26 656
Land Bank bills	—	50
RSA government bonds	20 079	15 728
SARB debentures	200	—
Treasury bills	13 048	10 878
Available-for-sale instruments in fair value hedging relationship		
RSA government bonds	23 342	18 096
Financial assets designated at fair value through profit or loss	804	3 463
Reverse repurchase agreements	3	2 685
RSA government bonds	801	778
	57 473	48 215

RSA government bonds, SARB debentures and treasury bills valued at **R2 289 million** (2010: R3 000 million) have been pledged with the SARB.

Notes to the Company financial statements

as at 31 December

	Company		
	2011 Rm	2010[1] Rm	2009[1] Rm
4. Loans and advances to banks			
Collateralised loans	**3 411**	2 618	—
Other	**45 653**	18 060	24 060
Reverse repurchase agreements (refer to note 42 of the Bank's financial statements)	**6 739**	5 572	8 932
	55 803	26 250	32 992
Portfolio analysis			
Financial assets designated at fair value through profit or loss	**7 886**	7 548	2 403
Collateralised loans	**306**	501	—
Other	**1 672**	1 475	629
Reverse repurchase agreements	**5 908**	5 572	1 774
Loans and receivables	**47 917**	18 702	30 589
Collateralised loans	**3 105**	2 117	—
Other	**43 981**	16 585	23 431
Reverse repurchase agreements	**831**	—	7 158
	55 803	26 250	32 992

Loans with variable rates are **R49 039 million** (2010: R19 446 million; 2009: R23 740 million) and fixed rates are **R6 764 million** (2010: R6 805 million; 2009: R9 252 million).

Included above are loans and advances to banks with a carrying value of **R1 313 million** (2010: R1 445 million; 2009: R3 814 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42 of the Bank's financial statements. The amounts pledged are the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Note

[1]Comparatives have been reclassified, refer to note 1.1.

Notes to the Company financial statements

as at 31 December

	Company 2011 Rm	Company 2010 Rm
5. Trading and hedging portfolio assets		
Commodities	**243**	654
Debt instruments	**27 114**	11 694
Derivative assets (refer to note 48.3)	**45 545**	43 440
Commodity derivatives	**298**	301
Credit derivatives	**205**	118
Equity derivatives	**1 085**	858
Foreign exchange derivatives	**12 151**	12 909
Interest rate derivatives	**31 806**	29 254
Equity instruments	**72**	47
Money market assets	**7 703**	1 960
Total trading portfolio assets	**80 677**	57 795
Hedging portfolio assets (refer to note 48.3)	**4 299**	4 662
	84 976	62 457
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**3 168**	3 813
Derivatives designated as fair value hedging instruments	**1 131**	849
Financial assets held for trading	**80 434**	57 141
Debt instruments	**27 114**	11 694
Derivative assets	**45 545**	43 440
Equity instruments	**72**	47
Money market assets	**7 703**	1 960
Non-financial instruments	**243**	654
	84 976	62 457

Included above are financial instruments related to the Company's interest rate economic hedging programme with a notional value of **R6 381 million** (2010: R5 734 million) and a fair value of **R781 million** (2010: R639 million).

Trading portfolio assets with a carrying value of **R20 059 million** (2010: R8 249 million) were pledged as security for repurchase agreements (refer to note 42 of the Bank's financial statements). In addition, trading portfolio assets with a carrying value of **Rnil** (2010: R742 million) were pledged as security for deposits. These assets are pledged for the duration of the respective agreements.

Including within debt instruments are financial assets traded in the debt capital market with an original maturity of more than one year such as government and corporate bonds.

Included within money market assets are highly liquid financial assets with an original maturity of one year or less, such as floating rate notes, negotiable certificates of deposit, treasury bills, promissory notes, commercial paper and bankers' acceptance notes.

	Company 2011 Rm	2010[1] Rm	2009[1] Rm
6. Other assets			
Accounts receivable and prepayments	**4 216**	3 491	4 789
Initial margin	**1 489**	895	740
Deferred costs	**61**	51	29
Inventories	**750**	459	377
Cost	**836**	548	441
Write-down	**(86)**	(89)	(64)
Retirement benefit fund surplus (refer to note 40 of the Bank's financial statements)	**628**	705	616
Settlement accounts	**5 478**	3 706	270
	12 622	9 307	6 821
Portfolio analysis			
Loans and receivables	**10 823**	7 673	5 639
Accounts receivable	**3 856**	3 072	4 629
Initial margin	**1 489**	895	740
Settlement accounts	**5 478**	3 706	270
Financial assets designated at fair value through profit or loss	**16**	—	—
Non-financial assets	**1 783**	1 634	1 182
	12 622	9 307	6 821

	Company 2011 Rm	2010 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**—**	—
Current tax liabilities		
Amount due to revenue authorities	**258**	942
8. Non-current assets held for sale		
Balance at the beginning of the year	**—**	—
Transfer from investments in associates and joint ventures (refer to note 13.4)	**51**	—
Transfer from investment securities	**326**	—
Disposal of assets previously disclosed under non-current assets held for sale	**(358)**	—
Transfer to investment securities	**(19)**	—
Transfer from property and equipment (refer to note 16)	**35**	—
Balance at the end of the year	**35**	—

On 30 June 2011, the Company, through its Absa Capital and Absa Business Bank segments, transferred its investment in Sekunjalo Investments Limited, with a carrying value of R52 million, to non-current assets held for sale. A portion of this investment was subsequently sold in July 2011 and the remaining portion was transferred to investment securities.

The Company, transferred through its Absa Capital segment, certain investments designated at fair value through profit or loss with a carrying value of R326 million to non-current assets held for sale on 30 June 2011. These investments were subsequently sold in August 2011.

The Company, through its Corporate Real Estate business segment, concluded contracts for the sale of several properties during 2011, with transfer due to take place during 2012.

Note
[1]Comparatives have been reclassified, refer to note 1.1.

Notes to the Company financial statements

as at 31 December

	Company		
	2011 Rm	2010[1] Rm	2009[1] Rm
9. Loans and advances to customers			
Cheque accounts	**31 370**	30 570	37 900
Corporate overdrafts and specialised finance loans	**10 681**	9 612	13 482
Credit cards	**16 072**	15 258	14 774
Foreign currency loans	**8 564**	5 602	6 659
Instalment credit agreements (refer to note 9.1)	**53 510**	52 774	54 149
Gross advances	**64 281**	62 832	64 519
Unearned finance charges	**(10 771)**	(10 058)	(10 370)
Reverse repurchase agreements (refer to note 42 of the Bank's financial statements)	**1 613**	3 063	1 988
Loans to associates and joint ventures	**6 884**	6 825	7 878
Microloans	**1 690**	1 766	2 411
Mortgages	**287 908**	302 593	302 219
Other advances[2]	**3 178**	2 959	2 406
Overnight finance	**12 320**	7 647	12 340
Personal and term loans	**26 324**	25 262	18 706
Preference shares	**3 317**	2 788	4 102
Wholesale overdrafts	**27 325**	35 780	25 532
Gross loans and advances to customers	**490 756**	502 499	504 546
Impairment losses on loans and advances (refer to note 10)	**(10 832)**	(12 567)	(11 845)
	479 924	489 932	492 701
Portfolio analysis[3]			
Amortised cost items held in a fair value hedging relationship	**3 397**	3 005	1 448
Corporate overdrafts and specialised finance loans	**110**	118	24
Wholesale overdrafts	**3 287**	2 887	1 424
Financial assets designated at fair value through profit or loss	**9 377**	9 532	8 462
Corporate overdrafts and specialised finance loans	**—**	593	711
Foreign currency loans	**955**	703	884
Mortgages	**1 664**	1 161	1 388
Preference shares	**454**	461	—
Reverse repurchase agreements	**1 613**	3 063	1 988
Wholesale overdrafts	**4 691**	3 551	3 491
Loans and receivables	**477 982**	489 962	494 636
	490 756	502 499	504 546

Included above are loans and advances to customers with a carrying value of **Rnil** (2010: R589 million; 2009: R989 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42 of the Bank's financial statements. The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Included above are collateralised loans to the value of **R1 888 million** (2010: R658 million; 2009: R2 533 million) (refer to note 42 of the Bank's financial statements).

Notes

[1]Comparatives have been reclassified, refer to note 1.1.

[2]Other advances include customer liabilities under acceptances and working capital solutions.

[3]During the year under review, a portion of 'Wholesale overdrafts' under 'Loans and advances to customers' were reclassified from 'Loans and receivables' to 'Amortised cost items held in a fair value hedging relationship' in order to achieve fair presentation.

	Company 2011 Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
9. Loans and advances to customers *(continued)*			
9.1 Instalment credit agreements			
Maturity analysis			
Less than one year	**20 385**	**(3 247)**	**17 138**
Between one and five years	**42 484**	**(7 258)**	**35 226**
More than five years	**1 412**	**(266)**	**1 146**
	64 281	**(10 771)**	**53 510**

	2010 Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	21 246	(3 311)	17 935
Between one and five years	40 344	(6 526)	33 818
More than five years	1 242	(221)	1 021
	62 832	(10 058)	52 774

	2009 Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	19 187	(3 035)	16 152
Between one and five years	43 958	(7 087)	36 871
More than five years	1 374	(248)	1 126
	64 519	(10 370)	54 149

The Company enters into instalment credit agreements in respect of motor vehicles, equipment and medical equipment.

A significant portion of leases are denominated in South African rand. The average term of the finance leases entered into is five years.

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

Unguaranteed residual values of instalment credit agreements at the reporting date are **R4 819 million** (2010: R5 056 million; 2009: R4 632 million).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R1 517 million** (2010: R1 308 million; 2009: R1 531 million).

Notes to the Company financial statements

as at 31 December

	Company 2011 Rm	Company 2010 Rm
10. Impairment losses on loans and advances		
Balance at the beginning of the year	**12 567**	11 845
Amounts written off during the year	**(5 686)**	(4 581)
Foreign exchange differences	**1**	(2)
Interest on impaired assets (refer to note 28)	**(1 166)**	(761)
	5 716	6 501
Impairments raised during the year (refer to note 10.1)	**5 116**	6 066
Balance at the end of the year (refer to note 9)	**10 832**	12 567
Comprising:		
Identified impairments	**10 076**	11 693
Unidentified impairments	**756**	874
	10 832	12 567
10.1 Statement of comprehensive income charge for the year ended 31 December 2011		
Impairments raised during the year	**5 116**	6 066
Identified impairments	**5 234**	6 213
Unidentified impairments	**(118)**	(147)
Recoveries of loans and advances previously written off	**(645)**	(572)
	4 471	5 494
11. Loans to Group companies		
Fellow subsidiaries	**8 325**	8 998
Portfolio analysis		
Loans and receivables	**8 325**	8 998
12. Investment securities		
Debt instruments	**2 866**	4 338
Listed equity instruments	**156**	952
Unlisted equity and hybrid instruments	**4 916**	5 561
	7 938	10 851
Market value		
Directors' valuation of unlisted equity and hybrid instruments	**4 916**	5 561
Market value of debt instruments	**2 866**	4 338
Market value of listed equity instruments	**156**	952
	7 938	10 851
Portfolio analysis		
Available-for-sale financial assets (refer to note 12.1)	**1 063**	574
Debt instruments	**916**	419
Listed equity instruments	**43**	19
Unlisted equity and hybrid instruments	**104**	136
Financial assets designated at fair value through profit or loss	**6 875**	10 277
Debt instruments	**1 950**	3 919
Listed equity instruments	**113**	933
Unlisted equity and hybrid instruments	**4 812**	5 425
	7 938	10 851

	Company 2011 Rm	Company 2010 Rm
12. Investment securities *(continued)*		
12.1 Available-for-sale financial assets		
Carrying value at the beginning of the year	574	716
Cost plus fair value movements	711	828
Impairments[1]	(137)	(112)
Movement in investment securities	489	(117)
Net acquisitions/(disposals)	397	(115)
Fair value movements	92	(2)
Impairment charge in the statement of comprehensive income (refer to note 35)	—	(25)
Carrying value at the end of the year	1 063	574
Cost plus fair value movements	1 115	711
Impairments[1]	(52)	(137)
13. Investments in associates and joint ventures		
Listed investments	—	51
Unlisted investments	76	76
	76	127
13.1 Movement in carrying value		
Balance at the beginning of the year	127	206
Net movement resulting from acquisitions, disposals and transfers (refer to note 13.4)	(53)	(32)
Impairment reversal/(charge) in the statement of comprehensive income (refer to notes 13.4 and 35)	2	(47)
Balance at the end of the year	76	127
13.2 Analysis of carrying value		
Listed investments		
Shares at book value	—	51
Shares at cost	—	57
Impairments	—	(6)
Unlisted investments		
Shares at cost	76	76
	76	127
13.3 Market value		
Directors' valuation of unlisted investments	412	365
Market value of listed investments	—	55
	412	420

Note

[1]All impairments relate to equity instruments.

	Company 2011 Effective holding (%)	Company 2011 Movement Rm	Company 2010 Effective holding (%)	Company 2010 Movement Rm
13. Investments in associates and joint ventures *(continued)*				
13.4 Net movement resulting from acquisitions, disposals and transfers				
Acquired during the year under review, at cost:				
There were no acquisitions during the year under review.				
Acquired during the prior year, at cost:				
Pinnacle Point Group Limited	—	—	—	95
Disposed during the year under review:				
There were no disposals during the year under review.				
Disposed during the prior year:				
Pinnacle Point Group Limited	—	—	—	(95)
Virgin Money South Africa Proprietary Limited	—	—	—	(0)
Transferred to investment securities during the prior year:				
Blue Financial Services Limited	—	—	6,7	(32)
Transferred to non-current assets held for sale during the year under review (refer to note 8):				
Sekunjalo Investments Limited[1]	9	(51)	—	—
Transferred to subsidiaries during the prior year:				
Sanlam Home Loans Proprietary Limited	—	—	100,0	—
		(51)		(32)

	Company 2011 Rm	Company 2010 Rm
13.5 Details of transfers and consideration paid on net assets acquired		
Cash consideration	—	95
13.6 Details of transfers and consideration received on net assets disposed		
Cash consideration	—	(95)
Transfer to investment securities	—	(32)
Transfer to non-current assets held for sale (refer to note 8)[1]	(51)	—
Transfer to subsidiaries	—	—
	(51)	(127)

Refer to note 44.8 of the Bank's financial statements for the full disclosure of the Company's investments in associates and joint ventures.

Note

[1]The net movement transferred to non-current assets held for sale is R51 million, which consists of a R53 million transfer and an impairment reversal of R2 million. Refer to note 13.1.

	Company 2011 Rm	Company 2010 Rm
14. Subsidiaries		
Loans to subsidiary companies	**2 105**	2 437
Shares at cost	**1 174**	969
	3 279	3 406

	Company 2011 Cost Rm	2011 Accumulated amortisation and/or impairments Rm	2011 Carrying value Rm	2010 Cost Rm	2010 Accumulated amortisation and/or impairments Rm	2010 Carrying value Rm
15. Intangible assets						
Computer software development costs	**1 192**	**(621)**	**571**	963	(475)	488
Customer lists	**1**	**(1)**	**—**	1	(1)	—
Other	**2**	**(2)**	**—**	2	(2)	—
	1 195	**(624)**	**571**	966	(478)	488

Company

2011	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of intangible assets							
Computer software development costs	**488**	**231**	**—**	**—**	**(148)**	**—**	**571**
Customer lists	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	488	**231**	**—**	**—**	**(148)**	**—**	**571**

2010	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of intangible assets							
Computer software development costs	367	257	—	(34)	(98)	(4)	488
Customer lists	—	—	1	—	(1)	—	—
Other	—	—	2	—	(2)	—	—
	367	257	3	(34)	(101)	(4)	488

Refer to note 1.11 of the Bank's financial statements for useful lives, amortisation methods and amortisation rates. The majority of computer software development costs were internally generated with the remainder externally acquired.

Included in computer software development costs is **R168 million** (2010: R229 million) relating to assets still under construction.

No borrowing costs were capitalised during the year under review.

Notes to the Company financial statements

as at 31 December

Company

	2011 Cost Rm	2011 Accumulated depreciation and/or impairments Rm	2011 Carrying value Rm	2010 Cost Rm	2010 Accumulated depreciation and/or impairments Rm	2010 Carrying value Rm
16. Property and equipment						
Computer equipment	**4 969**	**(3 453)**	**1 516**	4 726	(3 145)	1 581
Freehold property	**3 648**	**(253)**	**3 395**	3 369	(203)	3 166
Furniture and other equipment	**4 985**	**(2 680)**	**2 305**	4 460	(2 297)	2 163
Leasehold property	**387**	**(346)**	**41**	417	(353)	64
Motor vehicles	**4**	**(4)**	**—**	4	(4)	—
	13 993	**(6 736)**	**7 257**	12 976	(6 002)	6 974

2011	Opening balance Rm	Additions Rm	Disposals[1] Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of property and equipment							
Computer equipment	**1 581**	**587**	**(35)**	**—**	**(617)**	**—**	**1 516**
Freehold property[1]	**3 166**	**322**	**(47)**	**2**	**(48)**	**—**	**3 395**
Furniture and other equipment	**2 163**	**610**	**(1)**	**—**	**(467)**	**—**	**2 305**
Leasehold property	**64**	**—**	**(1)**	**—**	**(22)**	**—**	**41**
	6 974	**1 519**	**(84)**	**2**	**(1 154)**	**—**	**7 257**

2010	Opening balance Rm	Additions Rm	Disposals Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of property and equipment							
Computer equipment	1 558	727	(73)	—	(631)	—	1 581
Freehold property	2 133	1 072	(12)	(1)	(26)	—	3 166
Furniture and other equipment	2 216	342	(2)	—	(380)	(13)	2 163
Leasehold property	89	—	(2)	—	(23)	—	64
	5 996	2 141	(89)	(1)	(1 060)	(13)	6 974

The fair value of freehold property is determined by both external and internal valuers. The most recent valuation was performed during 2011 and indicated that the fair value of the freehold property amounted to **R3 701 million** (2010: R3 730 million).

Leasehold property and computer equipment with a carrying value of **R147 million** (2010: R132 million) are encumbered under finance leases (refer to note 20).

Included in the above additions is **R221 million** (2010: R583 million) that relates to expenditure capitalised to the cost of the asset during the course of its construction. During the year under review, an amount of **R1 745 million** was transferred from assets under construction and brought into use. No borrowing costs were capitalised during the year under review.

Note

[1]Included in 'Disposals', an amount of R35 million that relates to freehold property, which was transferred to non-current assets held for sale, refer to note 8.

	Company 2011 Rm	Company 2010 Rm
17. Deferred tax[1]		
17.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the year	**1 838**	1 691
Deferred tax asset released on STC credits (refer to note 17.3)	**38**	4
Deferred tax on amounts charged directly to other comprehensive income	**(134)**	529
Available-for-sale investments		
Fair value measurement	**(21)**	72
Cash flow hedges	**(94)**	449
Fair value measurement	**(738)**	(60)
Transfer to the profit and loss component of the statement of comprehensive income	**644**	509
Retirement benefit asset	**(19)**	8
Charge to the profit and loss component of the statement of comprehensive income (refer to note 37)	**(851)**	(481)
Tax effect of translation and other differences	**14**	95
Balance at the end of the year	**905**	1 838
17.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**1 104**	1 737
Fair value adjustments on financial instruments	**(230)**	(274)
Impairment of loans and advances	**(139)**	5
Lease and rental debtor allowances	**96**	274
Other differences	**0**	(2)
Property allowances	**(75)**	(35)
Retirement benefit asset	**176**	198
Deferred tax liability	**932**	1 903
Deferred tax asset – STC credits (refer to note 17.3)	**(27)**	(65)
Net deferred tax liability	**905**	1 838
17.3 Secondary taxation on companies (STC)		
Accumulated STC credits	**271**	654
Deferred tax asset raised (refer to note 17.2)	**27**	65
Movement in deferred tax asset for the year (refer to note 17.1)	**(38)**	(4)

If the total reserves of **R39 836 million** (2010: R34 979 million) as at the reporting date were to be declared as dividends, the STC impact at a rate of 10% would be **R3 984 million** (2010: R3 498 million).

In 2007, the Minister of Finance announced a two-phase approach to STC reform, which included the reduction of the STC tax rate to 10% and the replacement of STC with a new dividends tax on shareholders (dividend tax). When the dividend tax comes into effect on 1 April 2012, the tax will cease to be levied at a company level, and will instead be levied on the shareholders who receive the dividend.

Unutilised STC credits at the end of December 2011 will be utilised against the STC payable on the final dividend declared after the reporting date. Before the new withholding dividend tax comes into effect, deferred tax assets relating to unutilised STC credits up to 31 March 2012 will be utilised.

Note

[1]During the year under review, the presentation of this note was amended to provide more information on the nature of temporary differences. This resulted in a reclassification of comparative information.

Notes to the Company financial statements

as at 31 December

	Company 2011 Rm	Company 2010 Rm
18. Deposits from banks		
Call deposits	**15 539**	6 537
Fixed deposits	**5 905**	4 680
Foreign currency deposits	**6 809**	1 704
Other	**5 500**	4 766
Repurchase agreements (refer to note 42 of the Bank's financial statements)	**11 325**	4 214
	45 078	21 901
Portfolio analysis		
Financial liabilities at amortised cost	**31 665**	16 402
Financial liabilities designated at fair value through profit or loss	**13 413**	5 499
Fixed deposits	**4 219**	4 282
Foreign currency deposits	**71**	3
Repurchase agreements	**9 123**	1 214
	45 078	21 901

Deposits with variable rates are **R27 085 million** (2010: R11 343 million) and fixed rates are **R17 993 million** (2010: R10 558 million).

	Company 2011 Rm	Company 2010 Rm
19. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 48.3)	**48 703**	43 519
Commodity derivatives	**154**	154
Credit derivatives	**666**	131
Equity derivatives	**3 399**	1 962
Foreign exchange derivatives	**13 353**	12 464
Interest rate derivatives	**31 131**	28 808
Short positions	**529**	11
Total trading portfolio liabilities	**49 232**	43 530
Hedging portfolio liabilities (refer to note 48.3)	**2 456**	1 881
	51 688	45 411
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**26**	94
Derivatives designated as fair value hedging instruments	**2 430**	1 787
Financial liabilities held for trading	**49 232**	43 530
Derivative liabilities	**48 703**	43 519
Short positions	**529**	11
	51 688	45 411

Included above are financial instruments related to the Company's interest rate economic hedging programme with a notional value of **R1 070 million** (2010: R1 771 million) and a fair value of **R81 million** (2010: R102 million).

	Company 2011 Rm	Company 2010 Rm
20. Other liabilities		
Accruals	**890**	987
Audit fee accrual	**35**	26
Creditors	**4 873**	3 469
Deferred income	**215**	153
Liabilities under finance leases (refer to note 20.1)	**504**	621
Settlement balances	**3 095**	1 868
Share-based payment liability (refer to note 50 of the Bank's financial statements)	**483**	286
	10 095	7 410
Portfolio analysis		
Financial liabilities at amortised cost	**8 472**	5 958
Creditors	**4 873**	3 469
Liabilities under finance leases	**504**	621
Settlement balances	**3 095**	1 868
Non-financial liabilities	**1 623**	1 452
	10 095	7 410

Company

2011	Minimum lease payments due Rm	Interest Rm	Principal Rm
20.1 Liabilities under finance leases			
Less than one year	**293**	**(56)**	**237**
Between one and two years	**215**	**(22)**	**193**
Between two and three years	**76**	**(2)**	**74**
	584	**(80)**	**504**

2010	Minimum lease payments due Rm	Interest Rm	Principal Rm
20.1 Liabilities under finance leases			
Less than one year	262	(90)	172
Between one and two years	274	(57)	217
Between two and three years	204	(21)	183
Between three and four years	50	(1)	49
	790	(169)	621

Under the terms of the leases, no contingent rentals are payable. Refer to note 16 for details of property and equipment subject to finance leases.

Description	Address	Details

20. Other liabilities *(continued)*

20.1 Liabilities under finance leases (continued)

20.1.1 Terms and conditions of finance leases

Description	Address	Details
Absa Towers	160 Main Street, Johannesburg 170 Main Street, Johannesburg 10 Troye Street, Johannesburg	Original term of 18 years with negotiable escalation clauses and a renewal date of 31 March 2014.
Centro City	11 Trump Street, Johannesburg	Original term of 20 years with negotiable escalation clauses. This contract was cancelled in August 2011.
Roggebaai	31 Lower Long Street, Cape Town	Original term of 20 years with negotiable escalation clauses and a renewal date of 28 February 2014.
Volkskas Centre	230 Van der Walt Street, Pretoria	Original term of 20 years with negotiable escalation clauses and a renewal date of 31 March 2013.

	Company	
	2011 Rm	2010 Rm
20.1.2 Minimum future income receivable from subleasing		
Receivable within one year	**1**	6
Receivable within two to five years	**1**	1
	2	7

	Company		
	2011		
	Staff bonus and incentive provision Rm	**Sundry provisions Rm**	**Total Rm**
21. Provisions			
Balance at the beginning of the year	**804**	**722**	**1 526**
Additions	**936**	**306**	**1 242**
Amounts used	**(776)**	**(238)**	**(1 014)**
Reversals	**(1)**	**(305)**	**(306)**
Balance at the end of the year	**963**	**485**	**1 448**

	2010		
	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	745	736	1 481
Additions	883	305	1 188
Amounts used	(815)	(36)	(851)
Release of provision subject to share-based payment arrangement	(9)	(283)	(292)
Balance at the end of the year	804	722	1 526

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R1 133 million** (2010: R1 149 million).

Sundry provisions are made with respect to fraud cases, litigation and insurance claims.

	Company		
	2011 Rm	2010[1] Rm	2009[1] Rm
22. Deposits due to customers			
Call deposits	**55 528**	54 686	61 980
Cheque account deposits	**130 953**	116 371	100 932
Credit card deposits	**1 884**	1 830	1 868
Fixed deposits	**124 341**	113 217	105 927
Foreign currency deposits	**6 898**	7 942	7 211
Notice deposits	**28 500**	11 365	10 293
Other[2]	**876**	1 565	1 596
Repurchase agreements with non-banks (refer to note 42 of the Bank's financial statements)	**8 734**	7 035	1 712
Saving and transmission deposits	**72 229**	66 021	62 680
	429 943	380 032	354 199
Portfolio analysis			
Financial liabilities at amortised cost	**409 443**	363 177	343 696
Financial liabilities designated at fair value through profit or loss	**20 500**	16 855	10 503
Cheque accounts	**5**	—	—
Fixed deposits	**11 761**	9 820	8 791
Repurchase agreements with non-banks	**8 734**	7 035	1 712
	429 943	380 032	354 199

	Company	
	2011 Rm	2010 Rm
23. Debt securities in issue		
Credit linked notes	**8 976**	6 360
Floating rate notes	**68 435**	75 259
Negotiable certificates of deposit	**30 302**	64 460
Promissory notes	**3 168**	3 759
Structured notes and bonds	**1 451**	1 220
Senior notes	**14 300**	9 190
	126 632	160 248
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**10 774**	9 559
Floating rate notes	**5 868**	5 188
Negotiable certificates of deposit	**87**	86
Senior notes[3]	**4 819**	4 285
Financial liabilities at amortised cost[3]	**112 473**	147 145
Financial liabilities designated at fair value through profit or loss	**3 385**	3 544
Negotiable certificates of deposit	**8**	34
Promissory notes	**1 928**	2 290
Structured notes and bonds	**1 449**	1 220
	126 632	160 248

Notes

[1]Comparatives have been reclassified, refer to note 1.1.

[2]Included in 'Other' are partnership contributions received, deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.

[3]During the year under review, a portion of senior note instruments were reclassified from 'Amortised cost items held in a fair value hedging relationship' to 'Financial liabilities at amortised cost'. This resulted in a reclassification of comparative information.

Notes to the Company financial statements

as at 31 December

				Company	
				2011 Rm	2010 Rm
24.	**Loans from Group companies**				
	Fellow subsidiaries			**1 438**	—
	Portfolio analysis				
	Financial liabilities at amortised cost			**1 438**	—

				Company	
				2011 Rm	2010 Rm
25.	**Borrowed funds**				
	Subordinated callable notes				
	The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act, No 94 of 1990 (as amended).				
	Interest rate	*Final maturity date*	*Note*		
	8,75%	1 September 2017	i	**1 500**	1 500
	8,80%	7 March 2019	ii	**1 725**	1 725
	8,10%	27 March 2020	iii	**2 000**	2 000
	10,28%	3 May 2022	iv	**600**	600
	Three-month JIBAR + 2,10%	3 May 2022	v	**400**	400
	CPI-linked notes, fixed at the following coupon rates:				
	6,25%	31 March 2018	vi	**1 886**	1 886
	6,00%	20 September 2019	vii	**3 000**	3 000
	5,50%	7 December 2028	viii	**1 500**	1 500
	Accrued interest			**1 157**	826
	Fair value adjustment			**283**	212
				14 051	13 649
	Portfolio analysis				
	Amortised cost financial liabilities held in a fair value hedging relationship			**5 507**	5 470
	Financial liabilities designated at fair value through profit or loss			**771**	739
	Financial liabilities held at amortised cost			**7 773**	7 440
				14 051	13 649

i The 8,75% fixed rate notes may be redeemed in full at the option of the Company on 1 September 2012. Interest is paid semi-annually in arrear on 1 March and 1 September of each year, provided that the last date for payment shall be 1 September 2012. If the Company does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month Johannesburg Interbank Agreed Rate (JIBAR) plus 1,13% quarterly in arrear on 1 March, 1 June, 1 September and 1 December.

ii The 8,80% fixed rate notes may be redeemed in full at the option of the Company on 7 March 2014. Interest is paid semi-annually in arrear on 7 March and 7 September of each year, provided that the last date for payment shall be 7 March 2014. If the Company does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 0,92% quarterly in arrear on 7 March, 7 June, 7 September and 7 December.

iii The 8,10% fixed rate notes may be redeemed in full at the option of the Company on 27 March 2015. Interest is paid semi-annually in arrear on 27 March and 27 September of each year, provided that the last date for payment shall be 27 March 2015. If the Company does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 1,185% quarterly in arrear on 27 March, 27 June, 27 September and 27 December.

iv The 10,28% fixed rate notes may be redeemed in full at the option of the Company on 3 May 2017. Interest is paid semi-annually in arrear on 3 May and 3 November of each year, provided that the last date for payment shall be 3 May 2017. If the Company does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 4,10% quarterly in arrear on 3 August, 3 November, 3 February and 3 May.

v The three-month JIBAR plus 2,10% floating rate notes may be redeemed in full at the option of the Company on 3 May 2017. Interest is paid quarterly on 3 August, 3 November, 3 February and 3 May of each year, provided that the last date for payment shall be 3 May 2017. If the Company does not exercise the redemption option, then the coupon rate payable after 3 May 2017 reprices from three-month JIBAR plus 2,10% to three-month JIBAR plus 4,10%.

25. Borrowed funds *(continued)*

vi The 6,25% CPI-linked notes may be redeemed in full at the option of the Company on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September each year, provided that the last date for payment shall be 31 March 2013. If the Company does not exercise the redemption option, then the CPI-linked rate payable will convert to JIBAR plus a spread which will be payable quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

vii The 6,00% CPI-linked notes may be redeemed in full at the option of the Company on 20 September 2014. Interest is paid semi-annually in arrear on 20 March and 20 September of each year, provided that the last date for payment shall be 20 September 2014. If the Company does not exercise the redemption option, a coupon step-up of 150 bps shall apply.

viii The 5,50% CPI-linked notes may be redeemed in full option of the Company on 7 December 2023. Interest is paid semi-annually in arrear on 7 June and 7 December each year, provided that the last date for payment shall be 7 December 2023. If the Company does not exercise the redemption option, a coupon step-up of 150 bps shall apply.

All the above notes are listed on the Bond Exchange of South Africa (BESA).

In accordance with the Company's articles of association, the borrowing powers of the Company are unlimited.

	Company	
	2011 Rm	2010 Rm
26. Share capital and premium		
26.1 Ordinary share capital		
Authorised		
320 000 000 (2010: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2010: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2010: 302 609 359) ordinary shares of R1,00 each	**303**	303
71 502 632 (2010: 71 502 632) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**11 465**	11 465
	11 768	11 768

Authorised shares
There were no changes to authorised share capital during the year under review.

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

Shares issued during the year under review
There were no shares issued during the year under review.

Shares issued during the prior year
On 4 August 2010, 6 436 471 'A' ordinary shares were issued at R155,36 per share, being R0,01 par value and R155,35 share premium, to Absa Group Limited.

All shares issued by the Company were paid in full.

Notes to the Company financial statements

for the year ended 31 December

	Company 2011 Rm	Company 2010 Rm
26. Share capital and premium *(continued)*		
26.2 Preference share capital and premium		
Authorised		
30 000 000 (2010: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2010: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

The preference shares have a dividend rate of 63% of the prime overdraft lending rate. The holders of such shares shall not be entitled to voting rights unless a declared preference dividend remains in arrear and unpaid after six months from the due date thereof, or a resolution is proposed by the Company which directly affects the rights attached to the preference shares or the interest of the holders thereof.

27. Other reserves

27.1 Available-for-sale reserve

The available-for-sale reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the instrument is derecognised or impaired, in which case the cumulative amount recognised in other comprehensive income is released to the profit and loss component of the statement of comprehensive income.

27.2 Cash flow hedging reserve

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

27.3 Foreign currency translation reserve

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

27.4 Share-based payment reserve

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

	Company 2011 Rm	Company 2010 Rm
28. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	2	2
Fair value adjustments on hedging instruments	1 063	1 023
Investment securities	193	179
Loans and advances to banks	961	1 198
Other	806	918
Reverse repurchase agreements	155	280
Loans and advances to customers	40 649	45 036
Cheque accounts	2 572	2 699
Corporate overdrafts and specialised finance loans	664	1 254
Credit cards	2 089	2 069
Foreign currency loans	110	167
Instalment credit agreements	5 205	5 619
Interest on impaired financial assets (refer to note 10)	1 166	761
Loans to associates and joint ventures	417	486
Microloans	505	651
Mortgages	21 717	24 904
Other advances[1]	287	787
Overnight finance	584	571
Personal and term loans	3 260	2 900
Preference shares	189	282
Wholesale overdrafts	1 884	1 886
Other interest	1 207	612
Statutory liquid asset portfolio	4 282	2 983
	48 357	51 033
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale items held in a fair value hedging relationship (refer to note 48.2)	428	462
Loans and advances to customers	41	135
Statutory liquid asset portfolio	387	327
Fair value adjustments on hedging instruments	1 589	917
Cash flow hedges (refer to note 48.2)	2 112	1 485
Economic hedges	(55)	(93)
Fair value hedges (refer to note 48.2)[2]	(468)	(475)
Interest on financial assets held at amortised cost and available-for-sale financial assets	45 373	48 630
Interest on financial assets designated at fair value through profit or loss	967	1 024
Hedging instrument[2]	(526)	106
Investment securities	131	149
Loans and advances	1 215	490
Statutory liquid asset portfolio	147	279
	48 357	51 033

Notes

[1]Includes items such as interest on factored debtors' books.

[2]During the year under review, the accrued interest portion has been separated from the mark-to-market value portfolio analysis disclosure in order to achieve fair presentation. This resulted in a reclassification of comparative information.

Notes to the Company financial statements

for the year ended 31 December

	Company 2011 Rm	Company 2010 Rm
29. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	1 350	1 584
Debt securities in issue	9 315	12 438
Deposits due to customers	15 349	16 695
Call deposits	3 072	3 231
Cheque account deposits	2 810	3 194
Credit card deposits	10	13
Fixed deposits	6 227	7 112
Foreign currency deposits	82	128
Notice deposits	777	456
Other	302	230
Savings and transmission deposits	2 069	2 331
Deposits from banks	1 101	534
Call deposits	572	219
Fixed deposits	504	281
Other	25	34
Fair value adjustments on hedging instruments	(482)	(1 107)
Interest incurred on finance leases	85	108
Other	49	19
	26 767	30 271
Portfolio analysis		
Fair value adjustments on amortised cost items held in a fair value hedging relationship (refer to note 48.2)	178	504
Borrowed funds	38	291
Debt securities in issue	140	213
Fair value adjustments on hedging instruments	(483)	(1 107)
Cash flow hedges (refer to note 48.2)[1]	(155)	(291)
Economic hedges[1]	(175)	(353)
Fair value hedges (refer to note 48.2)	(153)	(463)
Interest on financial liabilities designated at fair value through profit or loss	841	1 215
Debt securities in issue	260	630
Deposits due to customers	581	585
Interest on financial liabilities held at amortised cost	26 231	29 659
	26 767	30 271

Note

[1]During the year under review, fair value adjustments on 'Economic hedges' have been removed from 'Cash flow hedges' and presented separately. This resulted in a reclassification of comparative information.

	Company 2011 Rm	Company 2010 Rm
30. Net fee and commission income		
Asset management and other related fees	78	102
Consulting and administration fees	79	118
Credit-related fees and commissions	12 367	11 445
Cheque accounts	3 292	3 156
Credit cards[1, 2]	1 070	865
Electronic banking	4 086	3 823
Other[3]	1 544	1 195
Savings accounts	2 375	2 406
Insurance commission received	432	385
Merchant income[2]	1 035	923
Other	78	81
Project finance fees	202	205
Trust and other fiduciary services	19	38
Portfolio and other management fees	14	26
Trust and estate income	5	12
Fee and commission income	14 290	13 297
Fee and commission expense	(1 026)	(955)
Cheque processing fees	(171)	(173)
Other[2]	(427)	(333)
Transaction-based legal fees	(227)	(178)
Trust and other fiduciary service fees[2, 4]	(64)	(105)
Valuation fees	(137)	(166)
	13 264	12 342

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

30.1 Included above are net fees and commissions linked to financial instruments not at fair value[5]

	2011 Rm	2010 Rm
Cheque accounts	3 292	3 156
Credit cards	1 070	865
Other[2]	927	788
Savings accounts	2 375	2 406
Fee and commission income	7 664	7 215
Fee and commission expense	(794)	(677)
	6 870	6 538

Notes

[1] Includes acquiring and issuing fees.

[2] During the year under review, 'Merchant income' and 'Trust and other fiduciary services fees' have been separately disclosed in order to achieve fair presentation. This resulted in a reclassification of comparative information.

[3] Includes service, credit-related fees and commission on mortgage loans and foreign exchange transactions.

[4] During the year under review, management fees which were previously included in 'Debt collection fees' have been reclassified to 'Trust and other fiduciary services fees' in order to achieve fair presentation. This resulted in a reclassification of comparative information.

[5] During the year under review, net fees and commissions linked to financial instruments not at fair value have been reclassified to better reflect the nature of the underlying products. This resulted in a reclassification of comparative information.

Notes to the Company financial statements

for the year ended 31 December

	Company 2011 Rm	Company 2010 Rm
31. Gains and losses from banking and trading activities[1]		
Associates and joint ventures	—	45
Dividends received	—	45
Profit realised on disposal	—	—
Subsidiaries – loss realised on disposal	(15)	—
Net gains on investments	430	56
Debt instruments designated at fair value through profit or loss	28	16
Equity instruments designated at fair value through profit or loss	422	132
Available-for-sale unwind from reserves	(20)	(92)
Net trading result	2 521	1 705
Net trading income excluding the impact of hedge accounting	2 465	1 607
Ineffective portion of hedges	56	98
Cash flow hedges (refer to note 48.2)	33	44
Economic hedges	30	71
Fair value hedges (refer to note 48.2)	(7)	(17)
Other	(419)	(27)
	2 517	1 779

'Net trading result' comprises gains and losses from instruments designated at fair value through profit or loss as well as gains and losses from instruments classified as held for trading.

The net trading income of **R2 465 million** (2010: R1 607 million), consist of the following:

- Losses on financial instruments designated at fair value through profit or loss of **R844 million** (2010: R1 061 million).
- Gains on financial instruments held for trading of **R3 309 million** (2010: R2 668 million).

Net losses on financial instruments designated at fair value through profit or loss consist of:

- Net gains of **R595 million** (2010: R705 million) on financial assets designed at fair value through profit or loss.
- Net losses of **R1 439 million** (2010: R1 766 million) relating to financial liabilities designated at fair value through profit or loss.

'Other' includes gains and losses from instruments designated at fair value through profit or loss as well as gains and losses from instruments classified as held for trading:

- Gains on financial instruments designated at fair value through profit or loss of **R102 million** (2010: R176 million).
- Losses on financial instruments held for trading of **R521 million** (2010: R203 million).

	Company 2011 Rm	Company 2010 Rm
32. Gains and losses from investment activities[1]		
Net gains on investments		
Other[2]	452	420
33. Other operating income		
Foreign exchange differences	37	34
Profit on disposal of property and equipment	27	26
Profit on sale of repossessed properties	36	6
Gross sales	304	141
Cost of sales	(268)	(135)
Rental income	102	96
Sundry income[3]	174	45
	376	207

Notes

[1]During the year under review, the presentation of 'Gains and losses from banking and trading activities' and 'Gains and losses from investment activities' has been amended to align with market practice and to improve the quality of disclosure to the market. This resulted in a reclassification of comparative information.

[2]Other includes gains and losses from instruments designated at fair value through profit or loss.

[3]Includes service fees levied on sundry non-core business activities.

	Company 2011 Rm	Company 2010 Rm
34. Operating expenses		
Amortisation of intangible assets (refer to note 15)	148	101
Auditors' remuneration[1]	149	126
Audit fees – current year	97	92
Audit fees – under provision	5	6
Audit related fees[1, 2]	37	24
Other services	10	4
Cash transportation	643	625
Depreciation (refer to note 16)	1 154	1 060
Equipment costs	173	206
Rentals	109	116
Maintenance	64	90
Information technology[3]	2 061	1 966
Marketing costs	900	940
Operating lease expenses on properties	878	873
Other[4, 5]	607	842
Printing and stationery	213	232
Professional fees[3]	874	933
Property costs[5]	1 042	813
Staff costs	11 685	10 795
Bonuses	1 100	951
Current service costs on post-retirement benefits	647	524
Other[6]	427	465
Salaries	8 860	8 333
Share-based payments (refer to note 50 of the Bank's financial statements)	434	280
Training costs	217	242
Telephone and postage	656	677
	21 183	20 189
35. Other impairments		
Financial instruments	26	85
Amortised cost	26	60
Available-for-sale (refer to note 12.1)	—	25
Other	18	127
Computer software development costs (refer to note 15)	—	4
Equipment (refer to note 16)	—	13
Investments in associates and joint ventures (refer to note 13.1)	(2)	47
Repossessed properties	20	25
Subsidiaries	—	38
	44	212

Notes

[1]During the year under review, 'Audit related fees' were presented separately. This resulted in a reclassification of comparative information.

[2]Includes fees paid for assurance reports performed on behalf of various regulatory bodies.

[3]'Information technology' and 'Professional fees' include research and development costs totalling R101 million (2010: R133 million).

[4]Includes accommodation, travel and entertainment costs.

[5]During the year under review, property costs were moved from 'Other' and disclosed separately due to the significance thereof. This resulted in a reclassification of comparative information.

[6]Includes recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

35. Other impairments *(continued)*

The current year's impairment losses are reported in the following segments:

- Impairments on the financial instruments and investments in associates and joint ventures are reported in the 'Absa Capital' segment and as part of the segment reconciliation, namely 'Head Office' and inter-segment eliminations.
- Impairments on repossessed properties are reported in the 'Retail Banking' segment.

The prior year's impairment losses were reported in the following segments:

- Impairments on investments in associates and joint ventures were reported in the 'Absa Capital' and 'ABB' segments.
- Impairments on available-for-sale financial assets were reported in the 'Absa Capital' segment.
- Impairments on amortised cost financial instruments were reported in the 'Other' segment.
- Impairments on computer software development costs were reported in the 'Other' segment.
- Impairments on equipment were reported in the 'Absa Capital' segment.
- Impairments on repossessed properties were reported in the 'Retail Banking' segment.

	Company	
	2011 Rm	2010 Rm
36. Indirect taxation		
Training levy	**87**	79
VAT net of input credits	**818**	551
	905	630
37. Taxation expense		
Current		
Foreign taxation	**38**	285
South African current tax	**3 729**	2 678
South African current tax – prior year	**116**	6
STC	**171**	—
	4 054	2 969
Deferred		
Deferred tax (refer to note 17.1)	**(851)**	(481)
Accelerated tax depreciation	**(146)**	(153)
Allowances for loan losses	**(144)**	732
Other provisions	**(32)**	307
Other temporary differences	**(533)**	(1 385)
Retirement benefit asset	**4**	18
	3 203	2 488
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	**11 596**	8 985
Tax calculated at a tax rate of 28%	**3 247**	2 516
Effect of different tax rates in other countries	**(30)**	98
Expenses not deductible for tax purposes	**88**	103
Income not subject to tax	**(321)**	(493)
Other	**48**	264
STC	**171**	—
	3 203	2 488

The effective STC rate is lower than the statutory rate of 10%, due to STC being provided for dividends declared net of dividends received, and unutilised STC credits from prior years.

	Company 2011 Rm	Company 2010 Rm
38. Earnings per share		
Basic and diluted earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holder of the Company, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the year.		
Basic and diluted earnings attributable to the ordinary equity holder of the Company	**8 109**	6 177
Weighted average number of ordinary shares in issue (millions)	**374,1**	369,9
Issued shares at the beginning of the year	**374,1**	367,7
Effect of shares issued during the year (weighted)	**—**	2,2
Basic earnings per share/diluted earnings per share (cents)	**2 167,6**	1 669,9

	Company 2011 Gross Rm	Company 2011 Net[1] Rm	Company 2010 Gross Rm	Company 2010 Net[1] Rm
39. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to the ordinary equity holder of the Company		**8 109**		6 177
Total headline earnings adjustment:		**1**		147
IFRS 3 – Gain on bargain purchase (refer to note 51)	**—**	**—**	(1)	(1)
IAS 16[2] – Profit on disposal of property and equipment (refer to note 33)	**(27)**	**(23)**	(26)	(22)
IAS 27 – Net loss on disposal of subsidiaries (refer to note 31)	**15**	**11**	—	—
IAS 28 and 31 – Impairment (reversal)/charge of investments in associates and joint ventures (refer to note 35)	**(2)**	**(1)**	47	37
IAS 36[3] – Impairment of equipment and subsidiary (refer to note 35)	**—**	**—**	51	46
IAS 38[4] – Impairment of intangible assets (refer to note 35)	**—**	**—**	4	3
IAS 39 – Release of available-for-sale reserves (refer to note 31)	**20**	**14**	92	66
IAS 39 – Impairment of available-for-sale assets (refer to note 35)	**—**	**—**	25	18
Headline earnings/diluted headline earnings		**8 110**		6 324
Headline earnings per share/diluted headline earnings per share (cents)		**2 167,9**		1 709,7

Diluted earnings are determined by adjusting the profit or loss attributable to the ordinary equity holder and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares. There are currently no instruments in issue that would have a dilutive impact.

Note

[1]The net amount is reflected after tax.

[2]IAS 16 *Property, Plant and Equipment.*

[3]IAS 36 *Impairment of Assets.*

[4]IAS 38 *Intangible Assets.*

	Company 2011 Rm	Company 2010 Rm
40. Dividends per share		
Dividends paid to ordinary equity holder during the year		
15 February 2011 final dividend number 49 of 360,9 cents per ordinary share (16 February 2010: 244,8 cents)	1 350	900
2 August 2011 interim dividend number 50 of 414,3 cents per ordinary share (4 August 2010: 326,4 cents)	1 550	1 200
4 August 2010 special dividend to the ordinary and 'A' ordinary shareholder	—	1 000
	2 900	3 100
Dividends paid to ordinary equity holder relating to income for the year		
2 August 2011 interim dividend number 50 of 414,3 cents per ordinary share (4 August 2010: 326,4 cents)	1 550	1 200
4 August 2010 special dividend to the ordinary and 'A' ordinary shareholder	—	1 000
10 February 2012 final dividend number 51 of 620,1 cents per ordinary share (15 February 2011: 360,9 cents)	2 320	1 350
	3 870	3 550
The STC payable by the Company in respect of the dividend approved and declared subsequent to the reporting date, amounts to **R232 million** (2010: R135 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date, in accordance with IFRS.		
Dividends paid to preference equity holders during the year		
15 February 2011 final dividend number 10 of 2 887,6 cents per preference share (16 February 2010: 3 280,3 cents)	143	162
2 August 2011 interim dividend number 11 of 2 858,3 cents per preference share (4 August 2010: 3 197,5 cents)	141	158
	284	320
Dividends paid to preference equity holders relating to income for the year		
2 August 2011 interim dividend number 11 of 2 858,3 cents per preference share (4 August 2010: 3 197,5 cents)	141	158
10 February 2012 final dividend number 12 of 2 827,2 cents per preference share (15 February 2011: 2 887,6 cents)	140	143
	281	301

The STC payable by the Company in respect of dividend approved and declared subsequent to the reporting date, amounts to **R14 million** (2010: R14 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date, in accordance with IFRS.

	Company 2011 Rm	Company 2010 Rm
41. Related parties		
Refer to note 44 of the Bank's financial statements for the full disclosure of related party transactions.		
41.1 Balances and transactions with subsidiaries[1]		
The following are balances with and transactions entered into with, subsidiaries:		
Balances		
Loans to Group companies	1 161	926
Trading and hedging portfolio assets	71	108
Transactions		
Interest and similar income	(172)	(128)
Interest expense and similar charges	(49)	(51)
Net fee and commission income	6	1
Gains and losses from banking and trading activities	(73)	—
Operating expenses	(40)	(32)

Various terms and conditions are agreed upon, taking into account transfer pricing and relevant tax requirements.

	Company 2011 Rm	Company 2010 Rm
41.2 Balances and transactions with fellow subsidiaries[1]		
The following are balances with and transactions entered into with fellow subsidiaries:		
Balances		
Trading and hedging portfolio assets	(4)	(52)
Loans to Group companies	7 164	8 071
Deposits from banks	(3 740)	(3 822)
Trading and hedging portfolio liabilities	—	(42)
Debt securities in issue	(1 933)	(2 144)
Loans from Group companies	(1 438)	—
Transactions		
Interest and similar income	(563)	(446)
Interest expense and similar charges	785	529
Net fee and commission income	(512)	(440)
Gains and losses from banking and trading activities	1 623	423
Other operating income	(26)	—
Operating expenses	(442)	(521)

Various terms and conditions are agreed upon, taking into account transfer pricing and relevant tax requirements.

	Company 2011 Rm	Company 2010 Rm
41.3 Transfer of assets from subsidiaries and fellow subsidiaries		
The following are transactions entered into with subsidiaries and fellow subsidiaries:		
Transactions		
Acquisition of bond investments	1 351	—
Acquisition of equity investments	250	—
42. Assets under management and administration[2]		
Private equity	728	732
Portfolio management	5 136	4 779
Unit trusts	262	119
	6 126	5 630
43. Financial guarantee contracts[3]		
Financial guarantee contracts	2 317	5 102

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

Notes

[1]Debt amounts are shown as positive, credit amounts are shown as negative.

[2]During the year under review, assets managed by Absa Capital on behalf of clients, exchange-traded funds and alternative asset management funds have been included in order to align assets under management and administration to current market practice. This resulted in a reclassification of comparative information.

[3]Represents the maximum exposure, which is not necessarily the measurement recognised in the statement of financial position in accordance with IFRS.

Notes to the Company financial statements

as at 31 December

	Company 2011 Rm	Company 2010 Rm
44. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**119**	882
The Company has capital commitments in respect of computer equipment and property development. Management is confident that future net revenues and funding will be sufficient to cover these commitments.		
Operating lease payments due		
No later than one year	**1 073**	1 029
Later than one year and no later than five years	**2 062**	1 965
Later than five years	**488**	386
	3 623	3 380
The operating lease commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Company. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.		
Sponsorship payments due[1]		
No later than one year	**209**	305
Later than one year and no later than five years	**299**	508
	508	813
The Company has sponsorship commitments in respect of sports, arts and culture sponsorships. Certain sponsorship agreements expire in 2012 and are under review by management for renewal in the foreseeable future.		
45. Contingencies		
Guarantees	**12 509**	11 052
Irrevocable debt facilities	**45 637**	48 901
Irrevocable equity facilities	**494**	750
Letters of credit	**4 560**	4 653
Other	**10**	43
	63 210	65 399

Irrevocable facilities are commitments to extend credit where the Company does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Guarantees include performance guarantee contracts and payment guarantee contracts.

Legal proceedings

The Company has been party to proceedings against it during the year, and as at the reporting date the following cases need further disclosure:

Ukwanda Leisure Holdings (Proprietary) Limited (Ukwanda): Ukwanda was a client of derivatives broker Cortex Securities (Cortex). In December 2008, Ukwanda defaulted on its obligation to pay variation margins. Under Johannesburg Stock Exchange (JSE) rules, the positions of the defaulting shareholders were closed out. Cortex was unable to meet its payment obligations as required by the JSE rules. The Company, as the clearing bank for Cortex, was obliged to underwrite Cortex's obligations to the JSE, which it duly did, in return for the underlying shares. The Company had to make payment of an amount of R732 million as a result of the default and is claiming damages against Ukwanda for this amount. Ukwanda has counterclaimed in the amount of R1 064 million. The Company is opposing the counterclaim.

Note

[1]During the year under review, additional information has been included for sponsorships. This resulted in a reclassification of comparative information.

45. Contingencies *(continued)*

Legal proceedings *(continued)*

Pinnacle Point Holdings (Proprietary) Limited (PPG): New Port Finance Company and the trustees of the Winifred Trust (the plaintiffs) allege a local bank conducted itself unlawfully, and that the Company was privy to such conduct. They have instated proceedings against the Company for damages in an amount of R1 387 million. The Company is consulting with counsel to investigate this claim and finalise its defence.

The Company is engaged in various other litigation proceedings involving claims by and against it which arise in the ordinary course of business. The Company does not expect the ultimate resolution of any of the proceedings to which the Company is party, to have a significant adverse effect on the financial statements of the Company. The Company has not disclosed the contingent liabilities associated with these claims either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the conduct of the claims.

Provision is made for all liabilities, which are expected to materialise.

Regulatory matters

The scale of regulatory change remains challenging and the global financial crisis is resulting in a significant tightening of regulation and changes to regulatory structures globally, especially for companies that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries globally which, in some cases, is leading to increased regulation. The nature and impact of future changes in the legal framework, policies and regulatory action cannot currently be fully predicted and are beyond the Company's control, but especially in the area of banking regulation, are likely to have an impact on the Company's businesses and earnings.

The Company is continuously evaluating its compliance programmes and controls in general. As a consequence of these compliance programmes and controls, including monitoring and review activities, the Company has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and made disclosures on material findings as and when appropriate.

	Company	
	2011 Rm	2010 Rm
46. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**7 226**	4 431
Loans and advances to banks	**631**	343
	7 857	4 774

47. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial instruments not held at fair value:

	Company			
	2011		2010[1]	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the SARB	12 279	12 279	12 912	12 912
Coins and bank notes	7 226	7 226	4 431	4 431
Cash, cash balances and balances with central banks (refer to note 2)	19 505	19 505	17 343	17 343
Loans and advances to banks (refer to note 4)	47 917	47 916	18 202	18 202
Other assets (refer to note 6)	10 823	10 823	7 673	7 673
Retail Banking	305 530	306 074	311 131	311 818
Cheque accounts	2 244	2 244	2 365	2 365
Credit cards	14 751	14 751	13 455	13 455
Instalment credit agreements	37 542	37 814	36 727	37 105
Loans to associates and joint ventures	4 836	4 836	4 827	4 827
Microloans	1 368	1 470	1 359	1 482
Mortgages	232 292	232 462	240 596	240 782
Other	4	4	20	20
Personal and term loans	12 493	12 493	11 782	11 782
Absa Capital	47 058	47 058	45 664	45 801
Absa Business Bank	114 421	114 869	120 328	120 703
Cheque accounts	25 359	25 359	17 452	17 452
Commercial asset finance	14 737	14 766	14 572	14 596
Commercial property finance	41 703	42 122	47 090	47 441
Term loans	32 622	32 622	41 214	41 214
Other	141	141	272	272
Loans and advances to customers – net of impairment (refer to note 9)	467 150	468 142	477 395	478 594
Loans to Absa Group companies (refer to note 11)	8 325	8 325	8 998	8 998
Total	553 720	554 711	529 611	530 810
Financial liabilities				
Deposits from banks (refer to note 18)	31 665	31 672	16 402	16 403
Other liabilities (refer to note 20)	8 472	8 472	5 958	5 958
Call deposits	55 528	55 528	54 686	54 808
Cheque account deposits	130 948	130 948	116 371	116 371
Credit card deposits	1 884	1 884	1 830	1 830
Fixed deposits	112 581	112 705	103 397	103 821
Foreign currency deposits	6 898	6 898	7 942	7 942
Notice deposits	28 500	28 506	11 365	11 371
Other	875	875	1 565	1 565
Saving and transmission deposits	72 229	72 229	66 021	66 021
Deposits due to customers (refer to note 22)	409 443	409 573	363 177	363 729
Debt securities in issue (refer to note 23)	112 473	112 799	147 145	147 145
Loans from Absa Group companies (refer to note 24)	1 438	1 438	—	—
Borrowed funds (refer to note 25)	7 773	8 497	7 440	7 440
Total	571 264	572 451	540 122	540 675

Note

[1]Comparatives have been reclassified, refer to note 1.1.

48. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Company's accounting policies.

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

48.1 Derivatives held for trading

As part of the Company's trading activities, it enters into derivative transactions in the normal cause of business.

48.2 Derivatives held for hedging

As part of the Company's hedging activities, it enters into derivative transactions which are designated as either fair value or cash flow hedges for recognised assets or liabilities or forecasted transactions.

48.2.1 Derivatives designated as fair value hedges

Fair value hedges are used by the Company to protect against changes in fair value of financial instruments due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Company's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

The Company recognised the following gains and losses on hedging instruments and hedging items:

	Company	
	2011 Rm	2010 Rm
Gains on hedged items (assets) (refer to note 28)	**428**	462
Losses on hedging instruments (assets) (refer to note 28)	**(468)**	(475)
Losses on hedged items (liabilities) (refer to note 29)	**(178)**	(504)
Gains on hedging instruments (liabilities) (refer to note 29)	**153**	463

Hedge effectiveness is measured using a statistical method and results would have to be within the 80% to 125% range in order for hedge accounting to be applied.

The amount of movement in fair value that was recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Company	
	2011 Rm	2010 Rm
Ineffectiveness (outside range) (refer to note 31)	**(7)**	(17)
Ineffectiveness (inside range)	**(72)**	107

48. Derivatives *(continued)*

48.2 Derivatives held for hedging *(continued)*

48.2.2 Derivatives designated as cash flow hedges

The objective of cash flow hedges is to protect against changes in future interest cash flows resulting from the impact of changes in market interest risk and reinvestment or reborrowing of current balances.

The Company uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Company applies hedge accounting for its non-trading interest rate risk in major currencies by analysing the expected cash flows on a group basis.

The Company is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Company designates interest rate swaps as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows due to changes in interest rates.

The following schedule indicates the periods when the cash flows from the hedged item are expected to occur and when they are expected to affect the profit and loss component of the statement of comprehensive income as at the reporting date. The cash flows presented below are on an undiscounted basis (before taxation).

Company

	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
2011							
Forecast receivable cash flow[1]	**1 889**	**1 129**	**383**	**36**	**—**	**—**	**3 437**
Forecast payable cash flow[1]	**(5)**	**—**	**(7)**	**(14)**	**(84)**	**(24)**	**(134)**
Net cash flow before taxation	**1 884**	**1 129**	**376**	**22**	**(84)**	**(24)**	**3 303**
2010[2]							
Forecast receivable cash flow[1]	2 290	1 296	466	40	—	—	4 092
Forecast payable cash flow[1]	(17)	—	(13)	(38)	(87)	(46)	(201)
Net cash flow before taxation	2 273	1 296	453	2	(87)	(46)	3 891

Notes

[1]These balances are shown before taxation.

[2]During the year under review, the figures were amended in order to align with Barclays Bank PLC. This resulted in a reclassification of comparative information.

48. Derivatives *(continued)*

48.2 Derivatives held for hedging *(continued)*

48.2.2 Derivatives designated as cash flow hedges

The following net gains/(losses) on cash flow hedges were recycled from other comprehensive income to the profit and loss component of the statement of comprehensive income:

	Company	
	2011 Rm	2010 Rm
Interest and similar income (refer to note 28)	**2 112**	1 485
Interest expense and similar charges (refer to note 29)	**155**	291
Gains and losses from banking and trading activities (refer to note 31)	**33**	44
	2 300	1 820

The amount of movement in fair value that has been recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Company	
	2011 Rm	2010 Rm
Ineffectiveness (outside range) (refer to note 31)	**33**	44
Ineffectiveness (inside range)	**66**	(95)

48.3 Detailed breakdown of derivatives

The Company uses the following derivative instruments for both hedging and non-hedging purposes:

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (i.e. fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument, at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Company and a customer.

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	Company 2011 Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	2010 Notional amount Rm	Net fair value Rm
48. Derivatives *(continued)*						
48.3 Detailed breakdown of derivatives *(continued)*						
Trading						
Foreign exchange derivatives						
Foreign exchange forwards	57 159	(516)	833	(1 349)	22 703	802
Currency swaps	500 798	(818)	10 700	(11 518)	310 804	(655)
Over-the-counter (OTC) foreign exchange options	26 844	131	617	(486)	18 469	298
OTC foreign exchange options purchased	15 602	617	617	—	9 517	630
OTC foreign exchange options written	11 242	(486)	0	(486)	8 952	(332)
Exchange-traded derivatives	248 545	0	—	0	285 747	0
Eurodollar futures	247 388	—	—	—	285 718	0
Exchange-traded options written	38	0	—	0	0	0
Exchange-traded futures	1 119	0	—	0	29	—
Embedded derivatives	40	1	1	0	0	0
Total foreign exchange derivatives	833 386	(1 202)	12 151	(13 353)	637 723	445
Interest rate derivatives						
Forward rate agreements (FRAs)	1 693 452	(111)	1 347	(1 458)	1 316 018	(454)
Currency interest rate swaps	158 563	(991)	3 193	(4 184)	131 495	(616)
Swaps	2 611	(7)	17	(24)	31 628	(82)
Interest rate swaps	1 251 340	1 928	25 994	(24 066)	1 178 790	1 508
OTC options on FRAs and swaps	208 010	59	737	(678)	158 715	56
OTC options on FRAs and swaps purchased	111 025	737	737	—	88 010	379
OTC options on FRAs and swaps written	96 985	(678)	—	(678)	70 705	(323)
OTC bond option contracts	2 042	(37)	28	(65)	—	—
OTC bond options purchased	619	28	28	—	—	—
Other bond options written	1 423	(65)	0	(65)	—	—
Other OTC interest rate derivatives	2 159	(15)	19	(34)	296	33
Exchange-traded derivatives	4 681	0	0	—	10 904	1
Exchange-traded options on FRAs and swaps purchased	4 681	0	0	—	10 027	2
Exchange-traded options on FRAs and swaps written	—	—	—	—	877	(1)
Embedded derivatives	9 378	(151)	471	(622)	—	—
Total interest rate derivatives	3 332 236	675	31 806	(31 131)	2 827 846	446
Balance carried forward	4 165 622	(527)	43 957	(44 484)	3 465 569	891

	Company					
	2011				2010	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
48. Derivatives *(continued)*						
48.3 Detailed breakdown of derivatives *(continued)*						
Balance brought forward	4 165 622	(527)	43 957	(44 484)	3 465 569	891
Equity derivatives						
OTC options purchased	8 907	685	685	—	11 606	422
OTC options written	11 210	(1 948)	—	(1 948)	16 062	(1 239)
Equity futures	17 195	33	224	(191)	5 936	(47)
Other OTC equity derivatives	22 807	(873)	175	(1 048)	45 519	(287)
OTC equity derivatives	60 119	(2 103)	1 084	(3 187)	79 123	(1 151)
Exchange-traded derivatives	1 419	(12)	1	(13)	16 292	47
Exchange-traded options purchased	176	1	1	—	7 942	112
Exchange-traded options written	1 191	(13)	—	(13)	8 350	(65)
Exchange-traded futures	52	0	0	—	—	—
Embedded derivatives	5 898	(199)	—	(199)	—	—
Total equity derivatives	67 436	(2 314)	1 085	(3 399)	95 415	(1 104)
Commodity derivatives						
Agricultural forwards	332	24	80	(56)	104	6
OTC agricultural options	295	(8)	0	(8)	154	(10)
OTC agricultural options purchased	150	0	0	—	27	1
OTC agricultural options written	145	(8)	—	(8)	127	(11)
OTC options on gold	12	—	1	(1)	226	(1)
OTC gold options purchased	12	—	1	(1)	142	5
OTC gold options written	—	—	—	—	84	(6)
Other OTC commodity derivatives	5 767	127	211	(84)	3 000	119
OTC commodity derivatives	6 406	143	292	(149)	3 484	114
Exchange-traded agricultural derivatives	2 481	1	6	(5)	16 396	33
Exchange-traded agricultural derivatives purchased	—	—	—	—	185	—
Exchange-traded agricultural derivatives written	—	—	—	—	256	—
Exchange-traded agricultural futures	2 481	1	6	(5)	15 955	33
Total commodity derivatives	8 887	144	298	(154)	19 880	147
Credit derivatives						
Credit derivatives purchased (swaps)	6 236	33	78	(45)	—	—
Credit derivatives written (swaps)	9 743	(519)	57	(576)	—	—
OTC credit derivatives purchased (options)	—	—	—	—	2 197	(58)
OTC credit derivatives written (options)	—	—	—	—	6 884	70
Embedded derivatives	10 590	25	70	(45)	5 781	(25)
Total credit derivatives	26 569	(461)	205	(666)	14 862	(13)
Total trading	4 268 514	(3 158)	45 545	(48 703)	3 595 726	(79)
Balance carried forward	4 268 514	(3 158)	45 545	(48 703)	3 595 726	(79)

	Company					
	2011				2010	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
48. Derivatives *(continued)*						
48.3 Detailed breakdown of derivatives *(continued)*						
Balance brought forward	4 268 514	(3 158)	45 545	(48 703)	3 595 726	(79)
Hedging						
Cash flow hedges						
Interest rate swaps	148 899	3 142	3 168	(26)	126 962	3 719
Total cash flow hedges	148 899	3 142	3 168	(26)	126 962	3 719
Fair value hedges						
Currency swaps	11 071	(360)	—	(360)	6 966	(556)
Interest rate swaps	141 901	(939)	1 131	(2 070)	31 919	(382)
Total fair value hedges	152 972	(1 299)	1 131	(2 430)	38 885	(938)
Total hedges	301 871	1 843	4 299	(2 456)	165 847	2 781
Total derivative instruments	4 570 385	(1 315)	49 844	(51 159)	3 761 573	2 702

Derivative assets and liabilities subject to counterparty netting agreements amounted to **R41 778 million** (2010: R30 522 million). Additionally, the Company held **R3 908 million** (2010: R990 million) of collateral against the net derivative asset exposure. OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association (ISDA) Master Agreement is used by the Company. The ISDA Master Agreement and all the confirmations entered into under it form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and replace them with a single net amount payable by one party to the other.

Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Company's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates on hand, the extent to which instruments are favourable or unfavourable and therefore the aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

Fair value

The amounts disclosed represent the fair value as at the reporting date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

49. Fair value hierarchy disclosures

49.1 Valuation methodology

The table below shows the Company's financial instruments that are recognised and subsequently measured at fair value and are analysed by valuation techniques. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out in the table below.

	Company			
	2011			
	Valuations with reference to observable prices Level 1[1] Rm	Valuations based on observable inputs Level 2[1] Rm	Valuations based on un-observable inputs Level 3[2] Rm	Total Rm
Available-for-sale financial assets	34 286	—	104	34 390
Statutory liquid asset portfolio (refer to note 3)	33 327	—	—	33 327
Investment securities (refer to note 12)	959	—	104	1 063
Financial assets designated at fair value through profit or loss	1 506	11 345	12 107	24 958
Statutory liquid asset portfolio (refer to note 3)	801	3	—	804
Loans and advances to banks (refer to note 4)	—	7 886	—	7 886
Loans and advances to customers (refer to note 9)	—	3 366	6 011	9 377
Investment securities (refer to note 12)	705	90	6 080	6 875
Other assets (refer to note 6)	—	—	16	16
Financial assets held for trading	26 105	57 472	1 156	84 733
Derivative assets (refer to note 5)	34	45 302	209	45 545
Hedging assets (refer to note 5)	—	4 299	—	4 299
Trading assets (refer to note 5)	26 071	7 871	947	34 889
Total financial assets	61 897	68 817	13 367	144 081
Financial liabilities designated at fair value through profit or loss	771	29 477	7 821	38 069
Deposits from banks (refer to note 18)	—	13 413	—	13 413
Deposits due to customers (refer to note 22)	—	12 888	7 612	20 500
Debt securities in issue (refer to note 23)	—	3 176	209	3 385
Borrowed funds (refer to note 25)	771	—	—	771
Financial liabilities held for trading	529	50 976	183	51 688
Derivative liabilities (refer to note 19)	—	48 520	183	48 703
Hedging liabilities (refer to note 19)	—	2 456	—	2 456
Trading liabilities (refer to note 19)	529	—	—	529
Total financial liabilities	1 300	80 453	8 004	89 757

Notes

[1]The nature of the valuation techniques is summarised in note 49.2.

[2]The nature of the valuation techniques is summarised in note 49.3.

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Company

2010			
Valuations with reference to observable prices Level 1[1] Rm	Valuations based on observable inputs Level 2[2] Rm	Valuations based on un-observable inputs Level 3[3] Rm	Total Rm
27 135	—	95	27 230
26 656	—	—	26 656
479	—	95	574
3 253	17 882	9 685	30 820
778	2 685	—	3 463
—	7 548	—	7 548
—	4 554	4 978	9 532
2 475	3 095	4 707	10 277
—	—	—	—
10 904	49 835	1 064	61 803
158	43 184	98	43 440
—	4 662	—	4 662
10 746	1 989	966	13 701
41 292	67 717	10 844	119 853
771	17 294	8 572	26 637
—	5 499	—	5 499
32	8 324	8 499	16 855
—	3 471	73	3 544
739	—	—	739
11	44 809	591	45 411
—	42 928	591	43 519
—	1 881	—	1 881
11	—	—	11
782	62 103	9 163	72 048

49. Fair value hierarchy disclosures *(continued)*

49.2 Valuations based on observable inputs

Valuations based on observable inputs include:

Level 1

Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes highly liquid government and other bonds, active listed equities, exchange-traded commodities and exchange-traded derivatives.

Level 2

Financial instruments valued using inputs other than quoted prices as described above for Level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

This category includes certain private equity investments, loans and advances, investments in debt instruments, commodity derivatives, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

49.3 Valuations based on unobservable inputs

Valuations based on unobservable inputs include:

Level 3

Financial instruments valued using inputs that are not based on observable market data (unobservable data) such as an entity's own assumptions about assumptions of market participants in pricing the asset or liability.

This category includes certain private equity investments, loans and advances, investments in debt instruments, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

In determining the value of Level 3 financial instruments the following are the principal inputs that can require judgement:

(i) Volatility
Volatility is a key input in the valuation of options across all asset classes. For some asset classes, volatility is unobservable.

(ii) Basis risk
Basis risk is a key input in the valuation of cross currency swaps. For some currency pairs or maturities, basis risk is unobservable.

(iii) Credit spreads
Credit spreads are key inputs in the valuation of credit default swaps, credit linked notes and debt instruments or liabilities. For some issuers or tenors, credit spreads are unobservable.

(iv) Yield curves
Yield curves are key inputs in the valuation of certain debt instruments. For some debt instruments, yield curves are unobservable.

(v) Future earnings and marketability discounts
Future earnings and marketability discounts are key inputs in the valuation of certain private equity investments. Forecast earnings and marketability discounts are unobservable for some investments.

(vi) Comparator multiples
Comparator multiples and point of difference applied to chosen multiples are key inputs in the valuation of certain private equity investments. Price earnings multiples and point of difference applied to chosen multiples are unobservable for some investments.

49. Fair value hierarchy disclosures *(continued)*

49.3 Valuations based on unobservable inputs *(continued)*

(vii) Discount rates

Discount rates are key inputs in the valuation of certain private equity investments. Discount rates are unobservable for some investments.

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

Debt securities and treasury and other eligible bills

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

Equity instruments

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

Also included in equity instruments are non-public investments, which include investments in venture capital organisations. The fair value of these investments is determined using appropriate valuation methodologies which, dependent on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price:earnings comparisons. For each investment the relevant methodology is applied consistently over time.

Derivatives

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

Loans and advances

Loans and advances are valued using discounted cash flow models, applying either market rates, where applicable, or, where the counterparty is a bank, rates currently offered by other financial institutions for placings with similar characteristics.

Deposits, debt securities in issue and borrowed funds

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

49. Fair value hierarchy disclosures *(continued)*

49.4 Movements on financial instruments subsequently measured at fair value using valuations based on unobservable inputs (Level 3)

A reconciliation of the opening balances to closing balances is set out below:

Company

2011

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss			Financial assets held for trading
	Investment securities Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm
Opening balance	95	—	4 978	4 707	966
Net interest income	—	—	16	20	—
Gains and losses from banking and trading activities	—	—	541	195	62
Other comprehensive income	5	—	—	—	—
Purchases	—	16	1 386	584	41
Sales	—	—	(646)	(858)	—
Issues	—	—	720	(7)	—
Settlements	4	—	(942)	(1)	(122)
Transferred to/(from) assets/liabilities	—	—	—	55	—
Movement in/(out) of Level 3[1, 2]	—	—	(42)	1 385	—
Closing balance	104	16	6 011	6 080	947

2010

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss			Financial assets held for trading
	Investment securities Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm
Opening balance	175	—	4 504	5 090	—
Net interest income	—	—	(227)	—	—
Gains and losses from banking and trading activities	3	—	(276)	34	—
Other comprehensive income	(21)	—	—	—	—
Purchases	—	—	1 781	2 449	966
Sales	—	—	(116)	(2 810)	—
Issues	—	—	—	—	—
Settlements	(104)	—	(1 212)	—	—
Movement in/(out) of Level 3[1]	42	—	524	(56)	—
Closing balance	95	—	4 978	4 707	966

Notes

[1]Transfers out of Level 3 principally reflect transfers to Level 2 within the fair value hierarchy of equity-related derivative instruments, as the remaining maturity of these instruments has entered the range for which the unobservable parameter can be observed.

[2]During the year under review, the Company reassessed the parameters incorporated into the valuation models for certain unlisted equity investments. Due to these parameters now predominantly being unobservable inputs this portfolio was transferred from Level 2 into Level 3 in accordance with the Company's accounting policies.

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Company

2011

Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss: Other liabilities Rm	Financial liabilities designated at fair value through profit or loss: Deposits due to customers Rm	Financial liabilities designated at fair value through profit or loss: Debt securities in issue Rm	Financial liabilities held for trading: Net derivatives Rm	Total financial liabilities including net derivatives Rm
10 746	—	8 499	73	493	9 065
36	—	—	—	4	4
798	—	772	(14)	(94)	664
5	—	—	—	—	—
2 027	—	—	—	(43)	(43)
(1 504)	—	—	—	(8)	(8)
713	—	67	195	9	271
(1 061)	—	(1 071)	(1)	(388)	(1 460)
55	—	—	—	—	—
1 343	—	(655)	(44)	1	(698)
13 158	—	7 612	209	(26)	7 795

2010

Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss: Other liabilities Rm	Financial liabilities designated at fair value through profit or loss: Deposits due to customers Rm	Financial liabilities designated at fair value through profit or loss: Debt securities in issue Rm	Financial liabilities held for trading: Net derivatives Rm	Total financial liabilities including net derivatives Rm
9 769	274	8 385	246	325	9 230
(227)	—	—	—	—	—
(239)	—	867	6	(23)	850
(21)	—	—	—	—	—
5 196	376	—	—	(11)	365
(2 926)	—	—	—	—	—
—	—	619	3	101	723
(1 316)	(650)	(1 102)	(5)	14	(1 743)
510	—	(270)	(177)	87	(360)
10 746	—	8 499	73	493	9 065

	Company				
	2011				
	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss		Financial assets held for trading	
	Investment securities Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm	Total financial assets excluding derivatives Rm
49. Fair value hierarchy disclosures *(continued)*					
49.5 Total unrealised gains and losses for the year on the Level 3 positions held at the reporting date					
Net interest income/(charges)	—	44	—	—	44
Gains and (losses) from banking and trading activities	—	530	57	62	649
	—	574	57	62	693

	2010				
	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss		Financial assets held for trading	
	Investment securities Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm	Total financial assets excluding derivatives Rm
49.5 Total unrealised gains and losses for the year on the Level 3 positions held at the reporting date					
Net interest income/(charges)	—	(112)	—	—	(112)
Gains and (losses) from banking and trading activities	142	179	77	—	398
	142	67	77	—	286

Financial liabilities designated at fair value through profit or loss		Financial liabilities held for trading	
Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
—	—	—	—
(772)	14	151	(607)
(772)	14	151	(607)

Financial liabilities designated at fair value through profit or loss		Financial liabilities held for trading	
Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
—	—	—	—
(861)	4	(261)	(1 118)
(861)	4	(261)	(1 118)

49. Fair value hierarchy disclosures *(continued)*

49.6 Sensitivity analysis of valuations using unobservable inputs

As part of the Company's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

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

Company

		2011			
		Potential effect recorded in profit and loss		Potential effect recorded directly in equity	
	Significant unobservable parameters[1]	Favourable Rm	Un-favourable Rm	Favourable Rm	Un-favourable Rm
Loans and advances designated at fair value through profit or loss	i, iii, iv, v, vi, vii	253	300	—	—
Net derivatives	i, iii	78	96	5	43
Private equity	v, vi, vii	799	926	—	—
Structured notes and deposits designated at fair value through profit or loss	iv	57	57	—	—
Trading assets	i	29	27	—	—
		1 216	1 406	5	43

		2010			
		Potential effect recorded in profit and loss		Potential effect recorded directly in equity	
	Significant unobservable parameters[1]	Favourable Rm	Un-favourable Rm	Favourable Rm	Un-favourable Rm
Loans and advances designated at fair value through profit or loss	i, iii, iv, v, vi, vii	140	454	—	—
Net derivatives	i, iii	10	9	—	—
Private equity	v, vi, vii	766	766	39	143
Structured notes and deposits designated at fair value through profit or loss	iv	46	51	—	—
Trading assets	i	7	7	—	—
		969	1 287	39	143

The following table reflects how the unobservable parameters were changed in order to evaluate sensitivities of Level 3 financial instruments:

Instrument	Parameter	Positive variance in parameters	Negative variance in parameters
Credit derivatives	Credit spreads	100 bps	–100 bps
Equity derivatives	Volatilities	10%	–10%
Foreign currency options	Volatilities	10%	–10%
Foreign currency swaps and foreign interest rate products	Basis risk and yield curve	100 bps	–100 bps
Loans and advances designated at fair value through profit or loss	Credit spreads	100 bps	–100 bps
Private equity	Future earnings and marketability discounts/Comparator multiples Discount rates	15%	–15%
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100 bps	–100 bps

Note

[1]Refer to note 49.3 for valuation inputs.

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

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

	Company 2011 Rm	Company 2010 Rm
Opening balance	**73**	24
New transactions	**(46)**	84
Amounts recognised in the profit and loss component of the statement of comprehensive income during the year under review	**(78)**	(35)
Closing balance	**(51)**	73

51. Acquisitions and disposals of businesses

51.1 Acquisitions of businesses during the year under review

There were no acquisitions of business in the year under review.

51.2 Acquisitions of businesses during the prior year

51.2.1 On 30 June 2010, the Virgin Money South Africa Proprietary Limited (VMSA) joint venture arrangement was terminated. This was a result of a contractually agreed arrangement where its future existence depended on the financial performance of the joint venture. Due to the underperformance of the joint venture, the arrangement was terminated and the Company acquired the underlying business. The termination resulted in the Company selling its 50% interest in VMSA for R1, while acquiring VMSA's credit and home loan business for R1. VMSA's credit card and home loan business contributed a net profit before tax of R40 million and revenue of R57 million to the Company for the period from 30 June 2010 to 31 December 2010. If the acquisition occurred on 1 January 2010, the Company's revenue would have been R116 million higher and the net profit before tax for the year would have been R21 million higher.

	Company 2010 Fair value recognised on acquisition Rm
Details of the net assets acquired and the gain on bargain purchase are as follows:	
Other assets	0
Intangible assets	3
Other liabilities	(1)
Deferred tax liabilities	(1)
Net assets acquired	1
Satisfied by:	
Cash outflow on acquisition	(1)
Fair value of net assets acquired	0
Gain on bargain purchase	(1)
Net cash outflow due to acquisition	0
Total cash and cash equivalents acquired	0

51.2 Acquisitions of businesses during the prior year

This bargain purchase gain arose primarily due to the underperformance of the underlying VMSA credit card and home loan portfolio. No contingent liabilities were recognised as a result of the acquisition and no contingent consideration is payable. No identifiable assets were identified of which the fair values could not be reliably measured. No material receivables were acquired as part of the transaction.

52. Financial risks

Refer to note 57 of the Bank's financial statements.