Absa Group Limited

Annual consolidated and separate financial statements

for the year ended
31 December 2011

Member of the BARCLAYS Group

Contents

Absa Group Limited
(1986/003934/06)
Annual consolidated and separate financial statements for the year ended 31 December 2011

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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 Group Limited audited annual consolidated financial statements include the financial statements as included in this report (pages 1 – 176) as well as the audited sections of the Remuneration Review, 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 Review 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.

Group Audit and Compliance Committee (GACC) report

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 Group Limited and its subsidiaries (the Group).

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 Group and of Absa Group 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 Group's business is conducted in a manner that in all reasonable circumstances is above reproach.
- The board set 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 Group and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems and discipline are applied and managed within predetermined procedures and constraints.
- The Group's internal audit 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 Group's risk functions, take cognisance of the relative degrees of risk of each function or aspect of the business.
- The GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC 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 Group 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 Group 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 Group 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 Group and Company is set out on page 6 of this report.

The directors' report on pages 7 to 13, the financial statements of the Group and the Company and the related IFRS 7 Financial Instruments: Disclosure (IFRS 7), which appear on pages 1 to 101 of the Capital and Risk Management Report, were approved by the board of directors and are signed by:

G Griffin

Group Chairman

M Ramos

Group Chief Executive (GCE)

Johannesburg
9 February 2012

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

In accordance with the provisions of the Companies Act, I certify that, in respect of the year ended 31 December 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 W P Hodnett

Acting Company Secretary

Johannesburg
9 February 2012

Independent auditors' report to the shareholders of Absa Group Limited

We have audited the Group and Company financial statements of Absa Group 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 176, those sections marked as audited in the Capital and Risk Management Report and the directors emoluments disclosures marked as audited in the Remuneration Review, but excludes the sections marked as 'unaudited' in notes 58.3, 58.4 and 58.7.

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

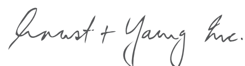
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about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

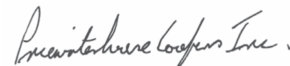
In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and of the Company as at 31 December 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year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



Ernst & Young Inc.

Director – Ernest van Rooyen
Registered Auditor
Chartered Accountant (SA)

Wanderers Office Park, 52 Corlett Drive, Illovo



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 Group, which has a primary listing on the JSE Limited (JSE), is incorporated and domiciled in South Africa and provides retail, commercial, corporate and investment banking, financial services and wealth management products and services. The Group operates primarily in South Africa and employs over 35 000 people. The address of the Group's registered office is 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001[1].

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

The Group also provides products and services to selected markets in the United Kingdom, Mozambique, Tanzania, Namibia, Nigeria and Botswana.

The Group 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), financial services 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 Group and the Company for the year ended 31 December 2011.

Group Audit and Compliance Committee

Please refer to the GACC Report on page 1.

Group results

Main business and operations

The Group recorded an increase of 21% in headline earnings to **R9 719 million** for the year ended 31 December 2011 (2010: R8 041 million). Headline earnings per share (HEPS) increased by 21% to **1 355,9 cents** (2010: 1 122,6 cents) and fully diluted HEPS increased by 21% to **1 350,0 cents** (2010: 1 115,7 cents).

Headline earnings were derived from the following activities:

	Group	
	2011 Rm	2010[2] Rm
Banking operations		
Retail Banking	**4 179**	3 258
Home Loans	**516**	196
Vehicle and Asset Finance	**403**	236
Card	**1 758**	1 483
Personal Loans	**720**	515
Retail Bank	**782**	828
Absa Business Bank	**2 895**	2 866
Absa Capital	**1 496**	1 612
Corporate centre	**(301)**	(397)
Capital and funding centres	**315**	(192)
Non-controlling interest – preference shares[3]	**(283)**	(319)
Total banking	**8 301**	6 828
Financial Services	**1 373**	1 290
Profit attributable to ordinary equity holders of the Group	**9 674**	8 118
Headline earnings adjustments (refer to note 44)	**45**	(77)
Headline earnings	**9 719**	8 041

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 1.26 and note 58.1 for additional information.

[3]Includes the elimination of non-controlling interest – preference shares of Retail Banking.

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 (Group 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[5] (GCE)
I R Ritossa[9]
L L von Zeuner[5] (Deputy GCE)
B J Willemse[2]

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

In line with international best practice, the Group 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 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 Group AGM.

In terms of the Company's articles of association, one-third of the directors are required to retire at each 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 (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 ordinary shares

The directors' interests in the issued ordinary shares of the Company as at the date of the statement of financial position are disclosed in the tables to follow. In terms of the board charter, non-executive directors are required to hold a minimum shareholding of 1 000 Company ordinary shares during their tenure as director unless they are prevented from doing so by law or any other regulatory, governmental or relevant authority restriction which they are subject to at the time. These shares have to be paid in full. The share awards held by executive directors are disclosed separately in the Remuneration Report.

	Direct number of shares Beneficial	
	2011	2010
Present directors		
C Beggs	**2 000**	2 000
B P Connellan	**1 000**	1 000
Y Z Cuba	**1 000**	1 000
S A Fakie	**1 000**	1 000
M J Husain	**1 000**	1 000
A P Jenkins[1]	**1 000**	1 000
R Le Blanc[1]	**1 000**	1 000
T M Mokgosi-Mwantembe	**1 000**	1 000
E C Mondlane, Jr[2]	**1 000**	1 000
T S Munday	**1 000**	1 000
S G Pretorius	**1 000**	1 000
L L von Zeuner (Deputy Group Chief Executive)[3]	**308 176**	226 061
Past directors		
D C Arnold[4]	**n/a**	2 000
B C M M de Vitry[5]	**n/a**	1 000
M W Hlahla[4]	**n/a**	1 000
	320 176	242 061

	Indirect number of shares Beneficial	
	2011	2010
Present directors		
G Griffin (Group Chairman)	**8 000**	8 000
T S Munday	**2 000**	2 000
B J Willemse	**1 000**	1 000
	11 000	11 000

Notes

[1]British.

[2]Mozambican.

[3]Executive director.

[4]Retired as director on 21 April 2011.

[5]French, resigned as director on 21 September 2011.

Directors' interests in the Company ordinary shares *(continued)*

	Total direct and indirect number of shares Beneficial	
	2011	2010
Present directors		
G Griffin (Group Chairman)	**8 000**	8 000
C Beggs	**2 000**	2 000
B P Connellan	**1 000**	1 000
Y Z Cuba	**1 000**	1 000
S A Fakie	**1 000**	1 000
M J Husain	**1 000**	1 000
A P Jenkins[1]	**1 000**	1 000
R Le Blanc[1]	**1 000**	1 000
T M Mokgosi-Mwantembe	**1 000**	1 000
E C Mondlane, Jr[2]	**1 000**	1 000
T S Munday	**3 000**	3 000
S G Pretorius	**1 000**	1 000
L L von Zeuner (Deputy Group Chief Executive)[3]	**308 176**	226 061
B J Willemse	**1 000**	1 000
Past directors		
D C Arnold[4]	**n/a**	2 000
B C M M de Vitry[5]	**n/a**	1 000
M W Hlahla[4]	**n/a**	1 000
	331 176	253 061

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

No directors hold any non-beneficial interests in the Company's ordinary shares.

Directors' interests in Batho Bonke Capital Proprietary Limited (Batho Bonke) ordinary shares

The Group entered into a Broad-based Black Economic Empowerment (BBBEE) transaction with Batho Bonke in July 2004.

As at the reporting date, the following directors held an indirect interest in the Company through their direct or indirect holdings of ordinary shares in Batho Bonke:

	Number of shares	
	2011	2010
Present directors		
Y Z Cuba	**91 600**	91 600
S A Fakie	**40 000**	40 000
M J Husain	**40 000**	40 000
T M Mokgosi-Mwantembe	**40 000**	40 000
Past director		
M W Hlahla	**n/a**	50 000
	211 600	261 600

Notes

[1]British.

[2]Mozambican.

[3]Executive director.

[4]Retired as director on 21 April 2011.

[5]French, resigned as director on 21 September 2011.

Directors' interests in Absa Bank Limited preference shares

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

	Number of shares			
	2011		2010	
	Direct	**Indirect**	Direct	Indirect
Present directors				
B P Connellan	**300**	**—**	300	—
G Griffin (Group Chairman)	**—**	**1 680**	—	1 680
L L von Zeuner (Deputy Group 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 consolidated financial statements of the Group.

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 Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group.

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 49 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

Absa Financial Services Africa Holdings Proprietary Limited (AFS Africa Holdings), originally a dormant company, became operational in January 2011 as the holding company for Absa Financial Services Limited's African operations. AFS Africa Holdings is a wholly-owned subsidiary of Absa Financial Services Limited, which in turn is a wholly-owned subsidiary of the Group.

Absa Life Botswana (Proprietary) Limited (Absa Life Botswana) was established in Botswana as a wholly-owned subsidiary of AFS Africa Holdings during 2010. Absa Life Botswana only became operational during March 2011. It provides credit life and funeral policies. Non-underwritten life products were introduced in the second half of the year and efforts will continue to enter the Group schemes market. Absa Life Botswana has a strong working relationship with Barclays Bank Botswana and its branches.

Notes

[1]Executive director.

[2]Retired as director on 21 April 2011.

Acquisitions and disposals *(continued)*

Acquisitions *(continued)*

Subsidiaries and business combinations (continued)

The Group 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.

Through its AFS Africa Holdings, the Group acquired a 100% stake in Global Alliance Seguros S.A. (Global Alliance) during September 2011. Global Alliance is one of the largest insurance providers in Mozambique and recently launched a life offering. The acquisition is strategically attractive in that it will allow Absa Financial Services to progress its African expansion objectives by entering the market in Mozambique with immediate scale and a platform for growth.

During October 2011, the Group acquired the operations of Takafol South Africa Proprietary Limited (Takafol), an underwriting management agent, for R3 million. Absa Insurance Company Limited underwrote the Islamic insurance policies administered by Takafol. Takafol is the sole provider of Islamic insurance products in South Africa. The integration of Takafol into the Group will provide synergies with Absa Islamic Banking, expand the Group's Islamic Banking product offerings and allow the Group to progress its African expansion objectives.

The Group subscribed for additional shares in Barclays Bank Mozambique S.A. (BBM) at a total consideration of R268 million in terms of a rights issue during July 2010. The 12 016 200 additional shares acquired during 2010 increased the effective interest held from 80% to 95,85% at the time. The non-controlling shareholders were granted options until 18 June 2011 to acquire their pro rata shares in terms of the rights issue from the Group at the original subscription price of Mt 100 plus interest equal to 17,85% per annum. Interest was to accrue from the date on which the Group made payment of the subscription price. None of the non-controlling shareholders exercised their rights in terms of the options granted upon expiry of the options on 18 June 2011. The term of the options was not extended. The final effective interest of the Group remained at 95,85%.

The Group 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 Group's overall statement of financial position.

During the year under review, the Group sold certain exposures to Commissioner Street No 4 (RF) Limited (Commissioner Street 4), a SPE established by the Group. 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, 49 and 56 for additional information on the above acquisitions and disposals.

Dividends

- On 15 February 2011, a dividend of 230 cents per ordinary share was announced to ordinary shareholders registered on 11 March 2011.
- On 2 August 2011, an interim dividend of 292 cents per ordinary dividend was announced to ordinary shareholders registered on 26 August 2011.
- On 9 February 2012, a dividend of 392 cents per ordinary share was approved. The dividend was announced on 10 February 2012 to ordinary shareholders registered on 30 March 2012. This dividend is payable on 2 April 2012.

Segment restructurings planned for 2012

In October 2011, the Group 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.

Special resolutions

The following special resolutions were passed by Absa Group Limited's ordinary shareholders at the 21 April 2011 AGM, in accordance with the Companies Act, No 61 of 1973 (as amended) of South Africa:

- Special resolution number 1 – remuneration of non-executive directors

  To obtain shareholder approval for proposed fees payable to non-executive directors with effect from 1 May 2011, in compliance with the provisions of the new Companies Act.

- Special resolution number 2 – amendment to article 149

  To enable the Company to provide members, debenture holders and participants with a copy of summarised financial statements and directions for obtaining complete consolidated financial statements in accordance with the Companies Act.

- Special resolution number 3 – amendment to article 157

  To enable the Company to provide notice to members and others by means of electronic medium in accordance with the Companies Act, the JSE and any applicable laws.

- Special resolution number 4 – deletion of article 157A

  As a result of the amendments to articles 149 and 157, the Company will be entitled to give notices or documents to a member via an electronic medium and article 157A will become obsolete.

- Special resolution number 5 – general repurchases

  To enable the Company or any of its subsidiaries, by way of general authority from shareholders, to repurchase ordinary shares issued by the Company, in terms of the Act. During the year under review no repurchases of ordinary shares were made by the directors in terms of the special resolution.

  During the year under review no ordinary shares were repurchased by the Company or its subsidiaries in terms of the special resolution.

Secretary

The previous Company Secretary, S Martin, resigned on 9 January 2012. The duties of the Company Secretary subsequent to this date are fulfilled by D W P Hodnett in his capacity as Acting Company Secretary. His contact details are as follows:

8th Floor, Absa Towers West
15 Troye Street
Johannesburg, 2001

Telephone: +2711 350 2623

Fax: +2786 584 9747

Email: david.hodnett@absa.co.za

Auditors

PricewaterhouseCoopers Inc. and Ernst & Young Inc. continued in office as auditors of the Group. At the AGM of 3 May 2012, shareholders will be requested to re-appoint PricewaterhouseCoopers Inc. and Ernst & Young Inc. as auditors of the Group 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 **R1 760 935 000** (2010: R1 760 935 000) consists of **880 467 500** (2010: 880 467 500) ordinary shares of R2,00 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:

- **718 210 043** (2010: 718 210 043) ordinary shares of R2,00 each.

No preference shares are currently in issue by the Company.

Going concern

The directors assess the Group's future performance and financial position on an ongoing basis and have no reason to believe that the Group will not be a going concern in the 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

	Note	Group 2011 Rm	2010[1] Rm	2009[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**26 997**	23 741	20 206
Statutory liquid asset portfolio	3	**57 473**	48 215	33 943
Loans and advances to banks	4	**57 432**	27 495	43 223
Trading portfolio assets	5	**84 623**	62 047	52 302
Hedging portfolio assets	5	**4 299**	4 662	2 558
Other assets	6	**16 219**	12 855	10 586
Current tax assets	7	**288**	196	234
Non-current assets held for sale	8	**35**	—	—
Loans and advances to customers	9, 10	**503 503**	508 780	517 008
Reinsurance assets	11	**1 009**	860	719
Investment securities	12	**21 182**	24 446	29 955
Investments in associates and joint ventures	13	**420**	416	487
Goodwill and intangible assets	14	**2 135**	1 794	1 245
Investment properties	15	**2 839**	2 523	2 195
Property and equipment	16	**7 996**	7 493	6 606
Deferred tax assets	17	**269**	434	374
Total assets		**786 719**	725 957	721 641
Liabilities				
Deposits from banks	18	**38 339**	15 406	36 541
Trading portfolio liabilities	19	**55 960**	47 454	44 245
Hedging portfolio liabilities	19	**2 456**	1 881	565
Other liabilities	20	**14 695**	11 239	12 212
Provisions	21	**1 710**	1 808	1 684
Current tax liabilities	7	**267**	965	59
Deposits due to customers	22	**440 960**	387 598	367 210
Debt securities in issue	23	**130 262**	164 545	171 376
Liabilities under investment contracts	24	**15 233**	13 964	12 446
Policyholder liabilities under insurance contracts	25	**3 183**	3 001	3 136
Borrowed funds	26	**14 051**	13 649	13 530
Deferred tax liabilities	17	**1 198**	2 298	2 147
Total liabilities		**718 314**	663 808	665 151
Equity				
Capital and reserves				
Attributable to ordinary equity holders of the Group:				
Ordinary share capital	27	**1 434**	1 433	1 432
Ordinary share premium	27	**4 676**	4 590	4 784
Retained earnings		**53 813**	47 958	43 153
Other reserves	28	**2 385**	2 309	1 178
		62 308	56 290	50 547
Non-controlling interest – ordinary shares		**1 453**	1 215	1 299
Non-controlling interest – preference shares	29	**4 644**	4 644	4 644
Total equity		**68 405**	62 149	56 490
Total liabilities and equity		**786 719**	725 957	721 641

Note

[1]Comparatives have been reclassified, refer to note 1.26.

Consolidated statement of comprehensive income

for the year ended 31 December

	Note	Group 2011 Rm	Group 2010 Rm
Net interest income		**24 429**	23 340
Interest and similar income	30	**51 221**	54 241
Interest expense and similar charges	31	**(26 792)**	(30 901)
Impairment losses on loans and advances	10.1	**(5 081)**	(6 005)
Net interest income after impairment losses on loans and advances		**19 348**	17 335
Non-interest income		**21 403**	19 474
Net fee and commission income		**15 293**	14 391
Fee and commission income	32	**17 422**	16 454
Fee and commission expense	32	**(2 129)**	(2 063)
Net insurance premium income	33	**5 209**	4 602
Net insurance claims and benefits paid	34	**(2 517)**	(2 405)
Changes in investment contract and insurance contract liabilities	35	**(914)**	(1 059)
Gains and losses from banking and trading activities	36	**2 594**	2 349
Gains and losses from investment activities	37	**966**	884
Other operating income	38	**772**	712
Operating profit before operating expenditure		**40 751**	36 809
Operating expenditure		**(26 581)**	(24 949)
Operating expenses	39	**(25 458)**	(24 070)
Other impairments	40	**(52)**	(108)
Indirect taxation	41	**(1 071)**	(771)
Share of post-tax results of associates and joint ventures	13.1	**40**	(9)
Operating profit before income tax		**14 210**	11 851
Taxation expense	42	**(4 026)**	(3 262)
Profit for the year		**10 184**	8 589
Other comprehensive income			
Foreign exchange differences on translation of foreign operations		**522**	(371)
Movement in cash flow hedging reserve		**(237)**	1 152
Fair value gains arising during the year		**1 972**	3 421
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	**91**	(449)
Movement in available-for-sale reserve		**(17)**	166
Fair value (losses)/gains arising during the year		**(58)**	146
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	36	**20**	92
Deferred tax	17	**21**	(72)
Movement in retirement benefit asset and liabilities		**(51)**	21
(Decrease)/increase in retirement benefit surplus	45	**(66)**	27
(Increase)/decrease in retirement benefit deficit	45	**(5)**	2
Deferred tax	17	**20**	(8)
Total comprehensive income for the year		**10 401**	9 557
Profit attributable to:			
Ordinary equity holders of the Group		**9 674**	8 118
Non-controlling interest – ordinary shares		**226**	151
Non-controlling interest – preference shares		**284**	320
		10 184	8 589
Total comprehensive income attributable to:			
Ordinary equity holders of the Group		**9 791**	9 138
Non-controlling interest – ordinary shares		**326**	99
Non-controlling interest – preference shares		**284**	320
		10 401	9 557
Earnings per share:			
Basic earnings per share (cents)	43.1	**1 349,6**	1 133,3
Diluted earnings per share (cents)	43.2	**1 343,8**	1 126,4

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	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm
Balance at the beginning of the year	716 590	1 433	4 590	47 958	2 309	63
Total comprehensive income for the year	—	—	—	9 623	168	—
Profit for the year	—	—	—	9 674	—	—
Other comprehensive income	—	—	—	(51)	168	—
Dividends paid during the year	—	—	—	(3 744)	—	—
Share buy-back in respect of equity-settled share-based payment schemes	—	—	(281)	—	—	—
Elimination of the movement in treasury shares held by Absa Group Limited Share Incentive Trust	681	2	26	—	—	—
Options exercised by employees		2	26	—	—	—
Shares issued to the trust		—	—	—	—	—
Elimination of the movement in treasury shares held by Group subsidiaries	(257)	(1)	167	—	—	—
Movement in share-based payment reserve	—	0	174	—	(116)	—
Transfer from share-based payment reserve		0	174	—	(174)	—
Value of employee services		—	—	—	58	—
Movement in general credit risk reserve	—	—	—	48	(48)	(48)
Movement in insurance contingency reserve	—	—	—	(19)	19	—
Share of post-tax results of associates and joint ventures	—	—	—	(40)	40	—
Disposal of associates and joint ventures – release of reserves	—	—	—	(13)	13	—
Increase in the interest of non-controlling equity holders	—	—	—	—	—	—
Non-controlling interest arising from business combinations	—	—	—	—	—	—
Balance at the end of the year	717 014	1 434	4 676	53 813	2 385	15
Notes	27	27	27			28

Note

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

Consolidated statement of changes in equity

for the year ended 31 December

Group

2011

Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Insurance contin-gency reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Total equity attributable to ordinary equity holders of the Group Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total Rm
(196)	2 258	(640)	305	285	234	56 290	1 215	4 644	62 149
(17)	(237)	422	—	—	—	9 791	326	284	10 401
—	—	—	—	—	—	9 674	226	284	10 184
(17)	(237)	422	—	—	—	117	100	—	217
—	—	—	—	—	—	(3 744)	(173)	(284)	(4 201)
—	—	—	—	—	—	(281)	—	—	(281)
—	—	—	—	—	—	28	—	—	28
—	—	—	—	—	—	28	—	—	28
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	166	—	—	166
—	—	—	—	(116)	—	58	—	—	58
—	—	—	—	(174)	—	—	—	—	—
—	—	—	—	58	—	58	—	—	58
—	—	—	—	—	—	—	—	—	—
—	—	—	19	—	—	—	—	—	—
—	—	—	—	—	40	—	—	—	—
—	—	—	—	—	13	—	—	—	—
—	—	—	—	—	—	—	21	—	21
—	—	—	—	—	—	—	64	—	64
(213)	2 021	(218)	324	169	287	62 308	1 453	4 644	68 405
28	28	28	28	28	28			29	

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	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm
Balance at the beginning of the year	715 823	1 432	4 784	43 153	1 178	24
Total comprehensive income for the year	—	—	—	8 139	999	—
Profit for the year	—	—	—	8 118	—	—
Other comprehensive income	—	—	—	21	999	—
Dividends paid during the year	—	—	—	(3 191)	—	—
Share buy-back in respect of equity-settled share-based payment schemes	—	—	(234)	—	—	—
Elimination of the movement in treasury shares held by Absa Group Limited Share Incentive Trust	792	1	30	—	—	—
Options exercised by employees		1	30	—	—	—
Shares issued to the trust		—	—	—	—	—
Elimination of the movement in treasury shares held by Group subsidiaries	(25)	(0)	(49)	—	—	—
Movement in share-based payment reserve	—	0	59	2	(13)	—
Transfer from share-based payment reserve		0	59	2	(61)	—
Value of employee services		—	—	—	48	—
Movement in general credit risk reserve	—	—	—	(39)	39	39
Movement in insurance contingency reserve	—	—	—	(55)	55	—
Share of post-tax results of associates and joint ventures	—	—	—	9	(9)	—
Disposal of associates and joint ventures – release of reserves	—	—	—	(60)	60	—
Dilution of non-controlling shareholders' interest	—	—	—	0	—	—
Increase in the interest of non-controlling equity holders	—	—	—	—	—	—
Non-controlling interest arising from business combinations	—	—	—	—	—	—
Balance at the end of the year	716 590	1 433	4 590	47 958	2 309	63
Notes	27	27	27			28

Note

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

Consolidated statement of changes in equity

for the year ended 31 December

Group

Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Insurance contingency reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Total equity attributable to ordinary equity holders of the Group Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total Rm
2010									
(362)	1 106	(321)	250	298	183	50 547	1 299	4 644	56 490
166	1 152	(319)	—	—	—	9 138	99	320	9 557
—	—	—	—	—	—	8 118	151	320	8 589
166	1 152	(319)	—	—	—	1 020	(52)	—	968
—	—	—	—	—	—	(3 191)	(142)	(320)	(3 653)
—	—	—	—	—	—	(234)	—	—	(234)
—	—	—	—	—	—	31	—	—	31
—	—	—	—	—	—	31	—	—	31
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	(49)	—	—	(49)
—	—	—	—	(13)	—	48	—	—	48
—	—	—	—	(61)	—	—	—	—	—
—	—	—	—	48	—	48	—	—	48
—	—	—	—	—	—	—	—	—	—
—	—	—	55	—	—	—	—	—	—
—	—	—	—	—	(9)	—	—	—	—
—	—	—	—	—	60	—	—	—	—
—	—	—	—	—	—	0	(0)	—	—
—	—	—	—	—	—	—	37	—	37
—	—	—	—	—	—	—	(78)	—	(78)
(196)	2 258	(640)	305	285	234	56 290	1 215	4 644	62 149
28	28	28	28	28	28			29	

Consolidated statement of cash flows

for the year ended 31 December

	Note	Group 2011 Rm	2010[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		68 018	70 421
Interest, fee and commission expense		(27 867)	(32 606)
Insurance premiums and claims		1 811	2 178
Net trading and other income		3 067	(3 318)
Cash payments to employees and suppliers		(23 555)	(22 708)
Dividends received from banking and trading activities		184	71
Income taxes paid		(5 628)	(2 756)
Cash flow from operating profit before changes in operating assets and liabilities		16 030	11 282
Net increase in trading and hedging portfolio assets		(20 605)	(4 049)
Net decrease/(increase) in loans and advances to customers		2 070	(6 342)
Net increase in other assets		(40 457)	(4 572)
Net increase in insurance and investment contracts		1 372	1 457
Net increase in trading and hedging portfolio liabilities		8 784	3 762
Net increase in amounts due to customers and banks		73 163	12 967
Net decrease in other liabilities		(32 052)	(11 683)
Net cash generated from operating activities		**8 305**	**2 822**
Cash flow from investing activities			
Purchase of investment properties	15	(255)	(288)
Purchase of property and equipment	16	(1 729)	(2 351)
Proceeds from sale of property and equipment		119	255
Purchase of intangible assets	14	(482)	(718)
Disposal of investment properties		4	—
Proceeds from sale of intangible assets		4	—
Acquisition of businesses, net of cash	56.1, 56.2	(290)	470
Disposal of businesses, net of cash	56.4	—	(6)
Acquisition of associates and joint ventures	13.5, 56.1	(3)	(95)
Disposal of associates and joint ventures	8, 13.6	356	95
Net (increase)/decrease in loans to associates and joint ventures	13.1	(7)	4
Net decrease in investment securities		1 642	3 397
Dividends received from investment activities		130	117
Net cash (utilised)/generated from investing activities		**(511)**	**880**
Cash flow from financing activities			
Issue of ordinary shares		166	31
Share buy-back		(281)	(283)
Proceeds from borrowed funds		—	1 000
Repayment of borrowed funds		—	(1 500)
Dividends paid		(4 028)	(3 511)
Net cash utilised from financing activities		**(4 143)**	**(4 263)**
Net increase/(decrease) in cash and cash equivalents		3 651	(561)
Cash and cash equivalents at the beginning of the year		6 417	6 976
Effect of foreign exchange rate movements on cash and cash equivalents		0	2
Cash and cash equivalents at the end of the year	54	**10 068**	**6 417**

Note

[1]Comparatives have been reclassified, refer to note 1.26.

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 Group.

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 financial year under review with additional disclosures included in the consolidated financial statements of the Group.

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 assist in 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 Group.

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 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 Group (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 Group as the Group 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 Group.

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 Group'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 Group'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 Group's defined benefit fund, this amendment had no impact on the Group's results. The Group 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 Group 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 Group. 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.

1.1 Basis of presentation *(continued)*

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 Group'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 Group'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 Group'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 Group 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 Group 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 Group 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 Group's accounting policy for goodwill is described in note 1.14.1.

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 Group'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 Group's policy for determining the fair value of financial instruments is described in note 60.

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.

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

1.2.3 Valuation of financial instruments (continued)

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.

1.2.4 Impairment of available-for-sale financial assets

The Group'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 Group'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 Group's best estimate of the price the Group would achieve in a sale transaction of the investment.

1.2.6 Deferred tax assets

The Group's accounting policy for the recognition of deferred tax assets is described in note 1.23.2. 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. Summary of significant accounting policies *(continued)*

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

1.2.7 Consolidation of SPEs

The Group consolidates certain SPEs, which may or may not be directly or indirectly owned subsidiaries. These SPEs are consolidated when they are controlled by the Group. Judgement is required in assessing and determining if the Group 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 45 for the assumptions used.

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 Group'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 the Group'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 55.

1.2.11 Liabilities arising from claims made under short-term insurance contracts

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

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

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder.

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence of the uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Group makes estimates and assumptions to provide appropriate levels of claims provision and provision for unexpired risks. Estimates and judgements are regularly adjusted as changes in facts and experience are identified. For more details on the liability arising from claims made under insurance contracts, refer to note 25.

1.2.12 Liabilities arising from claims made under life insurance contracts

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

The value of the insurance liability is determined using assumptions regarding future mortality, morbidity, discontinuance rates, policyholders' reasonable benefit expectations, guaranteed benefits and expenses which all equal the best estimate assumptions used in determining the liabilities. These assumptions are based on recent experience investigations. The risk discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. For more details on the life insurance contract liability, refer to note 25.

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

1.2.13 Income taxes

The Group is subject to income taxes in the countries in which it conducts business and the calculation of the Group'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 uncertain tax positions are managed in accordance with the Group's Tax Principal Risk Framework. The Group 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 and 42 around estimated tax positions where a high degree of judgement has been applied.

1.2.14 Offsetting financial assets and liabilities

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

1.3 Consolidation

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

1.3.1 Subsidiaries

Subsidiaries are all entities (including SPEs) over which the Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group 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 Group. 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 Group 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 for Sale and Discontinued Operations* (IFRS 5) are measured in accordance with that standard.

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

1.3 Consolidation *(continued)*

1.3.1 Subsidiaries *(continued)*

On an acquisition-by-acquisition basis, the Group 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 the Absa Group 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 Group'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 Group.

1.3.2 Investments in associates and joint ventures

Associates are those companies which are not subsidiaries and in which the Group exercises significant influence on the financial and operating policies. Significant influence is normally evident when the Group 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 Group's venture capital activities are held at cost plus equity-accounted earnings less any accumulated impairment. The Group'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 Group's year end, these are adjusted in respect of material adjustments between their reporting date and the Group's reporting date. The Group's share of its post-acquisition profits or losses is recognised in the statement of comprehensive income and the Group's interest in the post-acquisition reserves of associates and joint ventures is treated as distributable reserves in the Group's financial statements. When the Group'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 Group has an obligation or has made payments on behalf of the investee.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates and joint ventures. The Group 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 Group 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 Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the entities.

Investments in entities that form part of venture capital activities of the Group 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.

1.3 Consolidation *(continued)*

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

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 Group. 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 Group treats transactions with non-controlling interests as transactions with equity owners of the Group. 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 Group 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 Group 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 Group 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 Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. Control exists when the Group has the power to govern the financial and operating policies of entities so as to obtain benefits from its activities.

SPEs controlled by the Group are established under terms that:

- impose strict limitations on the decision-making powers of the SPE's management;
- result in the Group receiving the majority of the benefits related to the SPE's operations and net assets;
- enable the Group 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 Group 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 Group had disposed directly of the previously held interest.

1.3.6 Common control

Common control transactions are business combinations in which the combining entities are ultimately controlled by the Group. The Group 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 Group Executive Commitee (Exco) who makes strategic decisions.

The Group 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 Group's businesses are managed and reported to the CODM. Refer to note 58 for more detail.

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

1.4 Segment reporting *(continued)*

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 Group's segments report their profit or loss and their assets and liabilities based on the Group'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 Group'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 Group 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.

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 Group 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 ordinary equity holders of the Group 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 ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share awards granted to employees.

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 Group enters into contractual arrangements with counterparties to purchase or sell the financial instruments.

The Group 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 Group 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 Group 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 Group 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 Group fails to keep these instruments to maturity, other than for specific circumstances defined by the Group, 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 Group does not have a positive intention to hold to maturity a financial asset with a fixed maturity if:

- the Group intends to hold the financial asset for an undefined period;
- the Group 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.

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.

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

1.7 Financial instruments *(continued)*

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

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 Group 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 Group are:
  - financial assets backing insurance and investment contracts, because the related liabilities (i.e. the insurance and investment contracts) have cash flows that are contractually based on the performance of the assets or the related liabilities. Fair valuing the assets through profit or loss significantly reduces the recognition inconsistencies that would arise if the financial assets were classified as available-for-sale; and
  - 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 Group 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 Group 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 linked to investment contracts are included in 'Gain and losses from investment activities'. Changes in the fair value of derivatives used to economically hedge the Group'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.

1.7 Financial instruments *(continued)*

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

Dividends on available-for-sale equity instruments are recognised in the profit and loss component of the statement of comprehensive income when the Group's right to receive payment is established.

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 Group'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.

The Group does not separately measure embedded derivatives contained in insurance contracts that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

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

1.7 Financial instruments *(continued)*

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.

1.7.7 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 Group 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 Group 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 Group 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 Group 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.

1.7 Financial instruments *(continued)*

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

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 Group'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 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 Group 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 Group.

Details of the significant estimates and judgements made by the Group 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 Group'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 Group 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.

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

1.7 Financial instruments *(continued)*

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

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 Group 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 Group'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 Group 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.

1.7.8 Renegotiated loans

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group 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 Group 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 Group 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 Group 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 Group'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 Group could be required to repay.

1.7 Financial instruments *(continued)*

1.7.9 Derecognition of financial assets (continued)

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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group'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 Group'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.

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

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 Group 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 Group'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.

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

1.7 Financial instruments *(continued)*

1.7.12 Scrip lending *(continued)*

Securities lent are retained in the statement of financial position when substantially all the risks and rewards of ownership remain with the Group, and a counterparty liability is included separately on the statement of financial position, as appropriate. Securities will only be repurchased when the lender defaults. Thus 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 Group 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 Group 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 Group formally designates and documents the hedge relationship to which the Group 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 Group assesses on an ongoing basis whether the hedge has been highly effective. A hedge is regarded as highly effective only when offsetting changes in fair value or cash flows attributable to the hedged risk during the period are within a range of between 80% and 125%.

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

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

Fair value 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.

1.7 Financial instruments *(continued)*

1.7.13 Hedge accounting (continued)

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 Group sells financial instruments and agrees to repurchase these at future dates, the risks and rewards of ownership remain with the Group 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 Group'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 Group, 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 the 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.

1.7.17 Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Group subject to notice conditions. 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 Group'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.

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

1.7 Financial instruments *(continued)*

1.7.18 Financial guarantee contracts (continued)

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 Group 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 Group 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.
- Origination fees received on issuing financial liabilities measured at amortised cost.
- Commitment fees received by the Group 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 Group 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 Revenue recognition *(continued)*

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 Group'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 Group's investment activities is accounted for as 'Gains and losses from investment activities'.

Net income from financial instruments used to economically hedge the Group'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 Group's banking activities (other than those used to economically hedge the Group'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 Group 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; investment management-related fees, including brokerage services, and custody and trust services.

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 Group 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.

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. Summary of significant accounting policies *(continued)*

1.9 Revenue recognition *(continued)*

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. Gains and losses on derivatives linked to investment contracts are recognised in 'Gains and losses from investment 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 Fee income and expenses from investment contracts

Service fees

Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers.

Certain upfront payments received for asset management services (front-end fees) are deferred as a liability and recognised over the life of the contract.

The Group charges its customers for asset management and other related services using the following approaches:

- Front-end fees are charged to the customer on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis.
- Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period.

Commissions paid

The incremental cost directly related to the acquisition of new investment contracts or renewing existing investment contracts are deferred and amortised over the period during which the investment management services are provided.

1.9.8 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 Group 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'.

1.9.9 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 Deferred revenue liability

A deferred revenue liability (DRL) is recognised in respect of fees paid at the inception of an investment management contract by the policyholder, which are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided over the expected duration of the contract, as a constant percentage of expected gross margins (including investment income) arising from the contract.

1.10 Deferred revenue liability *(continued)*

The pattern of expected future profit margins is based on historical and expected future experience and is updated at the end of each reporting period. The resulting change to the carrying value of the DRL is recognised in revenue.

Changes in the expected duration of the contract or expected future profit margins are treated as a change in accounting estimate.

1.11 Classification of insurance and investment contracts

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

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

1.11.1 Insurance contracts

Short-term insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

Liability adequacy test

At each reporting date, the Group reviews its unexpired risks and undertakes a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums. This is done using the current estimates of future cash flows under its contracts after taking into account the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) exceeds the estimated future cash flows, the deficiency is recognised in the profit and loss component of the statement of comprehensive income by setting up a provision in the statement of financial position. Refer to the Insurance Risk section in the Risk report for more detail.

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

1.11 Classification of insurance and investment contracts *(continued)*

1.11.1 Insurance contracts *(continued)*

Life insurance contracts

These contracts insure events associated with human life (i.e. death, disability or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before the deduction of commission. Individual life policies, life annuities and single premiums are accounted for in terms of the policy contract. Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liabilities are valued at each reporting date using the financial soundness valuation (FSV) basis described in Practice Guidance Note 104 (PGN 104) issued by the Actuarial Society of South Africa (ASSA) and the liability is reflected as policyholder liabilities under insurance contracts.

Under the FSV basis, a liability is determined as the sum of the current estimate of the expected discounted value of all the benefit payments and the future administration expenses that are directly related to the contract, less the current estimate of the expected discounted value of the contractual premiums.

The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time of valuing the contract at each reporting date. Margins for adverse deviations are included in the assumptions.

In respect of outstanding claims, provision is made for the costs of intimated and unintimated claims.

Withdrawals from, and deposits in investment contracts are excluded from the profit and loss component of the statement of comprehensive income.

Intimated claims represent claims where the incident giving rise to a claim has occurred and has been reported to the insurer for settlement but has not yet been finalised and paid by the insurer. The liability is measured at the value assessed for the claim. Unintimated claims represent claims incurred but not yet reported or paid. The liability is estimated by assuming that future trends in reporting of claims will be similar to the past. The profile of claims run-off (over time) is modelled by using historic data of the Group and chain-ladder techniques. The profile is then applied to actual claims data of recent periods for which the run-off is believed not to be complete.

Valuation methodology

Assumptions used for valuing policy liabilities are based on best estimates of future experience, guided by recent past experience and increased by margins prescribed by the ASSA for prudence and further discretionary margins to ensure that profits are released appropriately over the term of each policy.

Policyholders' reasonable expectations are allowed for by valuing all guaranteed benefits. Maturity guarantee liabilities have been valued in accordance with the requirements of PGN 110 issued by the ASSA. In terms of this guidance, an internationally recognised market-consistent stochastic model is used to perform a range of asset projections from which the maturity guarantee liability is derived. In terms of PGN 110 the projections allow for at least a certain minimum level of market volatility. The liability is equal to the discounted shortfall (of simulated maturity values against minimum guaranteed values) across all projections for the policies concerned.

Liability adequacy test

Liabilities are calculated in terms of the FSV basis as described in PGN 104. Since the FSV basis meets the minimum requirement of the liability adequacy test, it is not necessary to perform additional adequacy tests on the liability component. For the liability relating to potential future claims which have already been incurred on the reporting date, but of which the Group has not yet been informed, tests are performed to ensure that the liability is sufficient to cover historical run-off profiles and growth in the volume of business. Refer to the Insurance Risk section in the Risk report for more detail.

Deferred policy acquisition costs

Acquisition costs comprise commissions and other variable costs directly connected with the acquisition or renewal of short-term insurance contracts. The deferred acquisition costs represent the portion of acquisition costs incurred and revenue received which corresponds to the unearned premium reserve.

Deferred acquisition costs are amortised in line with expected future premiums. The amortisation is recognised in the profit and loss component of the statement of comprehensive income.

1.11 Classification of insurance and investment contracts *(continued)*

1.11.1 Insurance contracts *(continued)*

Deferred policy acquisition costs *(continued)*

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

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

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

Deferred reinsurance acquisition revenue

Acquisition revenues comprise commission directly connected with the acquisition or renewal of short-term reinsurance contracts. The deferred reinsurance acquisitions revenue represent the portion of reinsurance acquisition revenue incurred which corresponds to the reinsurance unearned premium reserve.

Deferred reinsurance acquisition revenues are earned in line with expected future reinsurance premiums.

Reinsurance contracts held

Reinsurance contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group and which meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

For contracts which do not meet the requirements to be classified as reinsurance, the total asset is recognised under financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance agreement.

The Group's reinsurance assets are assessed for impairment at each reporting date. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the profit and loss component of the statement of comprehensive income. For historic amounts, the impairment is calculated as the total amount due from reinsurers for which there is a significant probability that the amounts due would not be recoverable, less any offsetting amounts. Liabilities are revalued assuming that no reinsurance is ceded.

Receivables and payables related to insurance and investment contracts

Receivables and payables are only recognised when they meet the definitions and recognition criteria of financial assets and/or liabilities. These include amounts due to and from intermediaries and insurance contract holders.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The Group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

The Group does not allow for salvage recoveries or subrogation reimbursements in the measurement of insurance liabilities for claims. Salvage and subrogation reimbursements are recognised when the money is due.

Philosophy on release of profits on the valuation basis

PGN 104 allows for additional margins if the statutory actuary believes that the compulsory margins are insufficient for prudent reserving and/or to defer the release of profits in line with policy design.

It is the Group's policy that profit margins contained in the premium basis should only be released and added to profits once premiums have been received and the risk cover has been provided.

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

1.11 Classification of insurance and investment contracts *(continued)*

1.11.1 Insurance contracts (continued)

Philosophy on release of profits on the valuation basis *(continued)*

The following additional (discretionary) margins are incorporated in the liability calculations:

- Minimum liability equal to the surrender value of a policy and elimination of all negative liabilities to ensure that solvency is maintained if policy cancellations increase. It is not the philosophy of the Group to recognise an asset by (prematurely) recognising the expected future profits of a policy.
- Additional margin on mortality, disability and dreaded disease (equal to compulsory margins for most product lines) to take account of the size of the book, uncertainty surrounding future mortality trends (especially the Aids pandemic), lack of catastrophe reinsurance, and the fact that certain classes of business are not underwritten.
- Reduced lapse assumptions on certain product lines due to the fact that lapses are inherently volatile and as it is not deemed prudent to take credit in advance for future lapses that might not arise.
- No recognition of future investment charges on linked business as the Group's profit recognition policy determines that asset-based fees are more appropriately accounted for as and when they are invoiced.
- A percentage of premiums for certain regular premium business is not taken into account when liabilities are valued. The effect is to increase liabilities. This allows for uncertainty as to whether the premiums will actually be received and is in line with the profit recognition policy whereby profit is not recognised in advance.

Value of business acquired (VOBA)

On acquisition of a portfolio of insurance contracts, either directly from another insurer or through the acquisition of a subsidiary company, the Group recognises an intangible asset representing the VOBA.

The VOBA represents the present value of future profits embedded in acquired insurance contracts. The Group amortises the VOBA over the effective life of the acquired contracts. This amortisation is recognised in the profit and loss component of the statement of comprehensive income.

1.11.2 Investment contracts

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and are valued at fair value. Acquisition costs directly attributable to investment management contracts are capitalised to a deferred acquisition cost asset and amortised to the profit and loss component of the statement of comprehensive income over the term of the contract.

The Group issues investment contracts with fixed and guaranteed terms. Investment contracts with fixed and guaranteed terms are financial liabilities of which the fair value is dependent on the fair value of the financial assets backing the liabilities. These contracts and the corresponding policyholder liabilities are designated to be held at fair value though profit or loss at inception. Subsequent changes to fair value are taken to the profit and loss component of the statement of comprehensive income.

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

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

1.12 Cell arrangements

There are currently two distinct types of cell captive arrangements being:

- 'First party' where the risks that are being insured relate to the cell owner's operations and that of their subsidiaries. Claims within these cells are limited to the funds available in the cell after providing for solvency.
- 'Third party' where the cell owner has the ability to sell branded insurance products into its own customer base. Claims instituted within third party cells are not limited to the funds provided by the cell owner after providing for solvency.

1.12 Cell arrangements *(continued)*

In respect of third party cells, where insurance contracts are issued to third parties directly in the name of the Group, the cell captive is considered to be the reinsurer, as there is insurance risk transfer. The policyholder liabilities and reinsurance assets in respect of these insurance contracts are recognised in the statement of financial position of the Group, in terms of the reinsurance arrangement with the cell captive. Excess assets over policyholder liabilities in the cell captive belong to the cell owner and are not recognised by the Group.

The financial position and performance of first party cells are not included in the financial statements of the Group as no transfer of risks and rewards of assets and liabilities takes place according to the cell agreements.

Each first party cell owner is responsible for the solvency of each cell and the Group therefore does not carry any risk. However, for third party cells, should the cell owner not be able to meet the obligations within the cell, the Group would be required to meet obligations of the cell. The Group therefore carries a credit risk against each cell owner. This risk is limited through the selection process of reputable cell owners.

Monthly financial accounts are prepared and regular actuarial valuations are performed for each cell captive to monitor the financial soundness of the cell.

1.13 Commodities

Commodities, where the Group 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.

1.14 Intangible assets

1.14.1 Goodwill

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Group'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 Group'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.

The first step of the impairment review process requires the identification of independent operating units by dividing the Group'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 Group'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. Summary of significant accounting policies *(continued)*

1.14 Intangible assets *(continued)*

1.14.2 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 Group can demonstrate that the intangible asset will be used to generate future economic benefits, the Group intends to and has sufficient resources to complete development and to use the asset, and the Group 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 Group 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.

An intangible asset is derecognised on disposal or when the Group 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.

1.14 Intangible assets *(continued)*

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

A summary of policies applied to the Group'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

1.15 Property and equipment

1.15.1 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 Group 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 Group 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.

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.

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

1.15 Property and equipment *(continued)*

1.15.1 Property and equipment not subject to lease agreements *(continued)*

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.

1.15.2 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 Group 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 Group'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.

1.15.3 Investment properties

Investment properties are properties held 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 Group'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 where 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 Group 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.

1.15 Property and equipment *(continued)*

1.15.3 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 their 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.

1.16 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 Group. The corresponding loans are derecognised when the Group becomes the holder of the title deed.

The properties acquired are initially recorded at cost, which is the lower of their fair value (less costs to sell) and the carrying amount of the loan (net of impairment allowance) at the date of exchange. 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'.

1.17 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.

1.18 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount 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, insurance assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in 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.

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

1.19 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 Group 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.

1.20 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.

1.21 Provisions, contingent liabilities and commitments

Provisions are recognised when the Group 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 Group's possible obligations depends on uncertain future events beyond the Group's control or when the Group has a present obligation that is not probable or which the Group is unable to measure reliably.

Items are classified as commitments where the Group 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 Group 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 Group recognises any impairment loss on the assets associated with that contract.

1.22 Employee benefits

1.22.1 Post-retirement benefits

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

Defined contribution structures

Under the defined contribution structures, fixed contributions payable by the Group and members are accumulated to provide retirement benefits. The Group 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.

1.22 Employee benefits *(continued)*

1.22.1 Post-retirement benefits (continued)

Defined benefit structures *(continued)*

The Group'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 Group, 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 Group nor can they be paid directly to the Group. 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 Group 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 Group'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 Group 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.

1.22.2 Share-based payments

The Group 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 ultimately receive.

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

1.22 Employee benefits *(continued)*

1.22.2 Share-based payments (continued)

Employee services settled in equity instruments *(continued)*

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 option holder 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 payments awards.

1.23 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.

1.23.1 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 Group 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.

1.23 Taxation *(continued)*

1.23.2 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 Group 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.

1.23.3 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 Group 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.

1.23.4 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.

1.24 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.

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. Summary of significant accounting policies *(continued)*

1.25 Assets under management and administration

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

1.26 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.

1.26.1 Collateralised loans

The Group 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 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 banks	24 877	2 618	27 495	36 032	7 191	43 223
Other assets	16 131	(3 276)	12 855	17 777	(7 191)	10 586
Loans and advances to customers	498 635	658	499 293	506 163	—	506 163

1.26.2 Offsetting

Certain customers within the Group 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 Group 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 Group'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	499 293[1]	9 487	508 780	506 163	10 845	517 008
Deposits due to customers	378 111	9 487	387 598	356 365	10 845	367 210

1.26.3 Money market instruments

The Group has reclassified certain money market instruments linked to investment contracts, with longer-term maturities to reflect the true nature of these instruments. 'Cash, cash balances and balances with central banks' should comprise cash on hand and demand deposits which the Group expects to be realised within 12 months after the reporting date. This has resulted in 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
Cash, cash balances and balances with central banks	24 361	(620)	23 741	20 597	(391)	20 206
Investment securities	23 826	620	24 446	29 564	391	29 955

Note

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

1.26 Reclassifications *(continued)*

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

	2010		
	As previously reported Rm	Reclassifi-cations Rm	Reclassified Rm
Assets			
Cash, cash balances and balances with central banks	24 361	(620)	23 741
Statutory liquid asset portfolio	48 215	—	48 215
Loans and advances to banks	24 877	2 618	27 495
Trading portfolio assets	62 047	—	62 047
Hedging portfolio assets	4 662	—	4 662
Other assets	16 131	(3 276)	12 855
Current tax assets	196	—	196
Loans and advances to customers	498 635	10 145	508 780
Reinsurance assets	860	—	860
Investment securities	23 826	620	24 446
Investments in associates and joint ventures	416	—	416
Goodwill and intangible assets	1 794	—	1 794
Investment properties	2 523	—	2 523
Property and equipment	7 493	—	7 493
Deferred tax assets	434	—	434
Total assets	716 470	9 487	725 957
Liabilities			
Deposits from banks	15 406	—	15 406
Trading portfolio liabilities	47 454	—	47 454
Hedging portfolio liabilities	1 881	—	1 881
Other liabilities	11 239	—	11 239
Provisions	1 808	—	1 808
Current tax liabilities	965	—	965
Deposits due to customers	378 111	9 487	387 598
Debt securities in issue	164 545	—	164 545
Liabilities under investment contracts	13 964	—	13 964
Policyholder liabilities under insurance contracts	3 001	—	3 001
Borrowed funds	13 649	—	13 649
Deferred tax liabilities	2 298	—	2 298
Total liabilities	654 321	9 487	663 808
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Group:			
Ordinary share capital	1 433	—	1 433
Ordinary share premium	4 590	—	4 590
Retained earnings	47 958	—	47 958
Other reserves	2 309	—	2 309
	56 290	—	56 290
Non-controlling interest – ordinary shares	1 215	—	1 215
Non-controlling interest – preference shares	4 644	—	4 644
Total equity	62 149	—	62 149
Total liabilities and equity	716 470	9 487	725 957

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

1.26 Reclassifications *(continued)*

1.26.4 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	20 597	(391)	20 206
Statutory liquid asset portfolio	33 943	—	33 943
Loans and advances to banks	36 032	7 191	43 223
Trading portfolio assets	52 302	—	52 302
Hedging portfolio assets	2 558	—	2 558
Other assets	17 777	(7 191)	10 586
Current tax assets	234	—	234
Loans and advances to customers	506 163	10 845	517 008
Reinsurance assets	719	—	719
Investment securities	29 564	391	29 955
Investments in associates and joint ventures	487	—	487
Goodwill and intangible assets	1 245	—	1 245
Investment properties	2 195	—	2 195
Property and equipment	6 606	—	6 606
Deferred tax assets	374	—	374
Total assets	710 796	10 845	721 641
Liabilities			
Deposits from banks	36 541	—	36 541
Trading portfolio liabilities	44 245	—	44 245
Hedging portfolio liabilities	565	—	565
Other liabilities	12 212	—	12 212
Provisions	1 684	—	1 684
Current tax liabilities	59	—	59
Deposits due to customers	356 365	10 845	367 210
Debt securities in issue	171 376	—	171 376
Liabilities under investment contracts	12 446	—	12 446
Policyholder liabilities under insurance contracts	3 136	—	3 136
Borrowed funds	13 530	—	13 530
Deferred tax liabilities	2 147	—	2 147
Total liabilities	654 306	10 845	665 151
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Group:			
Ordinary share capital	1 432	—	1 432
Ordinary share premium	4 784	—	4 784
Retained earnings	43 153	—	43 153
Other reserves	1 178	—	1 178
	50 547	—	50 547
Non-controlling interest – ordinary shares	1 299	—	1 299
Non-controlling interest – preference shares	4 644	—	4 644
Total equity	56 490	—	56 490
Total liabilities and equity	710 796	10 845	721 641

1.27 Change in accounting policy

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

During the year, the Group adopted the predecessor accounting method as the method for the treatment of common control transactions. The Group 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 Group's parent, Barclays Bank PLC.

The change in accounting policy did not impact the consolidated results, nor did it have any impact on basic or diluted earnings per share as previously reported. 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.

1.28 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 Group.

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 7 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 requirement 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.

The Group is currently in the process of assessing IFRS 9's full impact and initial indications are that it is likely to affect the Group's accounting for certain types of financial assets. In terms of IFRS 9, the Group'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 Group's credit risk will be recognised in other comprehensive income and not in profit or loss.

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

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

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 Group 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 Ventures* (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 Group as the Group'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 Group 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.

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.

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

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.

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.

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

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

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.

Notes to the consolidated financial statements

as at 31 December

	Group		
	2011 Rm	2010[1] Rm	2009[1] Rm
2. Cash, cash balances and balances with central banks			
Balances with other central banks	**1 201**	859	827
Balances with the South African Reserve Bank (SARB)	**12 279**	12 912	10 983
Coins and bank notes	**7 893**	4 939	5 175
Money market assets	**5 624**	5 031	3 221
	26 997	23 741	20 206
Portfolio analysis			
Available-for-sale financial assets			
Money market assets	**523**	458	653
Financial assets designated at fair value through profit or loss			
Money market assets	**3 112**	2 393	1 880
Held-to-maturity financial assets			
Money market assets	**530**	556	688
Loans and receivables	**22 832**	20 334	16 985
Balances with other central banks	**1 201**	859	827
Balances with the SARB	**12 279**	12 912	10 983
Coins and bank notes	**7 893**	4 939	5 175
Money market assets	**1 459**	1 624	—
	26 997	23 741	20 206

Included above are money market assets of **R72 million** (2010: R51 million; 2009: R100 million) which are linked to investment contracts (refer to note 24.1).

	2011 Rm	2010[1] Rm
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 47)	**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.

Note

[1]Comparatives have been reclassified, refer to note 1.26.

	Group		
	2011 Rm	2010[1] Rm	2009[1] Rm
4. Loans and advances to banks			
Collateralised loans	**3 411**	2 618	7 191
Other	**47 282**	19 305	27 100
Reverse repurchase agreements (refer to note 47)	**6 739**	5 572	8 932
	57 432	27 495	43 223
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	**49 546**	19 947	40 820
Collateralised loans	**3 105**	2 117	7 191
Other	**45 610**	17 830	26 471
Reverse repurchase agreements	**831**	—	7 158
	57 432	27 495	43 223

Loans with variable rates are **R50 511 million** (2010: R20 550 million; 2009: R33 891 million) and fixed rates are **R6 970 million** (2010: R6 946 million; 2009: R9 332 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 47. 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.

	Group	
	2011 Rm	2010 Rm
5. Trading and hedging portfolio assets		
Commodities	**243**	654
Debt instruments	**27 114**	11 694
Derivative assets (refer to note 59.3)	**45 604**	43 404
Commodity derivatives	**298**	301
Credit derivatives	**205**	118
Equity derivatives	**1 226**	875
Foreign exchange derivatives	**12 125**	12 932
Interest rate derivatives	**31 750**	29 178
Equity instruments	**4 921**	4 393
Money market assets	**6 741**	1 902
Total trading portfolio assets	**84 623**	62 047
Hedging portfolio assets (refer to note 59.3)	**4 299**	4 662
	88 922	66 709
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	**84 380**	61 393
Debt instruments	**27 114**	11 694
Derivative assets	**45 604**	43 404
Equity instruments	**4 921**	4 393
Money market assets	**6 741**	1 902
Non-financial instruments	**243**	654
	88 922	66 709

Note
[1]Comparatives have been reclassified, refer to note 1.26.

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

Included above are financial instruments related to the Group'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 47). 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.

	Group		
	2011 Rm	2010[1] Rm	2009[1] Rm
6. Other assets			
Accounts receivable and prepayments	**6 015**	5 223	6 240
Initial margin	**1 489**	895	740
Deferred costs	**135**	150	116
Deferred acquisition costs[2] (refer to note 6.1)	**70**	88	83
Other deferred costs	**65**	62	33
Inventories	**1 486**	1 255	1 207
Cost	**1 572**	1 344	1 271
Write-down	**(86)**	(89)	(64)
Retirement benefit fund surplus (refer to note 45)	**628**	705	616
Settlement accounts	**6 466**	4 627	1 667
	16 219	12 855	10 586
Portfolio analysis			
Loans and receivables	**13 487**	10 214	8 423
Accounts receivable	**5 532**	4 692	6 016
Initial margin	**1 489**	895	740
Settlement accounts	**6 466**	4 627	1 667
Financial assets designated at fair value through profit or loss[3]	**17**	16	6
Non-financial assets	**2 715**	2 625	2 157
	16 219	12 855	10 586
6.1 Deferred acquisition costs			
Balance at the beginning of the year	**88**	83	92
Additions	**302**	510	304
Amortisation charge	**(320)**	(505)	(313)
Balance at the end of the year	**70**	88	83
7. Current tax			
Current tax assets			
Amount due from revenue authorities	**288**	196	
Current tax liabilities			
Amount due to revenue authorities	**267**	965	

Notes

[1]Comparatives have been reclassified, refer to note 1.26.

[2]Deferred acquisition costs relate to the Group's insurance and investment management business.

[3]During the year under review, financial assets designated at fair value through profit or loss have been reclassified in order to achieve fair presentation. This resulted in a reclassification of comparative information.

	Group	
	2011 Rm	2010 Rm
8. Non-current assets held for sale		
Balance at the beginning of the year	—	—
Disposal of assets, previously disclosed under non-current asset 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 investments 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 Group, 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 Group, 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 Group, 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.

	Group		
	2011 Rm	2010[1] Rm	2009[1] Rm
9. Loans and advances to customers			
Cheque accounts	33 398	32 005	39 801
Corporate overdrafts and specialised finance loans	10 681	9 612	13 484
Credit cards	21 579	20 663	20 202
Foreign currency loans	9 628	6 609	7 870
Instalment credit agreements (refer to note 9.1)	57 385	56 967	59 396
Gross advances	68 540	67 517	69 849
Unearned finance charges	(11 155)	(10 550)	(10 453)
Reverse repurchase agreements (refer to note 47)	1 613	3 063	1 988
Loans to associates and joint ventures (refer to note 49.6)	7 909	8 025	7 878
Microloans	1 922	2 069	2 936
Mortgages	292 463	307 054	304 724
Other advances[2]	3 197	2 948	3 322
Overnight finance	12 320	7 647	12 340
Personal and term loans	29 925	28 283	21 645
Preference shares	6 958	6 622	7 967
Wholesale overdrafts	26 656	31 115	26 613
Gross loans and advances to customers	515 634	522 682	530 166
Impairment losses on loans and advances (refer to note 10)	(12 131)	(13 902)	(13 158)
	503 503	508 780	517 008
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	10 198	10 332	9 374
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	4 702	3 567	4 403
Loans and receivables	500 090	508 716	518 722
	515 634	522 682	530 166

Included above are securitised assets of **R7 436 million** (2010: R5 140 million; 2009: R4 313 million). Refer to note 48 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 47. 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 47).

Notes

[1]Comparatives have been reclassified, refer to note 1.26.

[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.

Notes to the consolidated financial statements

as at 31 December

	Group		
	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	**22 197**	**(3 431)**	**18 766**
Between one and five years	**44 926**	**(7 459)**	**37 467**
More than five years	**1 417**	**(265)**	**1 152**
	68 540	**(11 155)**	**57 385**

	2010		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	22 779	(3 398)	19 381
Between one and five years	43 420	(6 931)	36 489
More than five years	1 318	(221)	1 097
	67 517	(10 550)	56 967

	2009		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	21 387	(3 094)	18 293
Between one and five years	47 000	(7 111)	39 889
More than five years	1 462	(248)	1 214
	69 849	(10 453)	59 396

The Group 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 743 million).

Notes to the consolidated financial statements

as at 31 December

	Group		
	2011 Rm	2010 Rm	2009 Rm
10. Impairment losses on loans and advances			
Balance at the beginning of the year	**13 902**	13 158	
Amounts written off during the year	**(6 493)**	(5 219)	
Foreign exchange differences	**1**	(2)	
Interest on impaired assets (refer to note 30)	**(1 173)**	(764)	
	6 237	7 173	
Impairments raised during the year (refer to note 10.1)	**5 894**	6 729	
Balance at the end of the year (refer to note 9)	**12 131**	13 902	
Comprising:			
Identified impairments	**11 306**	12 949	
Unidentified impairments	**825**	953	
	12 131	13 902	
10.1 Statement of comprehensive income charge for the year ended 31 December			
Impairments raised during the year	**5 894**	6 729	
Identified impairments	**6 015**	6 919	
Unidentified impairments	**(121)**	(190)	
Recoveries of loans and advances previously written off	**(813)**	(724)	
	5 081	6 005	
11. Reinsurance assets			
Insurance contracts (refer to note 25)	**469**	386	
Life insurance contracts	**57**	58	
Short-term insurance contracts	**412**	328	
Investment contracts (refer to note 24.1)	**540**	474	
	1 009	860	

Included in 'Other assets' (refer to note 6) is **Rnil** (2010: R52 million) relating to amounts receivable from reinsurers for claims made against them.

	2011 Rm	2010 Rm	2009 Rm
12. Investment securities[1]			
Debt instruments	**4 821**	8 045	11 297
Investments linked to investment contracts (refer to note 24.1)	**9 891**	8 467	9 384
Debt instruments	**49**	—	2
Derivative instruments (refer to note 59.3)	**29**	215	410
Listed equity instruments	**8 754**	7 171	7 842
Money market instruments	**1 059**	620	391
Unlisted equity and hybrid instruments	**—**	461	739
Listed equity instruments	**1 448**	1 802	2 492
Unlisted equity and hybrid instruments	**5 022**	6 132	6 782
	21 182	24 446	29 955

Note

[1]Comparatives have been reclassified, refer to note 1.26.

	Group		
	2011 Rm	2010 Rm	2009 Rm
12. Investment securities[1] *(continued)*			
Market value			
Directors' valuation of unlisted equity and hybrid instruments	**5 022**	6 593	7 521
Market value of debt instruments	**4 870**	8 045	11 299
Market value of derivative instruments	**29**	215	410
Market value of listed equity instruments	**10 202**	8 973	10 334
Market value of money market instruments	**1 059**	620	391
	21 182	24 446	29 955
Portfolio analysis			
Available-for-sale financial assets (refer to note 12.1)	**1 444**	1 492	1 995
Debt instruments	**1 214**	1 292	1 762
Listed equity instruments	**72**	51	73
Unlisted equity and hybrid instruments	**158**	149	160
Financial assets designated at fair value through profit or loss	**19 284**	22 351	27 142
Debt instruments	**3 182**	6 365	9 127
Investments linked to investment contracts	**9 862**	8 252	8 974
Listed equity instruments	**1 376**	1 751	2 419
Unlisted equity and hybrid instruments	**4 864**	5 983	6 622
Held for trading financial assets			
Derivative instruments linked to investment contracts (refer to note 59.3)	**29**	215	410
Held-to-maturity financial assets			
Debt instruments	**425**	388	408
	21 182	24 446	29 955
12.1 Available-for-sale financial assets			
Carrying value at the beginning of the year	**1 492**	1 995	2 476
Cost plus fair value movements	**1 629**	2 107	2 552
Impairments[2]	**(137)**	(112)	(76)
Movement in investment securities	**(48)**	(478)	(445)
Net disposals	**(171)**	(463)	(432)
Fair value movements	**123**	(15)	(13)
Impairment charge in the statement of comprehensive income (refer to note 40)	**—**	(25)	(36)
Carrying value at the end of the year	**1 444**	1 492	1 995
Cost plus fair value movements	**1 496**	1 629	2 107
Impairments[2]	**(52)**	(137)	(112)

Notes

[1]Comparatives have been reclassified, refer to note 1.26.

[2] All impairments relate to equity instruments.

	Group 2011 Rm	Group 2010 Rm
13. Investments in associates and joint ventures		
Listed investments	—	41
Unlisted investments	420	375
	420	416
13.1 Movement in carrying value		
Balance at the beginning of the year	416	487
Share of current year's post-tax results	40	(9)
Share of current year's results before taxation	57	52
Taxation on current year's results	(17)	(16)
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 note 13.4 and 40)	2	(29)
Increase/(decrease) in loans and receivables	7	(4)
Movement in amount recognised in other liabilities for the Group's share of losses	—	3
Balance at the end of the year	420	416
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	18	11
Shares at cost	114	114
Share of post-acquisition reserves	288	250
	420	375
13.3 Market value		
Directors' valuation of unlisted investments	420	375
Market value of listed investments	—	55
	420	430

	Group			
	2011		2010	
	Effective holding (%)	**Movement Rm**	Effective holding (%)	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:				
One Commercial Investment Holdings cell captive	—	—	49,0	0
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)

	Group	
	2011 Rm	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)
Loss on disposal	—	(0)
Transfer to non-current assets held for sale (refer to note 8)[1]	(43)	—
Transfer to investment securities	—	(32)
Transfer to subsidiaries	—	—
	(43)	(127)

Refer to note 49.6 for the full disclosure of the Group's investments in associates and joint ventures.

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.

	Group					
	2011			2010		
	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
14. Goodwill and intangible assets						
Computer software development costs	**2 322**	**(906)**	**1 416**	1 738	(616)	1 122
Customer lists	**270**	**(125)**	**145**	191	(96)	95
Goodwill	**719**	**(150)**	**569**	693	(122)	571
Other	**10**	**(5)**	**5**	10	(4)	6
	3 321	**(1 186)**	**2 135**	2 632	(838)	1 794

	Group 2011							
	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of goodwill and intangible assets								
Computer software development costs	**1 122**	**482**	**—**	**(6)**	**80**	**(262)**	**—**	**1 416**
Customer lists	**95**	**—**	**76**	**—**	**—**	**(26)**	**—**	**145**
Goodwill	**571**	**—**	**26**	**—**	**—**	**—**	**(28)**	**569**
Other	**6**	**—**	**—**	**—**	**—**	**(1)**	**—**	**5**
	1 794	**482**	**102**	**(6)**	**80**	**(289)**	**(28)**	**2 135**

	2010							
	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of goodwill and intangible assets								
Computer software development costs	543	718	—	—	(3)	(132)	(4)	1 122
Customer lists	124	—	1	—	—	(30)	—	95
Goodwill	571	—	—	—	—	—	—	571
Other	7	—	2	—	—	(3)	—	6
	1 245	718	3	—	(3)	(165)	(4)	1 794

Refer to note 1.14 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: R325 million) relating to assets still under construction.

No borrowing costs were capitalised during the year under review.

	Group 2011 Rm	Group 2010 Rm
14. Goodwill and intangible assets *(continued)*		
Composition of goodwill		
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
Abseq Properties Proprietary Limited	**—**	25
Abvest Holdings Proprietary Limited	**30**	30
Glenrand MIB employee benefits and healthcare	**22**	22
Global Alliance Seguros S.A.	**23**	—
Ngwenya River Estate Proprietary Limited	**18**	18
Woolworths Financial Services Proprietary Limited	**364**	364
	569	571

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 **7%** (2010: 4% to 7%).

	Group 2011 Rm	Group 2010 Rm
15. Investment properties		
Balance at the beginning of the year	**2 523**	2 195
Additions	**255**	288
Additions through business combinations (refer to note 56)	**68**	—
Change in fair value (refer to notes 38 and 39)	**(39)**	50
Disposals	**(4)**	(2)
Foreign exchange movements	**36**	(8)
Balance at the end of the year	**2 839**	2 523

Investment properties comprise a number of properties leased to third parties for either commercial or residential use. Each of the leases contain an initial rental period ranging from six months to ten years, depending on the use of the building being leased. Subsequent renewals are negotiated with the lessee. No contingent rentals are charged. Investment properties are fairly valued annually based on an independent assessment, considering current property yields and market rates.

	Group 2011 Cost Rm	Group 2011 Accumulated depreciation and/or impairments Rm	Group 2011 Carrying value Rm	Group 2010 Cost Rm	Group 2010 Accumulated depreciation and/or impairments Rm	Group 2010 Carrying value Rm
16. Property and equipment						
Computer equipment	**5 310**	**(3 655)**	**1 655**	4 997	(3 322)	1 675
Freehold property	**4 002**	**(284)**	**3 718**	3 615	(226)	3 389
Furniture and other equipment	**5 397**	**(2 878)**	**2 519**	4 776	(2 447)	2 329
Leasehold property	**467**	**(382)**	**85**	465	(375)	90
Motor vehicles	**72**	**(53)**	**19**	56	(46)	10
	15 248	**(7 252)**	**7 996**	13 909	(6 416)	7 493

Group

	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals[1] Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
	2011							
16. Property and equipment *(continued)*								
Reconciliation of property and equipment								
Computer equipment	**1 675**	**670**	**—**	**(65)**	**32**	**(657)**	**—**	**1 655**
Freehold property[1]	**3 389**	**351**	**21**	**(47)**	**55**	**(51)**	**—**	**3 718**
Furniture and other equipment	**2 329**	**684**	**3**	**(7)**	**26**	**(516)**	**—**	**2 519**
Leasehold property	**90**	**10**	**—**	**(2)**	**18**	**(31)**	**—**	**85**
Motor vehicles	**10**	**14**	**—**	**—**	**1**	**(6)**	**—**	**19**
	7 493	**1 729**	**24**	**(121)**	**132**	**(1 261)**	**—**	**7 996**

	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
	2010							
Reconciliation of property and equipment								
Computer equipment	1 724	816	—	(177)	(19)	(669)	—	1 675
Freehold property	2 386	1 094	—	(12)	(49)	(30)	—	3 389
Furniture and other equipment	2 364	430	—	(22)	(17)	(413)	(13)	2 329
Leasehold property	125	5	—	(2)	(6)	(32)	—	90
Motor vehicles	7	6	—	(1)	1	(3)	—	10
	6 606	2 351	—	(214)	(90)	(1 147)	(13)	7 493

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 **R4 103 million** (2010: R3 949 million).

Leasehold property and computer equipment with a carrying value of **R192 million** (2010: R158 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).

	Group 2011 Rm	Group 2010 Rm
17. Deferred tax[1]		
17.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the year	**1 864**	1 773
Deferred tax asset released on STC credits (refer to note 17.4)	**38**	2
Net movement resulting from business combinations (refer to note 56)	**20**	1
Deferred tax on amounts charged directly to other comprehensive income	**(132)**	529
Available-for-sale investments		
Fair value measurement	**(21)**	72
Cash flow hedges	**(91)**	449
Fair value measurement	**(735)**	(60)
Transfer to the profit and loss component of the statement of comprehensive income	**644**	509
Retirement benefit asset and liabilities	**(20)**	8
Charge to the profit and loss component of the statement of comprehensive income (refer to note 42)	**(935)**	(449)
Tax effect of translation and other differences	**74**	8
Balance at the end of the year	**929**	1 864
17.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**1 091**	1 788
Fair value adjustments on financial instruments	**(164)**	16
Impairment of loans and advances	**(138)**	(72)
Lease and rental debtor allowances	**100**	280
Other differences	**13**	77
Property allowances	**113**	11
Retirement benefit asset and liabilities	**183**	198
Deferred tax liability	**1 198**	2 298
Deferred tax asset	**(269)**	(434)
Deferred tax asset – normal	**(238)**	(365)
Accruals and provisions	**(95)**	(152)
Assessed losses	**(43)**	(105)
Fair value adjustments on financial instruments	**(25)**	(5)
Impairment of loans and advances	**(68)**	(100)
Other differences	**(7)**	(3)
Deferred tax asset – STC credits (refer to note 17.4)	**(31)**	(69)
Net deferred tax liability	**929**	1 864
17.3 Future tax relief		
Balance at the beginning of the year	**207**	127
Losses incurred	**87**	26
Movement in temporary differences	**—**	56
Operating losses utilised	**(17)**	(2)
Balance at the end of the year	**277**	207
17.4 Secondary taxation on companies (STC)		
Accumulated STC credits	**307**	685
Deferred tax asset raised (refer to note 17.2)	**31**	69
Movement in deferred tax asset for the year (refer to note 17.1)	**(38)**	(2)

If the total reserves of **R56 198 million** (2010: R50 267 million) as at the reporting date were to be declared as dividends, the STC impact at a rate of 10% would be **R5 620 million** (2010: R5 027 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 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.

	Group 2011 Rm	Group 2010 Rm
18. Deposits from banks		
Call deposits	**15 537**	6 537
Fixed deposits	**2 165**	860
Foreign currency deposits	**6 809**	1 704
Other	**2 478**	2 091
Repurchase agreements (refer to note 47)	**11 350**	4 214
	38 339	15 406
Portfolio analysis		
Financial liabilities at amortised cost	**28 666**	13 727
Financial liabilities designated at fair value through profit or loss	**9 673**	1 679
Fixed deposits	**479**	462
Foreign currency deposits	**71**	3
Repurchase agreements	**9 123**	1 214
	38 339	15 406

Deposits with variable rates are **R24 089 million** (2010: R4 848 million) and fixed rates are **R14 250 million** (2010: R10 558 million).

	Group 2011 Rm	Group 2010 Rm
19. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 59.3)	**48 703**	43 527
Commodity derivatives	**154**	154
Credit derivatives	**666**	131
Equity derivatives	**3 399**	1 968
Foreign exchange derivatives	**13 353**	12 465
Interest rate derivatives	**31 131**	28 809
Short positions	**7 257**	3 927
Total trading portfolio liabilities	**55 960**	47 454
Hedging portfolio liabilities (refer to note 59.3)	**2 456**	1 881
	58 416	49 335
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	**55 960**	47 454
Derivative liabilities	**48 703**	43 527
Short positions	**7 257**	3 927
	58 416	49 335

Included above are financial instruments related to the Group'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).

	Group 2011 Rm	Group 2010 Rm
20. Other liabilities		
Accruals	**1 199**	1 278
Audit fee accrual	**47**	34
Creditors	**7 885**	5 978
Deferred income	**231**	179
Liabilities under finance leases (refer to note 20.1)	**504**	621
Retirement benefit obligation (refer to note 45)	**592**	358
Settlement balances	**3 719**	2 489
Share-based payment liability (refer to note 55)	**518**	302
	14 695	11 239
Portfolio analysis		
Financial liabilities at amortised cost	**12 092**	9 076
Creditors	**7 869**	5 966
Liabilities under finance leases	**504**	621
Settlement balances	**3 719**	2 489
Financial liabilities designated at fair value through profit or loss	**16**	12
Non-financial liabilities	**2 587**	2 151
	14 695	11 239

Group 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**

Group 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.

	Group	
	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

	Group		
	2011		
	Staff bonus and incentive provision Rm	**Sundry provisions Rm**	**Total Rm**
21. Provisions			
Balance at the beginning of the year	**909**	**899**	**1 808**
Additions	**1 066**	**338**	**1 404**
Amounts used	**(850)**	**(257)**	**(1 107)**
Reversals	**(7)**	**(388)**	**(395)**
Balance at the end of the year	**1 118**	**592**	**1 710**

	2010		
	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	822	862	1 684
Additions	986	399	1 385
Amounts used	(874)	(79)	(953)
Reversals	(25)	(283)	(308)
Balance at the end of the year	909	899	1 808

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R1 288 million** (2010: R1 254 million).

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

	Group		
	2011 Rm	2010[1] Rm	2009[1] Rm
22. Deposits due to customers			
Call deposits	**55 783**	54 707	61 995
Cheque account deposits	**134 505**	117 274	103 110
Credit card deposits	**1 884**	1 830	1 868
Fixed deposits	**125 273**	114 180	106 886
Foreign currency deposits	**8 947**	9 661	9 011
Notice deposits	**28 500**	11 365	10 293
Other[2]	**2 771**	3 702	7 618
Repurchase agreements with non-banks (refer to note 47)	**8 734**	7 035	1 712
Savings and transmission deposits	**74 563**	67 844	64 717
	440 960	387 598	367 210
Portfolio analysis			
Financial liabilities at amortised cost	**420 460**	370 742	354 658
Financial liabilities designated at fair value through profit or loss	**20 500**	16 856	12 552
Cheque account deposits	**5**	—	—
Fixed deposits	**11 761**	9 821	8 791
Other	**—**	—	2 049
Repurchase agreements with non-banks	**8 734**	7 035	1 712
	440 960	387 598	367 210

Notes

[1]Comparatives have been reclassified, refer to note 1.26.

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

	Group 2011 Rm	Group 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	69 553	75 740
Liabilities arising from securitised SPEs	4 218	4 216
Negotiable certificates of deposit	30 214	64 271
Promissory notes	1 550	1 811
Structured notes and bonds	1 451	1 220
Senior notes	14 300	9 138
	130 262	164 545
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	10 774	9 558
Floating rate notes	5 868	5 187
Negotiable certificates of deposit	87	86
Senior notes[1]	4 819	4 285
Financial liabilities at amortised cost[1]	117 726	153 426
Financial liabilities designated at fair value through profit or loss	1 762	1 561
Promissory notes	311	341
Structured notes and bonds	1 451	1 220
	130 262	164 545
24. Liabilities under investment contracts		
Balance at the beginning of the year	13 964	12 446
Changes in investment contracts (refer to note 35)	906	1 014
Inflows on investment contracts	2 548	2 644
Policyholder benefits on investment contracts	(2 187)	(2 114)
Linked investment policies	2	(26)
Balance at the end of the year	15 233	13 964
Portfolio analysis		
Financial liabilities designated at fair value through profit or loss	15 233	13 964

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.

	Group		
	2011		
	Linked to investment contracts[1] Rm	**Intergroup assets and liabilities Rm**	**Attributable to external policy-holders Rm**
24. Liabilities under investment contracts *(continued)*			
24.1 Assets linked to investment contracts			
Money market assets (refer to note 2)	**72**	**—**	**72**
Investment securities (refer to note 12)	**15 448**	**(5 557)**	**9 891**
Other assets	**2**	**—**	**2**
Other liabilities	**(15)**	**—**	**(15)**
Investments in linked investment policies (refer to note 11)	**540**	**—**	**540**
	16 047	**(5 557)**	**10 490**

	2010		
	Linked to investment contracts[1] Rm	Intergroup assets and liabilities Rm	Attributable to external policy-holders Rm
24.1 Assets linked to investment contracts			
Money market assets (refer to note 2)[2]	51	—	51
Investment securities (refer to note 12)[2]	14 288	(5 821)	8 467
Other assets	16	—	16
Other liabilities	(12)	—	(12)
Investments in linked investment policies (refer to note 11)	474	—	474
	14 817	(5 821)	8 996

Notes

[1]Includes **R814 million** (2010: R853 million; 2009: R725 million) assets linked to insurance contracts representing Absa Life Limited's investment in the Absa General Fund. The fund is consolidated as an investment contract with the related policyholder liability disclosed as an insurance contract.

[2]Comparatives have been reclassified, refer to note 1.26.

	Group		
	2011		
	Gross Rm	Reinsurance Rm	Net Rm
25. Policyholder liabilities under insurance contracts			
Short-term insurance contracts:			
Claims outstanding (refer to note 25.1)	672	(195)	477
Claims reported and loss adjustment expense	473	(152)	321
Claims incurred but not reported	199	(43)	156
Unearned premiums at the end of the year	1 039	(217)	822
Balance at the beginning of the year	809	(120)	689
Increase during the year	3 331	(918)	2 413
Release during the year	(3 101)	821	(2 280)
	1 711	(412)	1 299
Long-term insurance contracts (refer to note 25.2)	1 472	(57)	1 415
	3 183	(469)	2 714

	2010		
	Gross Rm	Reinsurance Rm	Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 25.1)	729	(208)	521
Claims reported and loss adjustment expense	556	(186)	370
Claims incurred but not reported	173	(22)	151
Unearned premiums at the end of the year	809	(120)	689
Balance at the beginning of the year	897	(180)	717
Increase during the year	2 857	(508)	2 349
Release during the year	(2 945)	568	(2 377)
	1 538	(328)	1 210
Long-term insurance contracts (refer to note 25.2)	1 463	(58)	1 405
	3 001	(386)	2 615

	Group	
	2011 Rm	2010 Rm
Comprising:		
Unit-linked insurance contracts		
Gross	1 106	1 049
Non-linked insurance contracts	1 608	1 566
Gross	2 077	1 952
Reinsurance (refer to note 11)	(469)	(386)
	2 714	2 615

25. Policyholder liabilities under insurance contracts *(continued)*

25.1 Reconciliation of claims outstanding, including claims incurred but not reported

	Group 2011 Gross Rm	Group 2011 Reinsurance Rm	Group 2011 Net Rm
Balance at the beginning of the year	729	(208)	521
Cash paid for claims settled during the year	(2 459)	483	(1 976)
Increase in claims arising from current year claims outstanding	2 377	(438)	1 939
Increase in claims arising from prior years' claims outstanding	25	(32)	(7)
Balance at the end of the year (refer to note 25)	672	(195)	477

	2010 Gross Rm	2010 Reinsurance Rm	2010 Net Rm
Balance at the beginning of the year	837	(253)	584
Cash paid for claims settled during the year	(2 199)	260	(1 939)
Increase in claims arising from current year claims outstanding	2 073	(210)	1 863
Increase in claims arising from prior years' claims outstanding	18	(5)	13
Balance at the end of the year (refer to note 25)	729	(208)	521

25.2 Reconciliation of gross long-term insurance contracts

	Group 2011 Rm	Group 2010 Rm
Balance at the beginning of the year	1 463	1 402
Reinsurance liability	(1)	16
Value of in-force acquired for transfer of policies	2	—
Changes in insurance contracts (refer to note 35)	8	45
Change in economic assumptions	27	37
Change in methodology	(14)	(34)
Changes in non-economic assumptions	(108)	(154)
Expected cash flow	535	354
Expected release of margins	(572)	(411)
Experience variances	39	(5)
Increase in retrospective liabilities	1	165
New business	69	59
Transfer of policies	7	—
Unwind of discount rate	24	34
Balance at the end of the year (refer to note 25)	1 472	1 463
Recoverable from reinsurers	57	58
Net liabilities	1 415	1 405
Unit-linked liabilities	1 106	1 049
Non-linked liabilities	309	356
	1 472	1 463

Change in accounting estimate – policyholder liabilities under insurance contracts

Policyholder liabilities under insurance contracts are valued using PGN 104, issued by the ASSA. PGN 104 allows for additional margins if the statutory actuary believes that the compulsory margins are insufficient for prudent provisioning and/or to defer the release of profits in line with policy design and company practice. These margins are incorporated into the liability calculations. It is the Group's policy that profit margins contained in the premium basis, which are expected to be released in future as the business runs off, should not be capitalised and recognised prematurely. Such margins should only be released to profits once premiums have been received and the risk cover has been provided.

One of the margins established in terms of the Group's accounting policy, is a discretionary mortality and morbidity margin for certain regular premium business.

Management considered it appropriate to provide for these margins as a result of not having sufficiently large volumes of business and accompanying data. As a result there were random fluctuations in the policyholder liabilities, and the discretionary margins provided to some extent a buffer against these fluctuations. However the volumes of business have shown positive growth over the past financial years and a more credible volume of data has emerged. Management has reconsidered the discretionary mortality and morbidity margin included in the policyholder liabilities and based on the additional data available, set the margins to **0%** for both mortality and morbidity (2010: 7,5% mortality and 10% morbidity).

This has resulted in a decrease in policyholder liabilities and an increase in profit before taxation of **R72** million (future investment management charges were previously not taken into account, which resulted in a release of R117 million in 2010). This amount is taxed in the corporate fund at 28%, amounting to R20 million, as it represents a transfer from the individual policyholder funds to the corporate fund.

26. 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*	Group 2011 Rm	Group 2010 Rm
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

	Group 2011 Rm	Group 2010 Rm
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

26. Borrowed funds *(continued)*

i The 8,75% fixed rate notes may be redeemed in full at the option of the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group does not exercise the redemption option, a coupon step-up of 150 bps points 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.

	Group 2011 Rm	Group 2010 Rm
27. Share capital and premium		
27.1 Ordinary share capital		
Authorised		
880 467 500 (2010: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
718 210 043 (2010: 718 210 043) ordinary shares of R2,00 each	**1 437**	1 437
369 105 (2010: 1 049 790) treasury shares held by Absa Group Limited Share Incentive Trust	**(1)**	(3)
826 717 (2010: 570 000) treasury shares held by Group subsidiaries	**(2)**	(1)
	1 434	1 433
Total issued capital		
Share capital	**1 434**	1 433
Share premium	**4 676**	4 590
	6 110	6 023

Authorised shares

There were no changes to the 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 AGM of the Company.

The Group has a share incentive trust in terms of which shares are issued and share awards are granted. Details of the share incentive trust are set out in note 55. As required by IFRS, Absa Group Limited Share Incentive Trust has been consolidated into the Group's annual financial statements.

Shares issued during the year under review

There were no shares issued during the year under review.

Shares issued during the prior year

There were no shares issued during the prior year.

28. Other reserves

28.1 Associates' and joint ventures' reserve

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

28.2 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.

28.3 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.

28.4 Foreign currency translation reserve

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

28.5 General credit risk reserve

The general credit risk reserve consists of the following:

Total impairments, calculated in terms of IAS 39 should exceed the provisions calculated for regulatory purposes. For some African subsidiaries, the IAS 39 impairment provision is less than the regulatory provision which results in a shortfall. An additional general credit risk reserve has been created and maintained through a transfer of distributable reserves to non-distributable reserves, which eliminates the shortfall.

28.6 Insurance contingency reserve

A contingency reserve is maintained at 10% of net written premiums as stipulated by the Short-term Insurance Act, 1988. The utilisation of this reserve, in case of catastrophe, is subject to the approval of the Financial Services Board (FSB).

28.7 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.

	Group	
	2011 Rm	2010 Rm
29. Non-controlling interest – preference shares		
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 63,0% 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 Absa Bank Limited which directly affects the rights attached to the preference shares or the interest of the holders thereof.

	Group 2011 Rm	Group 2010 Rm
30. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	159	103
Fair value adjustments on hedging instruments	1 063	1 023
Investment securities	390	495
Loans and advances to banks	991	1 234
Other	836	954
Reverse repurchase agreements	155	280
Loans and advances to customers	43 852	48 316
Cheque accounts	2 947	3 162
Corporate overdrafts and specialised finance loans	664	1 254
Credit cards	2 991	2 998
Foreign currency loans	177	252
Instalment credit agreements	5 577	6 095
Interest on impaired financial assets (refer to note 10)	1 173	764
Loans to associates and joint ventures	417	486
Microloans	544	706
Mortgages	22 062	25 071
Other advances[1]	412	943
Overnight finance	584	640
Personal and term loans	3 649	3 225
Preference shares	619	693
Wholesale overdrafts	2 036	2 027
Other interest	484	87
Statutory liquid asset portfolio	4 282	2 983
	51 221	54 241
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale items held in a fair value hedging relationship (refer to note 59.2)	428	462
Loans and advances to customers[2]	41	135
Statutory liquid asset portfolio	387	327
Fair value adjustments on hedging instruments	1 589	917
Cash flow hedges (refer to note 59.2)	2 112	1 485
Economic hedges	(55)	(93)
Fair value hedges (refer to note 59.2)[2]	(468)	(475)
Interest on financial assets held at amortised cost and available-for-sale financial assets[2]	47 851	51 337
Interest on financial assets designated at fair value through profit or loss[2]	1 353	1 525
Cash, cash balances and balances with central banks	113	61
Hedging instruments[2]	(526)	106
Investment securities	217	344
Loans and advances	1 402	735
Statutory liquid asset portfolio	147	279
	51 221	54 241

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.

31. Interest expense and similar charges

	Group 2011 Rm	Group 2010 Rm
Interest expense and similar charges are paid on:		
Borrowed funds	1 350	1 586
Debt securities in issue	9 602	12 786
Deposits due to customers	15 636	17 204
Call deposits	3 082	3 237
Cheque account deposits	2 761	3 196
Credit card deposits	10	13
Fixed deposits	6 315	7 197
Foreign currency deposits	102	142
Notice deposits	777	457
Other	494	609
Savings and transmission deposits	2 095	2 353
Deposits from banks	410	273
Call deposits	309	177
Fixed deposits	98	62
Other	3	34
Fair value adjustments on hedging instruments	(472)	(1 116)
Interest incurred on finance leases	85	108
Other	181	60
	26 792	30 901
Portfolio analysis		
Fair value adjustments on amortised cost items held in a fair value hedging relationship (refer to note 59.2)	178	504
Borrowed funds	38	291
Debt securities in issue	140	213
Fair value adjustments on hedging instruments	(472)	(1 116)
Cash flow hedges (refer to note 59.2)[1]	(155)	(291)
Economic hedges[1]	(175)	(353)
Fair value hedges (refer to note 59.2)	(142)	(472)
Interest on financial liabilities designated at fair value through profit or loss	677	989
Debt securities in issue	96	364
Deposits due to customers	581	625
Interest on financial liabilities held at amortised cost	26 409	30 524
	26 792	30 901

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.

	Group 2011 Rm	Group 2010 Rm
32. Net fee and commission income		
Asset management and other related fees	**81**	105
Consulting and administration fees	**520**	510
Credit-related fees and commissions	**12 672**	11 800
Cheque accounts	**3 334**	3 198
Credit cards[1, 2]	**1 094**	883
Electronic banking	**4 095**	3 828
Other[3]	**1 762**	1 474
Savings accounts	**2 387**	2 417
Insurance commission received	**901**	950
Merchant income[2]	**1 185**	1 055
Other	**256**	299
Pension fund payment services	**484**	497
Project finance fees	**222**	209
Trust and other fiduciary services	**1 101**	1 029
Portfolio and other management fees	**849**	783
Trust and estate income	**252**	246
Fee and commission income	**17 422**	16 454
Fee and commission expense	**(2 129)**	(2 063)
Cheque processing fees	**(171)**	(173)
Insurance commission paid	**(877)**	(867)
Other[2]	**(659)**	(524)
Transaction-based legal fees	**(229)**	(192)
Trust and other fiduciary service fees[2,4]	**(51)**	(122)
Valuation fees	**(142)**	(185)
	15 293	14 391

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

32.1 Included above are net fees and commissions linked to financial instruments not at fair value[5]

	Group 2011 Rm	Group 2010 Rm
Cheque accounts	**3 334**	3 198
Credit cards	**1 094**	883
Other	**1 158**	975
Savings accounts	**2 387**	2 417
Fee and commission income	**7 973**	7 473
Fee and commission expense	**(1 033)**	(902)
	6 940	6 571

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.

	Group	
	2011 Rm	2010 Rm
33. Net insurance premium income		
Gross insurance premiums	6 182	5 365
Life insurance contracts	2 404	1 871
Short-term insurance contracts	3 778	3 494
Premiums ceded to reinsurers	(973)	(763)
Reinsurance on life insurance contracts	(154)	(154)
Reinsurance on short-term insurance contracts	(819)	(609)
	5 209	4 602
Comprising (net of reinsurance)		
Life	2 250	1 717
Credit life	847	575
Funeral business	449	375
Home mortgage protection	573	523
Other	381	244
Short-term	2 959	2 885
Commercial business	1 012	1 044
Personal business	1 947	1 841
	5 209	4 602
34. Net insurance claims and benefits paid		
Gross claims and benefits paid on insurance contracts	3 076	2 864
Life insurance claims and benefits	672	516
Short-term insurance claims and benefits	2 404	2 348
Reinsurance recoveries	(559)	(459)
Reinsurance recoveries on life insurance contracts	(104)	(79)
Reinsurance recoveries on short-term insurance contracts	(455)	(380)
	2 517	2 405
Comprising (net of reinsurance)		
Life	568	437
Credit life	89	59
Funeral business	115	98
Home mortgage protection	280	241
Other	84	39
Short-term	1 949	1 968
Commercial business	826	926
Personal business	1 123	1 042
	2 517	2 405

Notes to the consolidated financial statements

for the year ended 31 December

	Group	
	2011 Rm	2010 Rm
35. Change in investment contracts and insurance contract liabilities		
Increase in insurance contract liabilities (refer to note 25.2)	**8**	45
Increase in investment contract liabilities (refer to note 24)	**906**	1 014
	914	1 059
36. 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	**437**	88
Debt instruments designated at fair value through profit or loss	**29**	26
Equity instruments designated at fair value through profit or loss	**428**	154
Available-for-sale unwind from reserves	**(20)**	(92)
Net trading result	**2 627**	1 789
Net trading income excluding the impact of hedge accounting	**2 571**	1 689
Ineffective portion of hedges	**56**	100
Cash flow hedges (refer to note 59.2)	**33**	44
Economic hedges	**30**	71
Fair value hedges (refer to note 59.2)	**(7)**	(15)
Other	**(470)**	385
	2 594	2 349

'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 571 million** (2010: R1 689 million), consists of the following:

- Losses on financial instruments designated at fair value through profit or loss of **R851 million** (2010: R1 061 million).
- Gains on financial instruments held for trading of **R3 422 million** (2010: R2 750 million).

Net losses on financial instruments designated at fair value through profit or loss consist of:

- Net gains of **R534 million** (2010: R705 million) on financial assets designated at fair value through profit or loss.
- Net losses of **R1 385 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 **R6 million** (2010: R565 million).
- Losses on financial instruments held for trading of **R476 million** (2010: R180 million).

Note

[1]During the year under review, the presentation of 'Gains and losses from banking and trading 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.

	Group	
	2011 Rm	2010 Rm
37. Gains and losses from investment activities[1]		
Available-for-sale unwind from reserves	**1**	0
Net gains on investments from insurance activities	**886**	820
Policyholder insurance contracts	**173**	234
Policyholder investment contracts	**511**	214
Shareholder funds	**202**	372
Other	**79**	64
	966	884

Net gains on investments from insurance activities comprise cash, debt and equity instruments designated at fair value through profit or loss as well as gains and losses from instruments held for trading.

Net gains on investments from insurance activities of **R886 million** (2010: R820 million) consist of the following:

- Gains on financial instruments designated at fair value through profit or loss of **R880 million** (2010: R796 million).
- Gains on financial instruments held for trading of **R6 million** (2010: R24 million).

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

	2011 Rm	2010 Rm
38. Other operating income		
Foreign exchange differences	**59**	59
Income from investment properties	**19**	61
Change in fair value of investment properties (refer to note 15)	**2**	50
Investment property rentals	**17**	11
Income from maintenance contracts	**15**	15
Loss on disposal of computer software	**(2)**	—
Profit on disposal of property and equipment	**33**	41
Profit on sale of developed properties	**48**	28
Gross sales	**107**	61
Cost of sales	**(59)**	(33)
Profit on sale of repossessed properties	**24**	6
Gross sales	**291**	141
Cost of sales	**(267)**	(135)
Rental income	**324**	253
Sundry income[2]	**252**	249
	772	712

Notes

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

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

	Group	
	2011 Rm	2010 Rm
39. Operating expenses		
Amortisation of intangible assets (refer to note 14)	**289**	165
Auditors' remuneration	**166**	159
Audit fees – current year	**114**	108
Audit fees – under provision	**5**	6
Audit related[1, 2]	**37**	39
Other services	**10**	6
Cash transportation	**726**	729
Depreciation (refer to note 16)	**1 261**	1 147
Equipment costs	**224**	271
Rentals	**131**	134
Maintenance	**93**	137
Information technology[3]	**2 241**	2 085
Investment properties charges	**41**	4
Change in fair value (refer to note 15)	**41**	—
Other	**—**	4
Marketing costs	**1 036**	1 070
Operating lease expenses on properties	**1 018**	978
Other[4, 5]	**1 562**	1 871
Printing and stationery	**253**	272
Professional fees[3]	**1 076**	1 096
Property costs[5]	**1 120**	866
Staff costs	**13 642**	12 537
Bonuses	**1 285**	1 101
Current service costs on post-retirement benefits (refer to note 49.6)	**772**	635
Other[6]	**487**	528
Salaries	**10 379**	9 707
Share-based payments (refer to note 55)	**467**	297
Training costs	**252**	269
Telephone and postage	**803**	820
	25 458	24 070

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.

	Group 2011 Rm	Group 2010 Rm
40. Other impairments		
Financial instruments	**5**	37
Amortised cost	**5**	12
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
	52	108

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 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 instruments 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.

	Group 2011 Rm	Group 2010 Rm
41. Indirect taxation		
Training levy[1]	**104**	96
VAT net of input credits	**967**	675
	1 071	771

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.

	Group 2011 Rm	Group 2010 Rm
42. Taxation expense		
Current		
Foreign taxation	82	339
South African current tax	4 485	3 253
South African current tax – prior year	125	2
STC	269	117
	4 961	3 711
Deferred		
Deferred tax (refer to note 17.1)	(935)	(449)
Accelerated tax depreciation	(146)	(153)
Allowances for loan losses	(117)	731
Other provisions	(70)	302
Other temporary differences	(605)	(1 347)
Retirement benefit asset and liabilities	3	18
	4 026	3 262
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	14 210	11 851
Share of post-tax results of associates and joint ventures (refer to note 13)	(40)	9
	14 170	11 860
Tax calculated at a tax rate of 28%	3 968	3 321
Effect of different tax rates in other countries	(12)	76
Expenses not deductible for tax purposes	149	96
Income not subject to tax	(375)	(578)
Other	27	230
STC	269	117
	4 026	3 262

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.

The South African Revenue Service (SARS) is in the process of reviewing the industry treatment of certain transactions. The Group believes that these transactions have been appropriately recognised in accordance with industry practice and relevant legislation, based on external legal advice obtained. The Group is continuing to engage with SARS to clarify the matter.

43. Earnings per share

43.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Group, 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.

	Group 2011 Rm	Group 2010 Rm
Basic earnings attributable to ordinary equity holders of the Group	9 674	8 118
Weighted average number of ordinary shares in issue (millions)	716,8	716,3
Issued shares at the beginning of the year	718,2	718,2
Treasury shares held by Absa Group Limited Share Incentive Trust (weighted)	(0,6)	(1,3)
Treasury shares held by Group subsidiaries (weighted)	(0,8)	(0,6)
Basic earnings per share (cents)	1 349,6	1 133,3

	Group	
	2011 Rm	2010 Rm
43. Earnings per share *(continued)*		
43.2 Diluted earnings per share		
Diluted earnings attributable to ordinary equity holders of the Group	**9 674**	8 118
Diluted weighted average number of ordinary shares in issue (millions)	**719,9**	720,7
Issued number of ordinary shares	**716,8**	716,3
Adjustments for share options issued at no value (weighted)	**3,1**	4,4
Diluted earnings per share (cents)	**1 343,8**	1 126,4

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

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

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

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

Notes to the consolidated financial statements

for the year ended 31 December

	Group			
	2011		2010	
	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm
44. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Group		9 674		8 118
Total headline earnings adjustment:		45		(77)
IFRS 3 – Goodwill impairment (gain on bargain purchase) (refer to notes 40 and 56)	28	28	(72)	(72)
IAS 16[2] – Profit on disposal of property and equipment (refer to note 38)	(33)	(30)	(41)	(37)
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 36)	—	—	(42)	(42)
IAS 28 and 31 – Impairment (reversal)/charge of investments in associates and joint ventures (refer to note 40)	(2)	(1)	29	21
IAS 36[3] – Impairment of equipment (refer to note 40)	—	—	13	9
IAS 38[4] – Loss on disposal and impairment of intangible assets (refer to note 38 and 40)	2	1	4	3
IAS 39 – Release of available-for-sale reserves (refer to note 36)	20	14	92	66
IAS 39 – Impairment of available-for-sale assets (refer to note 40)	—	—	25	18
IAS 40[5] – Change in fair value of investment properties (refer to notes 38 and 39)	39	33	(50)	(42)
Headline earnings/diluted headline earnings		9 719		8 041
Headline earnings per share (cents)		1 355,9		1 122,6
Diluted headline earnings per share (cents)		1 350,0		1 115,7

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.*

	Group 2011 Rm	Group 2010 Rm
45. Retirement benefit obligations		
Surplus disclosed in 'Other assets'		
The Group defined benefit plan (refer to notes 6 and 45.3.1)	628	705
Obligations disclosed in 'Other liabilities'		
Subsidiaries' defined benefit plan (refer to note 45.1)	586	352
Subsidiaries' post-retirement medical aid	6	6
	592	358
Statement of comprehensive income charge included in staff costs and interest expense		
Subsidiaries' defined benefit plan (refer to note 45.1)	76	44
The Absa Group defined benefit plan (refer to note 45.3.1)	12	(61)
	88	(17)
Recognised in other comprehensive income		
Actuarial gains	(12)	(54)
Application of the asset ceiling adjustment	83	25
	71	(29)
45.1 Subsidiaries' defined benefit plan		
Reconciliation of movement in funded obligation		
Balance at the beginning of the year	352	418
Benefits paid	(29)	(22)
Current service costs	13	7
Foreign exchange differences	182	(90)
Interest expense	63	37
Net actuarial losses	5	2
Balance at the end of the year	586	352
Total expenses comprise:		
Current service costs	13	7
Interest expense	63	37
	76	44
Recognised in other comprehensive income		
Actuarial losses/(gains)	5	(2)
The principal actuarial assumptions used were as follows:		
Discount rate (%)	12,0	15,0
Expected rate on plan assets (%)	10,5	13,5
Future pension increases (%)	3,4	4,6
Future salary increases (%)	9,5	11,5
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 65 is as follows:		
Male	12,5	12,5
Female	14,4	14,4
Pension fund assets		
Investments		
Government bonds	191	75
Treasury bills	105	231
Current assets		
Bank balance with Barclays Bank Mozambique S.A.	215	19
Interest owing by government	34	17
	545	342

45. Retirement benefit obligations *(continued)*

45.1 Subsidiaries' defined benefit plan *(continued)*

The assets have been ring-fenced to the retirement benefits, but do not qualify as plan assets in terms of IAS 19 as they are not in a separate entity and therefore are carried on the Group's statement of financial position. The major constraint in this regard is the lack of enabling legislation in certain African countries.

	Group				
	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
Historical information as at the reporting date					
Present value of defined benefit obligation	**586**	352	418	503	372
Experience adjustments on plan liabilities	**5**	2	32	(19)	29

45.2 Subsidiaries' post-retirement medical aid plan

Woolworths Financial Services Proprietary Limited subsidises a portion of the medical aid contributions of retired employees who participate in the Wooltru Healthcare Fund. The accrued and future liability in respect of post-retirement medical aid contributions is valued annually on the reporting date. This liability was actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions. For purposes of the valuation, it was assumed that medical inflation is **7,7%** (2010: 7,4%) per annum. The discount rate used to value the liability is **8,7%** (2010: 8,6%) per annum. At the reporting date, the accrued liability amounted to **R6 million** (2010: R5 million) in respect of those current and retired employees who participate in the Wooltru Healthcare Fund. Employees who joined the healthcare fund after 1 November 2000 are not entitled to receive post-retirement healthcare benefits.

The provision for post-retirement medical aid benefits determined in terms of IAS 19 as follows:

	Group	
	2011 Rm	2010 Rm
Unfunded obligation		
Unfunded liability	**6**	6
Unfunded deficit	**6**	6
Net obligation	**6**	6

Reconciliations of movement in the obligation and funding liability have not been provided as amounts are less than R1 million.

	Group 2011 Rm	Group 2010 Rm
45. Retirement benefit obligations *(continued)*		
45.3 The Absa Group Pension Fund		
45.3.1 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 Group with a fair value of **R95 million** (2010: R180 million). Refer to note 49 for full disclosure of related party transactions.

The Group 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.

	Group 2011 Rm	Group 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
	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

	Group				
	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
45. Retirement benefit obligations *(continued)*					
45.3 The Absa Group Pension Fund *(continued)*					
45.3.1 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

	Group	
	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.

45.4 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 Group'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.

45. Retirement benefit obligations *(continued)*

45.4 Post-retirement benefits *(continued)*

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. The valuation has been 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.

46. Dividends per share

	Group	
	2011 Rm	2010 Rm
Dividends paid to ordinary equity holders during the year		
15 February 2011 final dividend number 49 of 230 cents per ordinary share (16 February 2010: 220 cents)	**1 652**	1 580
2 August 2011 interim dividend number 50 of 292 cents per ordinary share (4 August 2010: 225 cents)	**2 098**	1 616
Dividends paid on treasury shares held by Group subsidiaries	**(6)**	(5)
	3 744	3 191
Dividends paid to ordinary equity holders relating to income for the year		
2 August 2011 interim dividend number 50 of 292 cents per ordinary share (4 August 2010: 225 cents)	**2 098**	1 616
10 February 2012 final dividend number 51 of 392 cents per ordinary share (15 February 2011: 230 cents)	**2 815**	1 652
Dividends paid on treasury shares held by Group subsidiaries	**(2)**	(3)
	4 911	3 265

The STC payable by the Group in respect of the dividend approved and declared subsequent to the reporting date, amounts to **R282 million** (2010: R165 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.

	Group	
	2011 Rm	2010 Rm
Dividends paid to non-controlling 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 non-controlling 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 Group 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.

47. 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.

	Group			
	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 Group 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 Group. Amounts received from the counterparty are treated as deposits.

	Group			
	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**	**11 350**	44	4 214
Deposits due to customers (refer to note 22)	**466**	**8 734**	10	7 035
	887	**20 084**	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 are secured by a portion of the statutory liquid asset portfolio of **R2 289 million** (2010: R3 000 million), refer to note 3.

	Group 2011 Rm	Group 2010 Rm
48. Assets transferred, but not derecognised		
In the ordinary course of business, the Group enters into transactions that result in the transfer of assets to third parties or 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 Group sold certain exposures to Commissioner Street 1, a SPE established by the Group. 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 Group 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 Group being exposed to the majority of risks and rewards of Commissioner Street 1, the Group 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 Group 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 Group sold certain exposures to Commissioner Steet 4, a SPE established by the Group. 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 Group 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 Group 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 Group 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 Group transferred retail mortgages to Home Obligors Mortgage Enhanced Securities Proprietary Limited (Homes) in prior years. Homes is consolidated by the Group based on the following conclusions reached in terms of SIC-12:

- The Group bears credit risk through a subordinated loan advanced to Homes.
- The Group receives a return on the subordinated loan, a service fee and the residual income in Homes.
- The Group 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 47.

49. Related parties

Barclays Bank PLC owns **55,5%** (2010: 55,5%) of the ordinary shares in the Group. 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 Group:

- key management personnel (refer to notes 49.1 and 49.2);
- the parent company (refer to note 49.3);
- fellow subsidiaries, associates and joint ventures of the parent company (refer to note 49.4);
- subsidiaries (refer to note 49.5);
- associates, joint ventures and retirement benefit fund (refer to note 49.6);
- 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 Group; and
- children and/or dependants and spouses or partners of the individuals referred to above.

49. Related parties *(continued)*

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 Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

49.1 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:

	Group			
	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 Group, 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.

	Group			
	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**	**0**	1	—
Guarantees issued by the Group	**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 Group. There were no bad debt expenses and provision for bad debts that related to balances with key management personnel.

	Group			
	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
49. Related parties *(continued)*				
49.1 Transactions with key management personnel *(continued)*				
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.

	Group	
	2011 Rm	2010 Rm
49.2 Key management personnel compensation		
Directors		
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**33**	38
Share-based payments	**27**	17
Termination benefits	**—**	10
	61	66
Other key management personnel		
Post-employment benefit contributions	**2**	2
Salaries and other short-term benefits	**42**	43
Share-based payments	**36**	33
Termination benefits	**3**	—
	83	78
49.3 Balances and transactions with parent company[1]		
Balances		
Loans and advances to banks	**41 065**	15 261
Derivative assets	**10 254**	9 079
Nominal value of derivative assets	**637 611**	489 895
Other assets	**338**	498
Investment securities	**499**	581
Deposits from banks	**(5 784)**	(5 821)
Derivative liabilities	**(10 488)**	(8 999)
Nominal value of derivative liabilities	**(462 870)**	(375 175)
Other liabilities	**(1 167)**	(267)

Note

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

49. Related parties *(continued)*

49.3 Balances and transactions with parent company[1] *(continued)*

	Group 2011 Rm	Group 2010 Rm
Transactions		
Interest and similar income	**(111)**	(80)
Interest expense and similar charges	**67**	36
Net fee and commission income	**—**	(15)
Gains and losses from banking and trading activities	**(136)**	1 646
Other operating income	**(152)**	(42)
Operating expenditure	**115**	(252)
Dividends paid	**2 082**	1 775

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 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 parent company.

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

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

	Group 2011 Rm	Group 2010 Rm
Balances		
Loans and advances to banks	**188**	412
Derivative assets	**0**	65
Nominal value of derivative assets	**608**	3 507
Other assets	**—**	54
Deposits from banks	**—**	(261)
Derivative liabilities	**(72)**	(7)
Nominal value of derivative liabilities	**(1 441)**	(292)
Other liabilities	**(52)**	—
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.

Note

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

49. Related parties *(continued)*

49.5 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 Group and the list will change annually to reflect those entities whose results or financial position materially affected the Group's results for the year under review.

			Group	
Name	Nature of business	Country of incorporation	2011 % holding	2010 % holding
Absa Group Limited and its subsidiaries				
Absa Asset Management Proprietary Limited	An institutional asset management company that offers fixed income, equity, structured products and alternative investment solutions to customers through various pooled and segregated investment mandates.	South Africa	**100**	100
Absa Capital Securities Proprietary Limited	Stockbrokers	South Africa	**100**	100
Absa Development Company Holdings Proprietary Limited	Specialises in township development and sale of residential, commercial and industrial land.	South Africa	**100**	100
Absa Manx Holdings Limited	Captive insurance company for the Group and responsible for investments in the insurance markets.	Isle of Man	**100**	100
Absa Stockbrokers Proprietary Limited	Enables customers to trade online or by telephone in shares, warrants and exchange-traded funds.	South Africa	**100**	100
AllPay Consolidated Investment Holdings Proprietary Limited	Distributes social security grants and other payments to beneficiaries on behalf of third parties, mainly provincial government departments.	South Africa	**100**	100
Barclays Bank Mozambique S.A. (BBM) (incorporated in Mozambique)	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.	Mozambique	**96**	96
Blue Age Properties 60 Proprietary Limited	Property Fund	South Africa	**100**	100
Diluculo Investments Proprietary Limited	Investment holding and management company, providing project and management services to property funds and trading projects.	South Africa	**100**	100
National Bank of Commerce Limited (NBC) (incorporated in Tanzania)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.	Tanzania	**55**	55
Unifer Holdings Limited	Microlending holding company.	South Africa	**100**	100
Woolworths Financial Services Proprietary Limited	Provides credit cards, in-store cards and personal loans.	South Africa	**50**	50

Note

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

Name	Nature of business	Country of incorporation	Group 2011 % holding	Group 2010 % holding
Absa Bank Limited and its subsidiaries				
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[1]	Offers residential property related ownership solutions to individuals.	South Africa	100	100
Absa Rewards Company Proprietary 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[2]	Property investment	South Africa	70	40
Overlook at Sugarloaf Incorporated[3]	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
Absa Financial Services and subsidiaries				
Absa Consultants and Actuaries Proprietary Limited	Offers comprehensive administrative, actuarial and consulting services, including asset consulting services in respect of pension funds, provident funds and other employee benefit group schemes.	South Africa	100	100
Absa Financial Services Africa Holdings Proprietary Limited[4]	Holding company of African financial service related entities.	South Africa	100	100
Absa Financial Services Limited	Holding company of financial service related entities.	South Africa	100	100
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.	South Africa	100	100
Absa Health Care Consultants Proprietary Limited	Advises medical funds and other persons and institutions on any matter relating to the structure and management of medical funds and health care benefits.	South Africa	100	100
Absa idirect Limited	Short-term insurance business.	South Africa	100	100
Absa Insurance and Financial Advisers Proprietary Limited	Provides a full spectrum of financial advisory services ranging from risk management to wealth creation, preservation and estate planning.	South Africa	100	100

Notes

[1]Name changed from Sanlam Home Loans Proprietary Limited.

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

[3]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.

[4]Orginally a dormant company which became operational during January 2011 as the holding company for Absa Financial Services Limited's African operations.

Name	Nature of business	Country of incorporation	Group 2011 % holding	Group 2010 % holding
49. Related parties *(continued)*				
49.5 Subsidiaries[1] *(continued)*				
Absa Financial Services and its subsidiaries *(continued)*				
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.	South Africa	**100**	100
Absa Investment Management Services Proprietary Limited	Approved investment manager and linked investment service provider. Offers off-the-shelf local and international linked investment products, as well as investment solutions to suit specific needs.	South Africa	**100**	100
Absa Life Limited	Provides life insurance products, focusing on risk and investment products, that complement the Group's offerings to various market segments.	South Africa	**100**	100
Absa Life Botswana (Proprietary) Limited[2]	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments in Botswana.	Botswana	**100**	100
Absa Mortgage Fund Managers Proprietary Limited	Provides loans to small and large companies, close corporations, trusts, property investors and developers for the development, acquisition and/or refinancing of income-producing commercial and industrial properties.	South Africa	**100**	100
Absa Portfolio Managers Proprietary Limited	Markets and exploits investment services through direct delivery systems and manages investment business.	South Africa	**100**	100
Global Alliance Seguros S.A.[3]	Provides non-life insurance in Mozambique.	Mozambique	**100**	—
Share trusts				
Absa Group Limited Share Incentive Trust	Share purchase and option scheme available to senior staff.	South Africa	**n/a**	n/a
Batho Bonke Absa Historical Disadvantaged South Africans (HDSA) Employee Trust	BBBEE trust	South Africa	**n/a**	n/a
Special purpose entities				
Absa Benefit Fund	Cell captive	South Africa	**n/a**	n/a
Absa Foundation Trust	Provides funding for community upliftment. It receives a percentage of the Group's dividends which it distributes to identified community-related projects.	South Africa	**n/a**	n/a
Absa General Fund	Fund used to invest in unit trusts.	South Africa	**n/a**	n/a
Alpha Trust	Provides preference share funding	South Africa	**n/a**	n/a
Absa Property Equity Fund[4]	Unit trust.	South Africa	**n/a**	n/a
Asset Backed Collaterised 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[5]	SPE for Absa Capital division, with asset backed securities.	South Africa	**n/a**	n/a
Home Obligors Mortgage Enhanced Securities Proprietary Limited	Securitisation vehicle for Absa Home Loans division.	South Africa	**n/a**	n/a

	2011 Rm	2010 Rm
Subsidiaries' aggregate profits and losses after taxation[6]	**9 634**	8 127

Notes

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

[2]The entity was established during 2010 and only commenced operations in March 2011.

[3]The entity was acquired during the year under review.

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

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

[6]Profit attributable to ordinary equity holders of the Group, excluding share of post-tax results of associates and joint ventures.

49. Related parties *(continued)*

49.6 Associates, joint ventures and retirement benefit fund[1]

The Group provides certain banking and financial services to associates and joint ventures. The Group also provides a number of current and interest-bearing cash accounts to the Absa 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 Group's consolidated financial statements are as follows:

	Group		
	2011		
	Associates and joint ventures[2] Rm	Retirement benefit fund[2] Rm	Total[1] Rm
Value of Absa Group Pension Fund investments managed by the Group	—	7 692	7 692
Value of Absa Group Limited ordinary 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	56	—	56
Loans and advances to customers (refer to note 9)	7 909	—	7 909
Other liabilities	(90)	—	(90)
Deposits due to customers	(2)	(24)	(26)
Statement of comprehensive income			
Interest and similar income	(631)	—	(631)
Interest expense and similar charges	8	2	10
Fee and commission income	(95)	(19)	(114)
Fee and commission expense	167	—	167
Current service costs (refer to note 39)	—	772	772

Pledges and securities

Spring Valley Developments Proprietary Limited has development land pledged as security to the Group for an amount of **R27 million** (2010: Rnil) and is in the process of extending their debt facility by a further **R7 million.**

Notes

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

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

	2010		
	Associates and joint ventures[1] Rm	Retirement benefit fund[1] Rm	Total[1] Rm

49. Related parties *(continued)*

49.6 Associates, joint ventures and retirement benefit fund[2] *(continued)*

	Associates and joint ventures[1] Rm	Retirement benefit fund[1] Rm	Total[1] Rm
Value of Absa Group Pension Fund investments managed by the Group	—	7 193	7 193
Value of Absa Group Limited ordinary shares held by the Absa Group Pension Fund	—	116	116
Value of other 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	8	1	9
Fee and commission income	(106)	(17)	(123)
Fee and commission expense	173	—	173
Current service costs (refer to note 39)	—	635	635

Notes

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

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

49. Related parties *(continued)*

49.6 Associates, joint ventures and retirement benefit fund *(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 Group's annual consolidated financial statements.

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

Name	Nature of business	Country of incorporation	2011 Ownership %	2010 Ownership %
Equity-accounted associates				
One Commercial Investment Holdings cell captive	Cell captive	South Africa	**49**	49
Sekunjalo Investments Limited[1]	Investment holding company	South Africa	**9**	26
Spring Valley Investments Proprietary Limited	Property development	South Africa	**37**	37
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

Note

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

Name
49. Related parties *(continued)*
49.6 Associates, joint ventures and retirement benefit fund[2] *(continued)*
Equity-accounted associates
One Commercial Investment Holdings cell captive
Sekunjalo Investments Limited[3]
Spring Valley Investments Proprietary Limited
Equity-accounted joint ventures
FFS Finance South Africa Proprietary Limited
Integrated Processing Solutions Proprietary Limited
Kilkishen Investments Proprietary Limited
MAN Financial Services (S.A.) Proprietary Limited
Meadowood Investments 8 Proprietary Limited
Stand 1135 Houghton Proprietary Limited
Associates and joint ventures designated at fair value through profit or loss

Name
Equity-accounted associates
One Commercial Investment Holdings cell captive
Sekunjalo Investments Limited
Spring Valley Investments Proprietary Limited
Equity-accounted joint ventures
FFS Finance South Africa Proprietary Limited
Integrated Processing Solutions Proprietary Limited
Kilkishen Investments Proprietary Limited
MAN Financial Services (S.A.) Proprietary Limited
Meadowood Investments 8 Proprietary Limited
Stand 1135 Houghton Proprietary Limited
Virgin Money South Africa Proprietary Limited[4]
Associates and joint ventures designated at fair value through profit or loss
Note

Notes

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

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

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

[4]Disposed of during 2010.

Group

2011						
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**
0	343	(322)	0	—	180	1
—	—	—	1	—	—	—
8	58	(29)	(7)	—	4	(8)
325	7 839	(7 190)	66	5 605	828	113
26	133	(56)	3	—	287	6
35	109	(52)	2	0	12	6
17	1 831	(1 798)	(25)	1 732	178	51
0	621	(759)	—	0	99	20
9	22	(22)	0	0	2	2
n/a	4 059	(13 710)	n/a	572	200 140	(21 342)

Group

2010						
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
0	131	(126)	0	0	0	0
41	728	(324)	2	—	516	9
10	73	(74)	(1)	0	0	3
259	8 025	(7 508)	1	5 577	372	91
23	115	(39)	4	—	301	8
33	108	(52)	2	0	22	4
41	1 925	(1 842)	(15)	1 843	203	(30)
0	550	(742)	—	0	106	29
9	19	(10)	1	—	14	2
—	—	—	(3)	—	—	—
n/a	2 096	(1 868)	n/a	605	82 962	(14 819)

9

	Group 2011 Rm	Group 2010 Rm
50. Assets under management and administration[1]		
Alternative asset management and exchange-traded funds	30 486	25 904
Deceased estates	2 166	2 153
Other	10 505	10 898
Participation bond schemes	2 544	2 315
Portfolio management	26 792	21 145
Private equity	728	732
Trusts	6 720	6 482
Unit trusts	133 245	125 320
	213 186	194 949
51. Financial guarantee contracts[2]		
Financial guarantee contracts	356	599

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

	Group 2011 Rm	Group 2010 Rm
52. Commitments		
Authorised capital expenditure		
Contracted but not provided for	283	1 061

The Group 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.

	Group 2011 Rm	Group 2010 Rm
Operating lease payments due		
No later than one year	1 106	1 066
Later than one year and no later than five years	2 136	2 059
Later than five years	585	482
	3 827	3 607

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 Group. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

	Group 2011 Rm	Group 2010 Rm
Sponsorship payments due[3]		
No later than one year	209	305
Later than one year and no later than five years	299	508
	508	813

The Group 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.

	Group 2011 Rm	Group 2010 Rm
53. Contingencies		
Guarantees	13 226	11 051
Irrevocable debt facilities	46 189	46 495
Irrevocable equity facilities	494	750
Letters of credit	5 190	4 979
Other	10	44
	65 109	63 319

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.

53. Contingencies *(continued)*

Irrevocable facilities are commitments to extend credit where the Group 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 Group has been party in 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 Group, 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 Group 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 Group is opposing the counterclaim.
- **Pinnacle Point Holdings Proprietary Limited (PPG):** New Port Finance Company and the trustees of the Winifred Trust (the plaintiffs) allege local bank conducted itself unlawfully, and that the Group was privy to such conduct. They have instituted proceedings against the Group for damages in an amount of R1 387 million. The Group is consulting with counsel to investigate this claim and finalise its defence.

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

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 Group's control, but especially in the area of banking regulation, are likely to have an impact on the Group's businesses and earnings.

The Group 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 Group has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and made disclosures on material findings as and when appropriate.

	Group	
	2011 Rm	2010 Rm
54. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**7 893**	4 939
Loans and advances to banks	**2 175**	1 478
	10 068	6 417

	Group	
	2011 Rm	2010 Rm

55. Share-based payments

During the year, **R58 million** (2010: R48 million) and **R409 million** (2010: R249 million) were charged to the statement of comprehensive income in respect of equity-settled and cash-settled share-based payment transactions, respectively.

Staff costs

	Group 2011 Rm	Group 2010 Rm
The statement of comprehensive income charge for share-based payments is as follows (refer to note 39):		
Equity-settled arrangements:		
Absa Group Limited Executive Share Award Scheme (refer to note 55.3)	**58**	55
Absa Group Limited Performance Share Plan (refer to note 55.2)	**2**	(19)
Absa Group Limited Share Incentive Scheme (refer to note 55.1)	**(2)**	12
Cash-settled arrangements:		
Absa Group Limited Deferred Award Plan (refer to note 55.7)	**321**	162
Absa Group Limited Phantom Executive Share Award Scheme (refer to note 55.5)	**2**	(9)
Absa Group Limited Phantom Joiners Share Award Plan (refer to note 55.4)	**58**	72
Absa Group Limited Key Leaders Retention Plan (refer to note 55.8)	**28**	24
	467	297
Total carrying amount of liabilities for cash-settled arrangements (refer to note 20)	**518**	302

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: R17 million).

55.1 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 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 option holder 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 Group at the vesting date in order to be entitled to the options.

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

	Group 2011	
	Number of options '000	**Weighted exercise price R**
Outstanding at the beginning of the year	**3 236**	**78,72**
Exercised during the year	**(1 652)**	**76,54**
Forfeited during the year	**(14)**	**62,79**
Outstanding at the end of the year	**1 570**	**81,05**
Of which are exercisable	**1 570**	**81,05**

	2010	
	Number of options '000	Weighted exercise price R
Outstanding at the beginning of the year	6 298	79,09
Exercised during the year	(2 889)	79,09
Forfeited during the year	(173)	84,99
Outstanding at the end of the year	3 236	78,72
Of which are exercisable	2 691	73,02

Options exercised during the year resulted in **1 652 031** (2010: 2 889 318) shares being allocated at an average exercise price of **R76,54** (2010: R79,09) each. The related weighted average share price at the time of exercise was **R137,29** (2010: R133,67).

55. Share-based payments *(continued)*

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

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:

	Group			
	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**	**11,31**	**143 040**
31,99 – 35,01	**35,01**	**1,43**	**12,03**	**179 834**
44,36 – 68,93	**49,48**	**2,49**	**34,71**	**407 938**
72,36 – 94,63	**90,30**	**3,61**	**28,61**	**574 677**
100,30 – 113,75	**105,35**	**4,40**	**35,30**	**264 168**

	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	37,31	0,46	13,93	188 402
25,16 – 35,97	33,61	1,45	11,37	230 914
31,99 – 35,01	35,01	2,43	12,04	251 179
44,36 – 68,93	49,23	3,47	30,02	1 002 073
72,36 – 94,63	90,98	4,62	30,13	1 125 787
100,30 – 113,75	105,35	5,48	39,82	437 502

The following shares and options are available for allocation:

	Group	
	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

55. Share-based payments *(continued)*

55.2 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 the Group performance fails to meet the minimum performance criteria.

	Group	
	Number of options	
	2011 '000	2010 '000
Outstanding at the beginning of the year	**3 218**	3 417
Exercised during the year	**(323)**	—
Forfeited during the year	**(1 569)**	(199)
Outstanding at the end of the year	**1 326**	3 218

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**.

55.3 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:

	Group	
	Number of options	
	2011 '000	2010 '000
Outstanding at the beginning of the year	**2 075**	2 184
Exercised during the year	**(701)**	—
Forfeited during the year	**(24)**	(109)
Outstanding at the end of the year	**1 350**	2 075

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 **R130,74**.

55. Share-based payments *(continued)*

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

The JSAP is a cash-settled share-based payment arrangement that enables the Group to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme, by offering the employees Absa Group Limited 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.

	Group	
	Number of awards	
	2011 '000	2010 '000
Outstanding at the beginning of the year	**1 183**	923
Exercised during the year	**(520)**	(255)
Forfeited during the year	**(169)**	(87)
Granted during the year	**460**	602
Outstanding at the end of the year	**954**	1 183

The awards outstanding at the reporting date have no exercise price and a weighted average contractual life of **2,2 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 Group considers adjustments to reflect expectations for phantom awards that might be forfeited before the awards vest. At each reporting date, the Group 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.

55.5 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's ordinary shares. If the participant is in the employ of the Group 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 award 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:

	Group	
	Number of awards	
	2011 '000	2010 '000
Outstanding at the beginning of the year	**153**	455
Exercised during the year	**(62)**	(394)
Forfeited during the year	**(2)**	(36)
Granted during the year	**—**	128
Outstanding at the end of the year	**89**	153
Of which are exercisable	**51**	114

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 phantom awards granted during the prior year

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

55. Share-based payments *(continued)*

55.6 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 the Group'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.

	Group	
	Number of awards	
	2011 '000	2010 '000
Outstanding at the beginning of the year	**—**	1 186
Forfeited during the year	**—**	(1 186)
Outstanding at the end of the year	**—**	—

There are no phantom awards outstanding at the reporting date.

55.7 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's ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total.

	Group	
	Number of awards	
	2011 '000	2010 '000
Outstanding at the beginning of the year	**2 468**	—
Exercised during the year	**(796)**	—
Granted during the year	**2 901**	2 613
Forfeited during the year	**(189)**	(145)
Outstanding at the end of the year	**4 384**	2 468

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.

55.8 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.

	Group	
	Number of awards	
	2011 '000	2010 '000
Outstanding at the beginning of the year	**596**	—
Granted during the year	**34**	613
Forfeited during the year	**(52)**	(17)
Outstanding at the end of the year	**578**	596

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.

56. Acquisitions and disposals of businesses

56.1 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:

	Group	
	2011 Rm	2010 Rm
Summary of net cash (outflow)/inflow due to acquisitions	**(331)**	61
Summary of total cash and cash equivalents acquired	**38**	409

56.1.1 During April 2011, the Group 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.

	Group
	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 Group for the period 1 April 2011 to 31 December 2011. If the acquisition occurred on 1 January 2011, the Group's revenue would have been **R17 million** higher and the net profit before tax for the year would have been **R18 million** higher.

56. Acquisitions and disposals of businesses *(continued)*

56.1 Acquisitions of businesses during the year under review *(continued)*

56.1.2 During September 2011, the Group acquired a 100% shareholding in Global Alliance Seguros S.A. (GA), a leading provider of non-life insurance in Mozambique. The acquisition of GA will enable the Group to offer a full suite of insurance products and services in the Mozambican market. As at the acquisition date, the accounting for the business combination was provisionally determined since all the fair values of identifiable assets and liabilities are in the process of being finalised as part of the due diligence process. Acquisition-related costs amounted to R3 million in the statement of comprehensive income.

	Group 2011 Fair value recognised on acquisition Rm
Details of the net assets acquired are as follows:	
Cash, cash balances and balances with central banks	38
Intangible assets	72
Investment properties	28
Property and equipment	24
Other assets	91
Other liabilities	(139)
Deferred tax liabilities	(20)
Net assets acquired	94
Satisfied by:	
Cash outflow on acquisition	117
Fair value of net assets acquired	(94)
Goodwill	23
Net cash outflow due to acquisition	117
Total cash and cash equivalents acquired	38

Since its acquisition, GA has contributed revenue of **R31 million** and a net profit before tax of **R16 million** to the Group for the period 1 September 2011 to 31 December 2011. If the acquisition occurred on 1 January 2011, the Group's revenue would have been **R86 million** higher and the net profit before tax for the year would have been **R39 million** higher.

56.1.3 During October 2011, the Group acquired the operations of Takafol South Africa Proprietary Limited (Takafol), (an underwriting management agent) for which Absa Insurance Company underwrote the Islamic insurance policies administered by Takafol, for R3 million.

	Group 2011 Fair value recognised on acquisition Rm
Details of the net assets acquired are as follows:	
Intangible assets – customer relationships	4
Deferred tax liabilities	(1)
Net assets acquired	3
Satisfied by:	
Cash outflow on acquisition	3
Fair value of net assets acquired	(3)
Goodwill	—
Net cash outflow due to acquisition	3
Total cash and cash equivalents acquired	—

56. Acquisitions and disposals of businesses *(continued)*

56.1 Acquisitions of businesses during the year under review *(continued)*

56.1.4 The Group, together with two other parties, have a shareholding in Barrie Island Investments Proprietary Limited (Barrie Island). During January 2011, the Group 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 Group owns 70% of the shares of Barrie Island. 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.

	Group
	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
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 net 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 Group for the period to 31 December 2011.

56. Acquisitions and disposals of businesses *(continued)*

56.2 Acquisitions of businesses during the prior year

56.2.1 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 Group acquired the underlying business. The termination resulted in the Group 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 Group for the period from 30 June 2010 to 31 December 2010. If the acquisition occurred on 1 January 2010, the Group's revenue would have been R116 million higher and the net profit before tax for the year would have been R21 million higher.

	Group
	2010 Fair value recognised on acquisition Rm
Details of the net assets acquired and the gain on bargain purchase are as follows:	
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.

56.2.2 The Group 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 Group 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 Group controlling and consolidating SHL. SHL contributed a net profit before tax of R39 million and revenue of R12 million to the Group 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.

	Group
	2010 Fair value recognised on acquisition Rm
Details of the 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
Total cash and cash equivalents acquired	409

56. Acquisitions and disposals of businesses *(continued)*

56.2 Acquisitions of businesses during the prior year *(continued)*

56.2.2 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.

56.3 Disposal of businesses during the year under review

There were no disposals during the current year under review.

56.4 Disposal of businesses during the prior year

56.4.1 APEF operated as a SPE for the investment of community upliftment projects. This fund was previously consolidated under SIC-12 as the Group 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 Group 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 Group 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.

	Group
	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)
Net cash inflow on disposal	16
Total cash and cash equivalents disposed of	(22)
Net cash outflow on disposal	**(6)**

57. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial instruments not held at fair value:

	Group			
	2011		2010[1]	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with other central banks	1 201	1 201	859	859
Balances with the SARB	12 279	12 279	12 912	12 912
Coins and bank notes	7 893	7 893	4 939	4 939
Money market assets	1 989	1 989	2 180	2 180
Cash, cash balances and balances with central banks (refer to note 2)	23 362	23 362	20 890	20 890
Loans and advances to banks (refer to note 4)	49 546	49 545	19 947	19 946
Other assets (refer to note 6)	13 487	13 487	10 214	10 214
Retail Banking	318 733	319 277	323 427	324 112
Cheque accounts	2 561	2 561	2 659	2 659
Credit cards	19 836	19 836	18 319	18 319
Instalment credit agreements	37 554	37 826	36 738	37 116
Loans to associates and joint ventures	4 836	4 836	4 827	4 827
Microloans	1 579	1 681	1 662	1 784
Mortgages	237 976	238 146	245 963	246 148
Other	11	11	31	31
Personal and term loans	14 380	14 380	13 228	13 228
Absa Capital	48 309	48 309	46 284	46 421
Absa Business Bank	120 676	121 124	126 156	126 530
Cheque accounts	26 160	26 160	18 452	18 452
Commercial asset finance	17 975	18 004	18 471	18 495
Commercial property finance	39 889	40 308	45 870	46 220
Term loans	36 652	36 652	43 363	43 363
Other and intergroup eliminations	241	241	(1 053)	(1 053)
Loans and advances to customers – net of impairment (refer to note 9)	487 959	488 951	494 814	496 010
Investment securities (refer to note 12)	425	425	388	388
Total	574 779	575 770	546 253	547 448
Financial liabilities				
Deposits from banks (refer to note 18)	28 666	28 674	13 727	13 728
Other liabilities (refer to note 20)	12 092	12 092	9 076	9 075
Call deposits	55 783	55 783	54 707	54 828
Cheque account deposits	134 500	134 500	117 274	117 274
Credit card deposits	1 884	1 884	1 830	1 830
Fixed deposits	113 512	113 636	104 359	104 784
Foreign currency deposits	8 947	8 947	9 661	9 661
Notice deposits	28 500	28 506	11 365	11 370
Other deposits	2 771	2 771	3 702	3 703
Saving and transmission deposits	74 563	74 563	67 844	67 844
Deposits due to customers (refer to note 22)	420 460	420 590	370 742	371 294
Debt securities in issue (refer to note 23)	117 726	118 054	153 426	153 666
Borrowed funds (refer to note 26)	7 773	8 497	7 440	8 109
Total	586 717	587 907	554 411	555 872

Note

[1]Comparatives have been reclassified, refer to note 1.26

58. Segment report

58.1 Summary of segments

The Group 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 Group's businesses are managed and reported to the CODM.

The following summary describes the operations in each of the Group'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.
- Financial Services: comprises various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services and a variety of investment products.
- Other: consists of various non-banking activities and includes investment income earned by the Group, as well as income earned by the London branch, Absa Manx Holdings 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 and Absa Development Company Holdings Proprietary Limited were moved from ABB to Retail Bank within Retail Banking.
- The Group'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 Group.

Group

	2011			
	South Africa Rm	**Rest of Africa Rm**	**Other foreign countries Rm**	**Total Rm**
58.2 Segment report per geographical segment				
Net interest income – external	**23 553**	**729**	**147**	**24 429**
Non-interest income – external	**20 975**	**407**	**21**	**21 403**
Total assets	**767 917**	**12 363**	**6 439**	**786 719**

	2010			
	South Africa Rm	Rest of Africa Rm	Other foreign countries Rm	Total Rm
58.2 Segment report per geographical segment				
Net interest income – external	22 522	707	111	23 340
Non-interest income – external	19 101	403	(30)	19 474
Total assets	711 078	9 230	5 649	725 957

58. Segment report *(continued)*

58.3 Segment report per market segment

	Retail Banking 2011 Rm	Retail Banking 2010[1] Rm	Absa Business Bank 2011 Rm	Absa Business Bank 2010[1] Rm
Statement of comprehensive income				
Net interest income	**13 792**	12 744	**7 753**	7 536
Net interest income – external	**25 068**	26 573	**5 020**	6 002
Net interest income – internal	**(11 276)**	(13 829)	**2 733**	1 534
Impairment losses on loans and advances	**(3 965)**	(4 763)	**(873)**	(1 144)
Non-interest income	**10 848**	10 346	**4 086**	4 009
Non-interest income – external	**10 232**	9 851	**4 080**	3 992
Non-interest income – internal	**616**	495	**6**	17
Operating expenses	**(13 965)**	(13 291)	**(6 552)**	(6 218)
Depreciation and amortisation	**(466)**	(403)	**(66)**	(45)
Other operating expenses	**(13 499)**	(12 888)	**(6 486)**	(6 173)
Other impairments	**(20)**	(25)	**(27)**	(1)
Indirect taxation	**(340)**	(227)	**(67)**	(63)
Share of post-tax results of associates and joint ventures	**66**	(2)	**(35)**	(12)
Operating profit before income tax	**6 416**	4 782	**4 285**	4 107
Taxation expense	**(2 049)**	(1 431)	**(1 369)**	(1 222)
Profit for the year	**4 367**	3 351	**2 916**	2 885
Profit attributable to:				
Ordinary equity holders of the Group	**4 179**	3 258	**2 895**	2 866
Non-controlling interest – ordinary shares	**187**	92	**21**	19
Non-controlling interest – preference shares	**1**	1	**—**	—
	4 367	3 351	**2 916**	2 885
Headline earnings	**4 179**	3 137	**2 948**	2 811
Operating performance (%)				
Net interest margin on average interest-bearing assets[3]	**3,19**	2,82	**4,44**	4,75
Impairment losses on loans and advances as a percentage of average loans and advances to customers[3]	**1,23**	1,48	**0,72**	0,93
Non-interest income as a percentage of total operating income[4]	**44,0**	44,8	**34,5**	34,7
Revenue growth[4]	**7**	0	**3**	1
Cost growth[4]	**(5)**	(8)	**(5)**	(11)
Cost-to-income ratio[4]	**56,7**	57,6	**55,3**	53,9
Cost-to-assets ratio[3]	**3,0**	2,8	**3,5**	3,7
Statement of financial position				
Loans and advances to customers	**318 733**	323 427	**122 250**	127 792
Investment securities	**3**	0	**1 644**	2 243
Other assets	**150 974**	146 813	**82 157**	54 291
Total assets	**469 710**	470 240	**206 051**	184 326
Deposits due to customers	**126 205**	115 494	**175 158**	155 536
Debt securities in issue	**4 256**	4 216	**—**	—
Other liabilities	**334 612**	346 680	**28 054**	25 890
Total liabilities	**465 073**	466 390	**203 212**	181 426

Notes

[1]Comparatives have been reclassified, refer to notes 1.26 and 58.1 for additional information.

[2]Head office and inter-segment eliminations do not represent a reportable segment, but the reconciliation to the Group results in terms of IFRS 8 *Operating Segments* (IFRS 8).

[3]Unaudited.

[4]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

Absa Capital		Financial Services		Other		Head office and inter-segment eliminations[2]		Group	
2011 Rm	2010[1] Rm	2011 Rm	2010[1] Rm	2011 Rm	2010 Rm	2011 Rm	2010[1] Rm	2011 Rm	2010[1] Rm
2 062	2 578	21	10	559	(254)	242	726	24 429	23 340
(9 029)	(10 110)	24	10	1 787	676	1 559	189	24 429	23 340
11 091	12 688	(3)	—	(1 228)	(930)	(1 317)	537	—	—
(69)	(96)	(4)	(6)	(2)	—	(168)	4	(5 081)	(6 005)
3 457	2 930	3 994	3 594	(263)	(276)	(719)	(1 129)	21 403	19 474
5 147	3 102	4 392	3 084	(298)	(338)	(2 150)	(217)	21 403	19 474
(1 690)	(172)	(398)	510	35	62	1 431	(912)	—	—
(3 295)	(3 025)	(2 020)	(1 797)	(252)	(86)	626	347	(25 458)	(24 070)
(116)	(111)	(81)	(41)	(154)	(108)	(667)	(604)	(1 550)	(1 312)
(3 179)	(2 914)	(1 939)	(1 756)	(98)	22	1 293	951	(23 908)	(22 758)
9	(66)	(2)	1	(2)	(14)	(10)	(3)	(52)	(108)
(84)	(82)	(105)	(80)	(99)	(81)	(376)	(238)	(1 071)	(771)
(6)	2	0	—	—	—	15	3	40	(9)
2 074	2 241	1 884	1 722	(59)	(711)	(390)	(290)	14 210	11 851
(560)	(589)	(511)	(432)	216	362	247	50	(4 026)	(3 262)
1 514	1 652	1 373	1 290	157	(349)	(143)	(240)	10 184	8 589
1 496	1 612	1 373	1 290	(127)	(669)	(142)	(239)	9 674	8 118
18	40	—	—	—	—	—	—	226	151
—	—	—	—	284	320	(1)	(1)	284	320
1 514	1 652	1 373	1 290	157	(349)	(143)	(240)	10 184	8 589
1 495	1 659	1 375	1 291	(139)	(623)	(139)	(234)	9 719	8 041
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,11	3,94
0,11	0,15	n/a	n/a	n/a	n/a	n/a	n/a	1,01	1,18
62,6	53,2	99,5	99,7	n/a	n/a	n/a	n/a	46,7	45,5
0	24	11	6	n/a	n/a	n/a	n/a	7	2
(9)	(31)	(12)	(16)	n/a	n/a	n/a	n/a	(6)	(15)
59,7	54,9	50,3	49,9	n/a	n/a	n/a	n/a	55,5	56,2
0,9	0,8	8,5	5,3	n/a	n/a	n/a	n/a	3,5	3,3
62 079	58 378	137	242	524	622	(220)	(1 681)	503 503	508 780
7 181	10 594	17 567	16 964	42	—	(5 255)	(5 355)	21 182	24 446
300 537	287 138	7 939	5 741	90 279	78 465	(369 852)	(379 717)	262 034	192 731
369 797	356 110	25 643	22 947	90 845	79 087	(375 327)	(386 753)	786 719	725 957
139 249	117 584	—	—	—	—	348	(1 016)	440 960	387 598
107 795	148 061	—	—	20 255	14 465	(2 044)	(2 197)	130 262	164 545
118 824	87 015	21 044	18 975	21 496	19 357	(376 938)	(386 252)	147 092	111 665
365 868	352 660	21 044	18 975	41 751	33 822	(378 634)	(389 465)	718 314	663 808

58. Segment report *(continued)*

58.3 Segment report per market segment *(continued)*

	Retail Banking 2011 Rm	Retail Banking 2010[1] Rm	Absa Business Bank 2011 Rm	Absa Business Bank 2010 Rm
Financial performance (%)[3]				
Return on average economic capital[4]	**25,1**	17,4	**24,1**	23,
Return on average risk-weighted assets	**2,64**	1,96	**1,95**	2,2
Return on average assets	**0,91**	0,66	**1,56**	1,6
Other[3]				
Banking customer base by segment (millions)[5]	**11,6**	11,3	**0,4**	0,
Attributable income from the rest of Africa	**(123)**	(85)	**(69)**	(2

58.4 Retail Banking segment

	Home Loans 2011 Rm	Home Loans 2010 Rm	Vehicle and Asset Finance 2011 Rm	Vehicle and Asset Finance 2010[1] Rm
Statement of comprehensive income				
Net interest income	**3 779**	3 204	**1 888**	1 683
Net interest income – external	**16 853**	18 493	**4 362**	4 461
Net interest income – internal	**(13 074)**	(15 289)	**(2 474)**	(2 778)
Impairment losses on loans and advances	**(2 160)**	(2 202)	**(774)**	(884)
Non-interest income	**285**	327	**336**	352
Non-interest income – external	**107**	157	**298**	327
Non-interest income – internal	**178**	170	**38**	25
Operating expenses	**(1 108)**	(1 090)	**(944)**	(868)
Other	**(36)**	12	**53**	21
Operating profit before income tax	**760**	251	**559**	304
Taxation expense	**(244)**	(55)	**(156)**	(68)
Profit for the year	**516**	196	**403**	236
Profit attributable to:				
Ordinary equity holders of the Group	**516**	196	**403**	236
Non-controlling interest – ordinary shares	**—**	—	**—**	—
Non-controlling interest – preference shares	**—**	—	**—**	—
	516	196	**403**	236
Headline earnings	**516**	125	**403**	236

Notes

[1]Comparatives have been reclassified, refer to note 1.26 and 58.1 for additional information.

[2]Head office and inter-segment eliminations do not represent a reportable segment, but the reconciliation to the Group results in terms of IFRS 8.

[3]Unaudited.

[4]The 'Financial Services' return on average equity is **32,0%** (2010: 34,8%) and Absa Group's return on average equity is **16,4%** (2010: 15,1%).

[5]Includes African operations.

	Absa Capital		Financial Services		Other		Head office and inter-segment eliminations[2]		Group	
0[1]	**2011**	2010[1]	**2011**	2010[1]	**2011**	2010	**2011**	2010[1]	**2011**	2010[1]
n	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm
6	**16,5**	18,4	**72,8**	65,3	**n/a**	n/a	**n/a**	n/a	**23,0**	19,7
0	**1,62**	1,72	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**2,35**	1,99
5	**0,42**	0,45	**5,78**	3,81	**n/a**	n/a	**n/a**	n/a	**1,32**	1,10
4	**0,1**	0,1	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**12,1**	11,8
3)	**220**	219	**3**	3	**—**	—	**(3)**	(22)	**28**	92

Card		Personal Loans		Retail Bank		Retail Banking	
2011	2010[1]	**2011**	2010[1]	**2011**	2010[1]	**2011**	2010[1]
Rm	Rm	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm
2 411	2 300	**1 779**	1 674	**3 935**	3 883	**13 792**	12 744
3 160	3 093	**2 423**	2 335	**(1 730)**	(1 809)	**25 068**	26 573
(749)	(793)	**(644)**	(661)	**5 665**	5 692	**(11 276)**	(13 829)
(213)	(466)	**(479)**	(508)	**(339)**	(703)	**(3 965)**	(4 763)
2 559	2 301	**329**	286	**7 339**	7 080	**10 848**	10 346
2 443	2 246	**254**	236	**7 130**	6 885	**10 232**	9 851
116	55	**75**	50	**209**	195	**616**	495
(1 970)	(1 839)	**(584)**	(705)	**(9 359)**	(8 789)	**(13 965)**	(13 291)
(62)	(68)	**(5)**	(3)	**(244)**	(216)	**(294)**	(254)
2 725	2 228	**1 040**	744	**1 332**	1 255	**6 416**	4 782
(855)	(643)	**(320)**	(229)	**(474)**	(436)	**(2 049)**	(1 431)
1 870	1 585	**720**	515	**858**	819	**4 367**	3 351
1 758	1 483	**720**	515	**782**	828	**4 179**	3 258
112	102	**—**	—	**75**	(10)	**187**	92
—	—	**—**	—	**1**	1	**1**	1
1 870	1 585	**720**	515	**858**	819	**4 367**	3 351
1 757	1 481	**720**	515	**783**	780	**4 179**	3 137

58. Segment report *(continued)*

58.4 Retail Banking segment *(continued)*

	Home Loans		Vehicle and Asset Finance	
	2011 Rm	2010 Rm	**2011 Rm**	2010[1] Rm
Operating performance (%)				
Impairment losses on loans and advances as a % of average loans and advances to customers[2]	**0,97**	0,98	**1,88**	2,16
Cost-to-income ratio[3]	**27,3**	30,9	**42,4**	42,7
Statement of financial position (Rm)				
Loans and advances to customers	**218 337**	226 137	**42 314**	41 436
Total assets	**239 376**	247 881	**46 500**	50 385
Deposits due to customers	**—**	—	**9**	9
Total liabilities	**238 878**	247 676	**45 920**	49 932
Financial performance[2] (%)				
Return on average economic capital	**7,4**	1,6	**13,0**	7,2
Return on average risk-weighted assets	**0,83**	0,19	**1,42**	0,85

Notes

[1]Comparatives have been reclassified, refer to notes 1.26 and 58.1 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
	1,05	2,57	**3,87**	4,76	**1,33**	2,52	**1,23**	1,48
	39,6	40,0	**27,7**	36,0	**83,0**	80,2	**56,7**	57,6
	21 033	19 264	**12 387**	11 843	**24 662**	24 747	**318 733**	323 427
	29 456	26 746	**13 489**	12 887	**140 889**	132 341	**469 710**	470 240
	1 883	1 826	**6**	4	**124 307**	113 655	**126 205**	115 494
	27 793	25 143	**13 057**	12 578	**139 425**	131 061	**465 073**	466 390
	72,2	48,9	**51,9**	36,2	**27,8**	28,3	**25,1**	17,4
	6,91	5,46	**5,10**	4,11	**2,73**	2,78	**2,64**	1,96

58. Segment report *(continued)*

58.5 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	7 753	8 045	7 536	7 932
Impairment losses on loans and advances	(873)	(875)	(1 144)	(1 144)
Non-interest income	4 086	3 899	4 009	3 498
Operating expenses	(6 552)	(6 414)	(6 218)	(6 145)
Other	(129)	(109)	(76)	(79)
Operating profit before income tax	4 285	4 546	4 107	4 062
Taxation expense	(1 369)	(1 370)	(1 222)	(1 236)
Profit for the year	2 916	3 176	2 885	2 826
Profit attributable to:				
Ordinary equity holders of the Group	2 895	3 148	2 866	2 813
Non-controlling interest – ordinary shares	21	28	19	13
	2 916	3 176	2 885	2 826
Headline earnings	2 948	3 157	2 811	2 838

	2011 Rm	2010[1] Rm
Statement of financial position		
Loans and advances to customers	122 250	127 792
Total assets	206 051	184 326
Deposits due to customers	175 158	155 536
Total liabilities	203 212	181 426

Note

[1]Comparatives have been reclassified, refer to note 1.26 and 58.1 for additional information.

58. Segment report *(continued)*

58.6 Absa Capital segment

	Note	2011 Rm	2010[1] Rm
Statement of comprehensive income			
Net interest income		**2 062**	2 578
Impairment losses on loans and advances		**(69)**	(96)
Non-interest income		**3 457**	2 930
Gains and losses from banking and trading activities	58.6.1	**2 506**	2 199
Other non-interest income		**951**	731
Operating expenses		**(3 295)**	(3 025)
Other		**(81)**	(146)
Operating profit before income tax		**2 074**	2 241
Taxation expense		**(560)**	(589)
Profit for the year		**1 514**	1 652
Profit attributable to:			
Ordinary equity holders of the Group		**1 496**	1 612
Non-controlling interest – ordinary shares		**18**	40
Non-controlling interest – preference shares		**—**	—
		1 514	1 652
Headline earnings		**1 495**	1 659

58.6.1 Gains and losses from banking and trading activities

	2011 Rm	2010[1] Rm
Net gains on investments	**381**	136
Debt instruments designated at fair value through profit or loss	**29**	26
Equity instruments designated at fair value through profit or loss	**352**	110
Net trading result	**2 166**	2 142
Net trading income excluding impact of hedge accounting	**2 137**	2 064
Ineffective portion of hedges	**29**	78
Cash flow hedges	**21**	88
Fair value hedges	**8**	(10)
Other	**(41)**	(79)
	2 506	2 199

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 166 million** (2010: R2 142 million), includes net gains of **R503 million** (2010: R705 million) on financial assets designated at fair value through profit or loss and net losses of **R1 347 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 **R41 million** (2010: R79 million) includes net gains of **R43 million** (2010: R158 million) on financial assets designated at fair value through profit or loss.

Note

[1]Comparatives have been reclassified, refer to notes 1.26 and 58.1 for additional information.

	Note	2011 Rm	2010[1] Rm
58. Segment report *(continued)*			
58.6 Absa Capital segment *(continued)*			
Statement of financial position			
Loans and advances to customers		62 079	53 378
Total assets		369 797	356 110
Deposits due to customers		139 249	117 584
Total liabilities		365 868	352 660
Off-statement of financial position			
Assets under management and administration		36 612	31 534
58.7 Financial Services			
Statement of financial position			
Assets			
Cash balances and loans and advances to banks		4 045	2 771
Insurance operations[1]	58.7.1	2 676	1 907
Other subsidiaries		1 369	864
Other assets[2, 3]		2 889	2 135
Financial assets backing investment and insurance liabilities		18 576	17 960
Investment securities		17 567	16 964
Insurance operations[1]	58.7.1	17 437	16 841
Other subsidiaries		130	123
Other assets backing investment and insurance liabilities			
Insurance operations	58.7.1	1 009	996
Property and equipment		133	81
Total assets		25 643	22 947
Liabilities			
Other liabilities[2]		2 604	1 980
Liabilities under investment contracts		15 233	13 964
Policyholder liabilities under insurance contracts[3]		3 167	2 988
Deferred tax liabilities		40	43
Total liabilities		21 044	18 975
Total equity		4 599	3 972
Total liabilities and equity		25 643	22 947

Notes

[1]Comparatives have been reclassified, refer to note 1.26.

[2]Other assets and liabilities include settlement account balances in Absa Stockbrokers Proprietary Limited.

[3]In managing the policyholder liabilities, certain assets have been allocated specifically for the purpose of backing these liabilities. The disclosure to follow reflects this split of assets between policyholders and shareholders.

58. Segment report *(continued)*

58.7 Financial Services *(continued)*

58.7.1 Financial assets backing insurance and investment liabilities

2011	Debt instruments Rm	Listed equity instruments Rm	Money market instruments Rm	Unlisted equity and hybrid instruments Rm	Other Rm	Cash balances and loans and advances to banks Rm	Total Rm
Shareholder investment securities	**750**	**409**	**—**	**53**	**—**	**1 353**	**2 565**
Life	99	319	—	2	—	624	1 044
Non-life	651	90	—	51	—	729	1 521
Policyholder investment securities	**531**	**9 047**	**6 600**	**47**	**1 009**	**1 323**	**18 557**
Investment contracts[1]	48	7 941	6 600	47	540	71	15 247
Insurance contracts[1]	483	1 106	—	—	469	1 252	3 310
	1 281	**9 456**	**6 600**	**100**	**1 009**	**2 676**	**21 122**

58.7.1 Financial assets backing insurance and investment liabilities (continued)

2010[2]	Debt instruments Rm	Listed equity instruments Rm	Money market instruments Rm	Unlisted equity and hybrid instruments Rm	Other Rm	Cash balances and loans and advances to banks Rm	Total Rm
Shareholder investment securities	767	898	—	193	—	638	2 496
Life	216	858	—	2	—	186	1 262
Non-life	551	40	—	191	—	452	1 234
Policyholder investment securities	495	7 370	6 423	695	996	1 269	17 248
Investment contracts[1]	—	6 317	6 423	695	474	51	13 960
Insurance contracts[1]	495	1 053	—	—	522	1 218	3 288
	1 262	8 268	6 423	888	996	1 907	19 744

58.7.2 Financial performance (unaudited)

	2011	2010
Assets under management and administration (Rbn)	**168**	163
Net money market flows (Rbn)	**8,5**	10,9
Net non-money market flows (Rbn)	**12,7**	0,4
Return on average equity (%)[3]	**32,0**	34,8
Solvency margin (%)	**62,1**	55,3

Notes

[1]Includes **R814 million** (2010: R853 million) assets linked to insurance contracts representing Absa Life Limited's investment in the Absa General Fund. The fund is consolidated as an investment contract with related policyholder liability disclosed as an insurance contract.

[2]Comparatives have been reclassified, refer to note 1.26.

[3]These ratios have been calculated by management based on extracted audited information contained in the annual financial statements.

58. Segment report *(continued)*

58.7 Financial Services *(continued)*

Statement of comprehensive income

	Note	Life 2011 Rm	Life 2010 Rm	Investments 2011 Rm	Investments 2010 Rm
Net insurance premium income		**1 971**	1 583	**—**	—
Net insurance claims and benefits paid		**(550)**	(429)	**—**	—
Investment income	58.7.3				
Policyholder investment contracts		**988**	957	**—**	—
Policyholder insurance contracts		**107**	167	**—**	—
Changes in investment contract and insurance contract liabilities					
Policyholder investment contracts		**(931)**	(954)	**—**	—
Policyholder insurance contracts		**42**	(31)	**—**	—
Other income		**39**	(20)	**831**	752
Gross operating income		**1 666**	1 273	**831**	752
Net commission paid by insurance companies[2]		**(398)**	(280)	**—**	—
Operating expenses		**(268)**	(210)	**(416)**	(362)
Other impairments and indirect taxation		**(81)**	(64)	**(6)**	(2)
Net operating income		**919**	719	**409**	388
Investment income on shareholder funds	58.7.3	**74**	165	**23**	17
Taxation expense		**(258)**	(222)	**(120)**	(105)
Profit for the year		**735**	662	**312**	300

Notes

[1]During the year under review, 'Fiduciary Services', which was previously disclosed as part of 'Other', is disclosed separately to provide users with additional information. This resulted in a reclassification of comparative information.

[2]Net commission paid by insurance companies includes internal commission, eliminated on consolidation of the Group's results.

Notes to the consolidated financial statements

for the year ended 31 December

	Insurance		Fiduciary Services[1]		Other		Financial Services	
	2011 Rm	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm
	2 905	2 885	**—**	—	**154**	—	**5 030**	4 468
	(1 959)	(1 977)	**—**	—	**(24)**	—	**(2 533)**	(2 406)
	—	—	**—**	—	**—**	83	**988**	1 040
	65	67	**—**	—	**1**	—	**173**	234
	—	—	**—**	—	**25**	(60)	**(906)**	(1 014)
	—	—	**—**	—	**(48)**	—	**(6)**	(31)
	46	18	**628**	578	**425**	375	**1 969**	1 703
	1 057	993	**628**	578	**533**	398	**4 715**	3 994
	(452)	(448)	**—**	—	**(52)**	—	**(902)**	(728)
	(306)	(309)	**(516)**	(450)	**(514)**	(466)	**(2 020)**	(1 797)
	(3)	(2)	**(3)**	(3)	**(14)**	(8)	**(107)**	(79)
	296	234	**109**	125	**(47)**	(76)	**1 686**	1 390
	87	132	**7**	4	**7**	14	**198**	332
	(93)	(88)	**(33)**	(35)	**(7)**	18	**(511)**	(432)
	290	278	**83**	94	**(47)**	(44)	**1 373**	1 290

58. Segment report *(continued)*

58.7 Financial Services *(continued)*

58.7.3 Investment income

	Life 2011 Rm	Life 2010 Rm	Investments 2011 Rm	Investments 2010 Rm
Policyholder investment contracts	**988**	957	**—**	—
Net interest income	**519**	584	**—**	—
Dividend income	**27**	33	**—**	—
Fair value gains/(losses)	**442**	340	**—**	—
Policyholder insurance contracts	**107**	167	**—**	—
Net interest income	**69**	49	**—**	—
Dividend income	**10**	7	**—**	—
Fair value gains	**28**	111	**—**	—
Shareholder funds	**74**	165	**23**	17
Net interest income	**24**	29	**23**	10
Dividend income	**12**	24	**—**	—
Fair value gains/(losses)	**38**	112	**—**	7
Total	**1 169**	1 289	**23**	17
Net interest income	**612**	662	**23**	10
Dividend income	**49**	64	**—**	—
Fair value gains/(losses)	**508**	563	**—**	7

58.7.4 Operating performance

	Life 2011 Rm	Life 2010 Rm	Investments 2011 Rm	Investments 2010 Rm
Present value of future premiums (Rm)[2]	**4 625**	4 884	**n/a**	n/a
Gross premium income (Rm)	**2 118**	1 732	**n/a**	n/a
Underwriting surplus (Rm)	**n/a**	n/a	**n/a**	n/a
Gross margin (bps)[2]	**n/a**	n/a	**49,0**	46,0
Underwriting margin (%)	**n/a**	n/a	**n/a**	n/a
Loss ratio (%)	**n/a**	n/a	**n/a**	n/a

Financial Services segment report per geographical segment	2011 South Africa Rm	2011 Rest of Africa Rm	2011 Total Rm	2010 South Africa Rm	2010 Rest of Africa Rm	2010 Total Rm
Net insurance premium income	**4 876**	**154**	**5 030**	4 468	—	4 468
Net insurance claims and benefits paid	**(2 509)**	**(24)**	**(2 533)**	(2 406)	—	(2 406)
Gross operating income	**4 632**	**83**	**4 715**	3 994	—	3 994
Operating expenses	**(1 985)**	**(35)**	**(2 020)**	(1 797)	—	(1 797)
Net operating income	**1 697**	**(11)**	**1 686**	1 390	—	1 390
Profit for the year	**1 391**	**(18)**	**1 373**	1 290	—	1 290

Notes

[1]During the year under review, 'Fiduciary Services', which was previously disclosed as part of 'Other', is disclosed separately to provide users with additional information. This resulted in a reclassification of comparative information.

[2]Unaudited.

	Insurance		Fiduciary Services[1]		Other		Total	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm
	—	—	—	—	—	83	988	1 040
	—	—	—	—	—	1	519	585
	—	—	—	—	17	14	44	47
	—	—	—	—	(17)	68	425	408
	65	67	—	—	1	—	173	234
	65	67	—	—	1	—	135	116
	—	—	—	—	—	—	10	7
	—	—	—	—	—	—	28	111
	87	132	7	4	7	14	198	332
	78	99	—	1	—	—	125	139
	10	32	—	3	—	—	22	59
	(1)	1	7	—	7	14	51	134
	152	199	7	4	8	97	1 359	1 606
	143	166	—	1	1	1	779	840
	10	32	—	3	17	14	76	113
	(1)	1	7	—	(10)	82	504	653
	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	3 756	3 420	n/a	n/a	201	n/a	6 075	5 152
	495	445	n/a	n/a	n/a	n/a	n/a	n/a
	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	6,5	5,2	n/a	n/a	n/a	n/a	n/a	n/a
	67,4	68,5	n/a	n/a	n/a	n/a	n/a	n/a

58. Segment report *(continued)*

58.7 Financial Services *(continued)*

58.7.5 Reconciliation with Absa Group

	Note	2011 Financial Services Rm	2011 Inter-group balances and transactions Rm	2011 Other[1] Rm	2011 Group Rm
Statement of financial position					
Investments linked to investment contracts	12	14 636	(4 745)	—	9 891
Policyholder liabilities under insurance contracts	25	(3 167)	118	(134)	(3 183)
Statement of comprehensive income					
Net insurance premium income	33	5 030	(32)	211	5 209
Net insurance claims and benefits paid	34	(2 533)	—	16	(2 517)
Net gains on investments from insurance activities	37	1 359	(473)	0	886
Policyholder investment contracts	37	988	(477)	—	511
Policyholder insurance contracts	37	173	—	—	173
Shareholder funds	37	198	4	0	202

58.7.5 Reconciliation with Absa Group *(continued)*

	Note	2010 Financial Services Rm	2010 Inter-group balances and transactions Rm	2010 Other[1] Rm	2010 Absa Group Rm
Statement of financial position					
Investments linked to investment contracts[2]	12	13 435	(4 968)	—	8 467
Policyholder liabilities under insurance contracts	25	(2 988)	244	(257)	(3 001)
Statement of comprehensive income					
Net insurance premium income	33	4 468	(40)	174	4 602
Net insurance claims and benefits paid	34	(2 406)	136	(135)	(2 405)
Net gains on investments from insurance activities	37	1 606	(819)	33	820
Policyholder investment contracts	37	1 040	(826)	—	214
Policyholder insurance contracts	37	234	—	—	234
Shareholder funds	37	332	7	33	372

Notes

[1]Consists of Absa Manx Insurance Company Limited and Woolworths Financial Services Proprietary Limited.

[2]Comparatives have been reclassified, refer to note 1.26.

59. 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 Group's accounting policies.

At the reporting date, the Group did not have any compound financial instruments with multiple embedded derivatives in issue.

59.1 Derivatives held for trading

As part of the Group's trading activities, it enters into derivative transactions in the normal course of business.

59.2 Derivatives held for hedging

As part of the Group'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.

59.2.1 Derivatives designated as fair value hedges

Fair value hedges are used by the Group 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 Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

The Group recognised the following gains and losses on hedging instruments and hedging items:

	Group	
	2011 Rm	2010 Rm
Gains on hedged items (assets) (refer to note 30)	**428**	462
Losses on hedging instruments (assets) (refer to note 30)	**(468)**	(475)
Losses on hedged items (liabilities) (refer to note 31)	**(178)**	(504)
Gains on hedging instruments (liabilities) (refer to note 31)	**142**	472

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:

	Group	
	2011 Rm	2010 Rm
Ineffectiveness (outside range) (refer to note 36)	**(7)**	(15)
Ineffectiveness (inside range)	**(72)**	107

59. Derivatives *(continued)*

59.2 Derivatives held for hedging *(continued)*

59.2.2 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 Group uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Group applies hedge accounting for its non-trading interest rate risk in major currencies by analysing the expected cash flows on a group basis.

The Group is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Group 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).

	Group						
	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]	(107)	(27)	(7)	(14)	(84)	(24)	(263)
Net cash flow before taxation	**1 782**	**1 102**	**376**	**22**	**(84)**	**(24)**	**3 174**
	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

Note

[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.

59. Derivatives *(continued)*

59.2 Derivatives held for hedging *(continued)*

59.2.2 Derivatives designated as cash flow hedges *(continued)*

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:

	Group	
	2011 Rm	2010 Rm
Interest and similar income (refer to note 30)	**2 112**	1 485
Interest expense and similar charges (refer to note 31)[1]	**155**	291
Gains and losses from banking and trading activities (refer to note 36)	**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:

	Group	
	2011 Rm	2010 Rm
Ineffectiveness (outside range) (refer to note 36)	**33**	44
Ineffectiveness (inside range)	**66**	(95)

59. Derivatives *(continued)*

59.3 Detailed breakdown of derivatives

The Group 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 Group'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 Group 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 Group and a customer.

59. Derivatives *(continued)*

59.3 Detailed breakdown of derivatives *(continued)*

	Group					
	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	57 146	(516)	833	(1 349)	22 726	824
Currency swaps	500 436	(844)	10 674	(11 518)	310 689	(654)
Over-the-counter (OTC) foreign exchange options	26 737	131	617	(486)	18 469	298
OTC foreign exchange options purchased	15 602	617	617	—	9 517	630
OTC foreign exchange options written	11 135	(486)	—	(486)	8 952	(332)
Other OTC foreign exchange derivatives	5	0	0	0	114	(1)
Exchange-traded derivatives	248 545	0	—	—	285 747	—
Euro dollar futures	247 388	—	—	—	285 718	—
Exchange-traded options written	38	0	—	0	—	—
Exchange-traded futures	1 119	0	—	0	29	—
Embedded derivatives	40	1	1	—	—	—
Total foreign exchange derivatives	832 909	(1 228)	12 125	(13 353)	637 745	467
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	1 058	(22)	2	(24)	32 132	(127)
Interest rate swaps	1 245 264	1 886	25 951	(24 065)	1 171 332	1 475
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	1 985	(35)	30	(65)	—	—
OTC bond options purchased	562	30	30	—	—	—
Other bond options written	1 423	(65)	—	(65)	—	—
Other OTC interest rate derivatives	2 553	15	19	(4)	296	33
Exchange-traded derivatives	4 681	0	0	—	10 904	2
Exchange-traded options on FRAs and swaps purchased	4 681	0	0	—	10 027	3
Exchange-traded options on FRAs and swaps written	—	—	—	—	877	(1)
Embedded derivatives	8 984	(182)	471	(653)	—	—
Total interest rate derivatives	3 324 550	619	31 750	(31 131)	2 820 892	369
Balance carried forward	4 157 459	(609)	43 875	(44 484)	3 458 637	836

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	Group					
	2011				2010	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
59. Derivatives *(continued)*						
59.3 Detailed breakdown of derivatives *(continued)*						
Balance brought forward	4 157 459	(609)	43 875	(44 484)	3 458 637	836
Equity derivatives						
OTC options purchased	8 389	699	699	—	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	(48)
Other OTC equity derivatives	22 807	(871)	177	(1 048)	45 438	(275)
OTC equity derivatives	59 601	(2 087)	1 100	(3 187)	79 042	(1 140)
Exchange-traded derivatives	1 419	113	126	(13)	16 292	47
Exchange-traded options purchased	176	126	126	(0)	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	66 918	(2 173)	1 226	(3 399)	95 334	(1 093)
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
Balance carried forward	4 233 264	(2 638)	45 399	(48 037)	3 573 850	(110)

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	Group					
	2011				2010	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
59. Derivatives *(continued)*						
59.3 Detailed breakdown of derivatives *(continued)*						
Balance brought forward	**4 233 264**	**(2 638)**	**45 399**	**(48 037)**	3 573 850	(110)
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	**4 259 833**	**(3 099)**	**45 604**	**(48 703)**	3 588 712	(123)
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
Investments						
Interest rate derivatives						
OTC bond options purchased	—	—	—	—	172	4
Total interest rate derivatives	—	—	—	—	172	4
OTC bond options purchased	**75**	**29**	**29**	—	570	211
Total equity derivatives	**75**	**29**	**29**	—	570	211
Total investments	**75**	**29**	**29**	—	742	215
Total derivative instruments	**4 561 779**	**(1 227)**	**49 932**	**(51 159)**	3 755 301	2 873

Derivative assets and liabilities subject to counterparty netting agreements amounted to **R41 778 million** (2010: R30 522 million). Additionally, the Group 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 Group. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

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 Group'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 Group'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.

60. Fair value hierarchy disclosures

60.1 Valuation methodology

The table below shows the Group'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:

	Group			
	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	35 081	109	104	35 294
Cash, cash balances and balances with central banks (refer to note 2)	523	—	—	523
Statutory liquid asset portfolio (refer to note 3)	33 327	—	—	33 327
Investment securities (refer to note 12)	1 231	109	104	1 444
Financial assets designated at fair value through profit or loss	8 772	19 599	12 930	41 301
Cash, cash balances and balances with central banks (refer to note 2)	1 525	1 587	—	3 112
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)	1	—	16	17
Loans and advances to customers (refer to note 9)	—	3 366	6 832	10 198
Investment securities (refer to note 12)	6 445	6 757	6 082	19 284
Financial assets held for trading	30 970	56 582	1 156	88 708
Derivative assets (refer to note 5)	50	45 345	209	45 604
Trading assets (refer to note 5)	30 920	6 909	947	38 776
Hedging assets (refer to note 5)	—	4 299	—	4 299
Investment securities (refer to note 12)	—	29	—	29
Total financial assets	74 823	76 290	14 190	165 303
Financial liabilities designated at fair value through profit or loss	1 900	38 234	7 821	47 955
Deposits from banks (refer to note 18)	—	9 673	—	9 673
Other liabilities (refer to note 20)	16	—	—	16
Deposits due to customers (refer to note 22)	—	12 888	7 612	20 500
Debt securities in issue (refer to note 23)	—	1 553	209	1 762
Liabilities under investment contracts (refer to note 24)	1 113	14 120	—	15 233
Borrowed funds (refer to note 26)	771	—	—	771
Financial liabilities held for trading	7 257	50 976	183	58 416
Derivative liabilities (refer to note 19)	—	48 520	183	48 703
Trading liabilities (refer to note 19)	7 257	—	—	7 257
Hedging liabilities (refer to note 19)	—	2 456	—	2 456
Total financial liabilities	9 157	89 210	8 004	106 371

Notes

[1]The nature of the valuation techniques is summarised in note 60.2.

[2]The nature of the valuation techniques is summarised in note 60.3.

[3]Comparatives have been reclassified, refer to note 1.26.

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Group

2010[3]			
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
28 411	100	95	28 606
458	—	—	458
26 656	—	—	26 656
1 297	100	95	1 492
13 260	21 870	10 973	46 103
—	2 393	—	2 393
778	2 685	—	3 463
—	7 548	—	7 548
16	—	—	16
—	4 554	5 778	10 332
12 466	4 690	5 195	22 351
15 187	50 019	1 064	66 270
173	43 133	98	43 404
15 014	2 009	966	17 989
—	4 662	—	4 662
—	215	—	215
56 858	71 989	12 132	140 979
776	25 463	8 572	34 811
—	1 679	—	1 679
5	7	—	12
32	8 325	8 499	16 856
—	1 488	73	1 561
—	13 964	—	13 964
739	—	—	739
3 927	44 817	591	49 335
—	42 936	591	43 527
3 927	—	—	3 927
—	1 881	—	1 881
4 703	70 280	9 163	84 146

60. Fair value hierarchy disclosures *(continued)*

60.2 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 African government bills, 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.

60.3 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.

60. Fair value hierarchy disclosures *(continued)*

60.3 Valuations based on unobservable inputs *(continued)*

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.

60. Fair value hierarchy disclosures *(continued)*

60.4 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:

Group

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	—	5 778	5 195	966
Net interest income	—	—	16	20	—
Gains and losses from banking and trading activities	—	—	598	215	62
Gains and losses from investment activities	—	—	—	2	—
Other comprehensive income	5	—	—	—	—
Purchases	—	16	1 386	583	41
Sales	—	—	(646)	(901)	—
Issues	—	—	720	(7)	—
Settlements	4	—	(978)	(465)	(122)
Transferred to/(from) assets/liabilities	—	—	—	55	—
Movement in/(out) of Level 3[1, 2]	—	—	(42)	1 385	—
Closing balance	104	16	6 832	6 082	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	—	5 416	6 128	—
Net interest income	—	—	(227)	—	—
Gains and losses from banking and trading activities	3	—	(175)	35	—
Gains and losses from investment activities	—	—	—	36	—
Other comprehensive income	(22)	—	—	(1)	—
Purchases	—	—	1 602	2 449	966
Sales	—	—	(146)	(2 976)	—
Issues	—	—	—	—	—
Settlements	(104)	—	(1 219)	(477)	—
Movement in/(out) of Level 3[1]	42	—	527	1	—
Closing balance	95	—	5 778	5 195	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 Group 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 Group's accounting policies.

Notes to the consolidated financial statements

as at 31 December

Group

2011

	Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	Total financial liabilities including net derivatives Rm
		Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	
	12 034	—	8 499	73	493	9 065
	36	—	—	—	4	4
	875	—	772	(14)	(94)	664
	2	—	—	—	—	—
	5	—	—	—	—	—
	2 026	—	—	—	(43)	(43)
	(1 547)	—	—	—	(8)	(8)
	713	—	67	195	9	271
	(1 561)	—	(1 071)	(1)	(388)	(1 460)
	55	—	—	—	—	—
	1 343	—	(655)	(44)	1	(698)
	13 981	—	7 612	209	(26)	7 795

2010

	Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	Total financial liabilities including net derivatives Rm
		Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	
	11 720	274	10 435	246	325	11 280
	(227)	—	—	—	—	—
	(137)	—	867	6	(23)	850
	36	—	—	—	—	—
	(23)	—	—	—	—	—
	5 017	376	—	—	(11)	365
	(3 122)	—	—	—	—	—
	—	—	619	3	101	723
	(1 800)	(650)	(3 152)	(5)	14	(3 793)
	570	—	(270)	(177)	87	(360)
	12 034	—	8 499	73	493	9 065

Group

	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
60. Fair value hierarchy disclosures *(continued)*				
60.5 Total unrealised gains and losses for the year on Level 3 positions held at the reporting date				
Net interest income/(charges)	—	44	—	—
Gains and (losses) from banking and trading activities	—	587	57	62
	—	631	57	62

	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
60.5 Total unrealised gains and losses for the year on Level 3 positions held at the reporting date *(continued)*				
Net interest income/(charges)	—	(112)	—	—
Gains and (losses) from banking and trading activities	142	190	102	—
	142	78	102	—

Group

2011				
	Financial liabilities designated at fair value through profit or loss		Financial liabilities held for trading	
Total financial assets excluding derivatives Rm	Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
44	—	—	—	—
706	(772)	14	151	(607)
750	(772)	14	151	(607)

2010				
	Financial liabilities designated at fair value through profit or loss		Financial liabilities held for trading	
Total financial assets excluding derivatives Rm	Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
(112)	—	—	—	—
434	(861)	4	(261)	(1 118)
322	(861)	4	(261)	(1 118)

60. Fair value hierarchy disclosures *(continued)*

60.6 Sensitivity analysis of valuations using unobservable inputs

As part of the Group'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 reasonable range of possible outcomes:

Group

		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	i, 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	i, iii, v, vi, vii,	775	775	39	43
Structured notes and deposits designated at fair value through profit or loss	iv	46	51	—	—
Trading assets	i	7	7	—	—
		979	1 297	39	43

Note

[1]Refer to note 60.3.

60. Fair value hierarchy disclosures *(continued)*

60.6 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

61. 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:

	Group	
	2011 Rm	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	**(78)**	(35)
Closing balance	**(51)**	73

62. Financial risks

In light of King III, the Group 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 Group's performance. All financial risk disclosures are included in the Group's Capital and Risk Management Report.

62.1 Capital management

The disclosures marked as audited relating to capital are set out on pages 11 – 20 of the Capital and Risk Management Report.

62.2 Credit risk

The disclosures marked as audited relating to credit risk are set out on pages 21 – 61 of the Capital and Risk Management Report.

62.3 Market risk

The disclosures marked as audited relating to market risk are set out on pages 62 – 78 of the Capital and Risk Management Report.

62.4 Liquidity risk

The disclosures marked as audited relating to liquidity risk are set out on pages 79 – 88 of the Capital and Risk Management Report.

62.5 Insurance risk

The disclosures marked as audited relating to underwriting risk are set out on pages 92 – 101 of the Capital and Risk Management Report.

Annexure A: Embedded value report of Absa Life Limited (unaudited)

Scope of the embedded value report

This report deals with the embedded value of Absa Life Limited (Absa Life) and the value of new business written during the year under review.

The embedded value at the reporting date has been calculated in accordance with the principles contained in the latest version of PGN 107 of the ASSA.

Embedded value

The embedded value of the covered business is the discounted value of future after tax shareholder profits (net of the opportunity cost of the required capital) arising from covered business in force at the valuation date, together with the adjusted net worth of the covered business.

Covered business is taken to be all long-term insurance business written under Absa Life's licence.

The free surplus is the excess of assets over the sum of liabilities and required capital, with assets at market value and liabilities on the statutory valuation method, adjusted to add back inadmissible assets. The required capital is taken to be two times the statutory capital adequacy requirement, in line with the results of internal capital models and Absa Life's dividend policy.

Value of new business

The value of new business is the discounted value, at the date of sale, of the projected after tax shareholder profits from new covered business (net of the opportunity cost of the required capital for new business). New covered business is defined as long-term insurance contracts written by Absa Life during the financial year and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Embedded value and value of new business

	2011 Rm	2010 Rm
Free surplus[1]	**650**	731
Required capital	**827**	794
Covered business adjusted net worth (ANW)	**1 477**	1 525
Present value of in-force business (PVIF)	**2 007**	1 745
Cost of required capital (CoC)	**(404)**	(457)
Total embedded value	**3 080**	2 813
Value of new business (before CoC)	**422**	574
Cost of required capital (CoC)	**(57)**	(109)
Value of new business (VNB)	**365**	465
Present value of future premiums	**4 945**	4 884
Value of new business as a percentage of the present value of future premiums		
– all business (%)	**7,4**	9,5
– excluding investment business (%)	**20,7**	22,1

Assumptions

The value of the covered in-force and new business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the 'best estimate' assumptions used in the statutory valuation. These assumptions were based on recent experience investigations.

All discounted values are at a risk discount rate of **11,00%** (2010: 11,25%). The risk discount rate was derived using a top-down approach in accordance with PGN 107. The risk discount rate was set equal to the risk-free rate of return plus the Beta of Absa Group Limited multiplied by the assumed equity risk premium plus a further company risk specific margin of 0,75%. The economic assumptions used were as follows (gross of tax where applicable):

	2011 %	2010 %
Risk-free rate of return	**7,75**	8,00
Equity return – hedged	**n/a**	8,20
Equity return – unhedged	**11,25**	11,50
Cash return	**5,75**	6,00
Overall investment return	**7,31**	7,90
Risk discount rate	**11,00**	11,25
Expense inflation	**4,75**	4,50

Note

[1]A dividend of R332 million (2010: R250 million) was proposed.

Annexure A: Embedded value report of Absa Life Limited (unaudited)

Sensitivities

The following table summarises the sensitivity of the embedded value and value of new business calculation to changes in the underlying assumptions. In each of the scenarios, no offsetting management actions were assumed to occur.

(%) change	Risk discount rate +1%	Interest rates –1%	Equity capital values x 0,9	Equity returns +1%	Mortality/ morbidity x 0,95	Maintenance expenses x 0,9	Lapse/ surrender x 0,9	Initial expenses x 0,9
ANW	0%	0%	0%	0%	0%	0%	0%	n/a
PVIF	(4%)	2%	(1%)	0%	5%	3%	5%	n/a
CoC	11%	4%	0%	(6%)	0%	0%	5%	n/a
EV	**(4%)**	**1%**	**0%**	**1%**	**3%**	**2%**	**3%**	**n/a**
VNB	**(5%)**	**4%**	**0%**	**1%**	**5%**	**3%**	**10%**	**1%**

The development of the embedded value can be analysed as follows:

	2011 Rm	2010 Rm
Embedded value at the end of the year	3 080	2 813
Dividends accrued or paid	782	458
Embedded value at the beginning of the year	(2 813)	(2 340)
Embedded value earnings	**1 049**	931
Components of embedded value earnings:		
Value of new business at point of sale	365	465
Expected return on covered business (unwinding)	214	184
Operating experience variances	58	64
Operating assumption and model changes	219	48
Expected return on ANW	131	123
Exceptional non-recurring items	107	—
Embedded value operating return	**1 094**	884
Investment return variances on in-force covered business	13	29
Investment return variances on ANW	(56)	13
Effect of economic assumption changes	(2)	5
Embedded value earnings	**1 049**	931
Return on embedded value	**37,3%**	39,8%

Review by the independent actuaries

The embedded value of Absa Life and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, Deloitte & Touche.

Company statement of financial position

as at 31 December

		Company	
	Note	2011 Rm	2010 Rm
Assets			
Loans and advances to banks	2	220	186
Current tax assets	3	2	15
Investment securities	4	138	139
Subsidiaries	5	16 832	16 773
Deferred tax asset	6	4	—
Total assets		17 196	17 113
Liabilities			
Other liabilities	7	95	87
Total liabilities		95	87
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Ordinary share capital	8	1 437	1 437
Ordinary share premium	8	5 541	5 367
Retained earnings		9 954	9 937
Other reserves	9	169	285
Total equity		17 101	17 026
Total equity and liabilities		17 196	17 113

Company statement of comprehensive income

for the year ended 31 December

	Note	Company 2011 Rm	Company 2010 Rm
Interest and similar income	10	8	10
Net interest income after impairment losses on loans and advances		8	10
Gains and losses from investment activities	11	3 849	4 201
Other operating income	12	0	50
Operating profit before operating expenditure		3 857	4 261
Operating expenditure	13	(5)	(5)
Operating profit before income tax		3 852	4 256
Taxation expense	14	(85)	(99)
Profit and total comprehensive income for the year		3 767	4 157
Total profit and comprehensive income attributable to:			
Ordinary equity holders of the Company		3 767	4 157
Earnings per share:			
Basic earnings per share (cents)	15	524,5	578,8
Diluted earnings per share (cents)	15	524,5	578,8

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	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at the beginning of the year	718 210	1 437	5 367	9 937	285	17 026
Profit and total comprehensive income for the year	—	—	—	3 767	—	3 767
Dividends paid during the year	—	—	—	(3 750)	—	(3 750)
Movement in share-based payment reserve	—	—	174	—	(116)	58
Transfer from share-based payment reserve	—	—	174	—	(174)	—
Value of employee services	—	—	—	—	58	58
Balance at the end of the year	718 210	1 437	5 541	9 954	169	17 101

	2010					
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at the beginning of the year	718 210	1 437	5 308	8 976	298	16 019
Profit and total comprehensive income for the year	—	—	—	4 157	—	4 157
Dividends paid during the year	—	—	—	(3 196)	—	(3 196)
Movement in share-based payment reserve	—	—	59	—	(13)	46
Transfer from share-based payment reserve	—	—	59	—	(59)	—
Value of employee services	—	—	—	—	46	46
Balance at the end of the year	718 210	1 437	5 367	9 937	285	17 026
Notes	8	8	8		9	

Company statement of cash flows

for the year ended 31 December

	Note	Company 2011 Rm	Company 2010 Rm
Cash flow from operating activities			
Interest and similar income	10	8	10
Net trading and other income		—	11
Cash payments to employees and suppliers		(5)	(5)
Dividends received from investments activities		3 849	4 241
Income taxes paid		(76)	(100)
Cash flow from operating profit before changes in operating assets and liabilities		3 776	4 157
Net decrease in other assets		0	304
Net increase in other liabilities		8	3
Net cash generated from operating activities		3 784	4 464
Cash flow from investing activities			
Investment in shares		(1)	(768)
Net decrease in loans from/to subsidiaries		0	(500)
Net (increase)/decrease in investment securities		1	(30)
Net cash generated/(utilised) from investing activities		0	(1 298)
Cash flow from financing activities			
Dividends paid	17	(3 750)	(3 196)
Net cash utilised from financing activities		(3 750)	(3 196)
Net increase/(decrease) in cash and cash equivalents		34	(30)
Cash and cash equivalents at the beginning of the year		186	216
Cash and cash equivalents at the end of the year	2	220	186

Notes to the Company financial statements

as at 31 December

	Company 2011 Rm	2010 Rm
1. Accounting policies		
The financial statements of Absa Group Limited (the Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Group. For detailed accounting policies, refer to the Group's financial statements.		
2. Loans and advances to banks		
Other	220	186
Portfolio analysis		
Loans and receivables	220	186
Loans with variable rates are **R220 million** (2010: R180 million) and fixed rates are **Rnil** (2010: R6 million).		
3. Current tax		
Amount due from revenue authorities	2	15
4. Investment securities		
Debt instruments	138	139
Market value of debt instruments	138	139
Portfolio analysis		
Available-for-sale financial assets		
Debt instruments	138	139
4.1 Available-for-sale financial assets		
Cost plus fair value movements at the beginning of the year	139	109
Net (disposals)/acquisitions	(1)	30
Cost plus fair value movements at the end of the year	138	139

4.2 Fair value hierarchy disclosure

The Company holds investments in debt instruments which are measured at fair value.

The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. 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 notes 60.2 and 60.3 of the Group's financial statements.

Notes to the Company financial statements

as at 31 December

	Company			
	2011			
	Valuations with reference to observable prices Level 1 Rm	**Valuations based on observable inputs Level 2 Rm**	**Valuations based on unobservable inputs Level 3 Rm**	**Total Rm**
4. Investment securities *(continued)*				
4.2 Fair value hierarchy disclosure *(continued)*				
Available-for-sale financial assets				
Investment securities[1]	**—**	**138**	**—**	**138**
	2010			
	Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
Available-for-sale financial assets				
Investment securities[1]	—	139	—	139

	Company	
	2011 Rm	2010 Rm
5. Subsidiaries		
Shares at cost	**16 832**	16 773

Note

[1]The investment relates to notes in securitisation vehicles and the settlement of capitalised interest.

	Company	
	2011 Rm	2010 Rm
6. Deferred tax		
6.1 Reconciliation of net deferred tax asset		
Balance at the beginning of the year	—	2
Deferred tax asset raised/(released) on STC credits (refer to note 6.3)	4	(2)
Balance at the end of the year	4	—
6.2 Deferred tax asset		
Deferred tax asset – STC credits (refer to note 6.3)	4	—
6.3 Secondary taxation on companies (STC)		
Accumulated STC credits	4	—
Deferred tax asset raised (refer to note 6.2)	4	—
Movement in deferred tax asset for the year (refer to note 6.1)	4	(2)

If the total reserves of **R10 123 million** (2010: R10 222 million) as at the reporting date were to be declared as dividends, the STC impact at a rate of 10% would be **R1 012 million** (2010: R1 022 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 dividend.

Unutilised STC credits at the end of 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.

	2011 Rm	2010 Rm
7. Other liabilities		
Creditors	95	87
Portfolio analysis		
Financial liabilities at amortised cost	95	87

Notes to the Company financial statements

as at 31 December

	Company	
	2011 Rm	2010 Rm
8. Share capital and premium		
8.1 Ordinary share capital		
Authorised		
880 467 500 (2010: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
718 210 043 (2010: 718 210 043) ordinary shares of R2,00 each	**1 437**	1 437
Total issued capital		
Share capital	**1 437**	1 437
Share premium	**5 541**	5 367
	6 978	6 804

Authorised shares

There were no changes to the 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 AGM of the Company.

Shares issued during the year under review

There were no shares issued during the year under review.

Shares issued during the prior year

There were no shares issued during the prior year.

9. Other reserves

9.1 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
10. Interest and similar income		
Interest and similar income is earned from:		
Loans and advances to banks	8	10
Portfolio analysis		
Interest on financial assets held at amortised cost	8	10
11. Gains and losses from investment activities		
Dividends received from subsidiaries	3 849	4 201
12. Other operating income		
Sundry income	0	50
13. Operating expenses		
Administrative expenses	5	5
14. Taxation expense		
Current		
South African current tax	25	6
South African current tax – prior year	—	(2)
STC	64	93
	89	97
Deferred – STC credit		
Deferred tax (refer to note 6.1)	(4)	2
	85	99
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	3 852	4 256
Tax calculated at a tax rate of 28%	1 079	1 192
Expenses not deductible for tax purposes	1	6
Income not subject to tax	(1 078)	(1 190)
Other	23	(2)
STC	60	93
	85	99

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	2010 Rm
15. Earnings per share		
Basic and diluted earnings per share		
Basic earnings per share are calculated by dividing the profit attributable to ordinary equity holders 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.		
Diluted earnings per share are determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares, of which there are none.		
Basic and diluted earnings attributable to ordinary equity holders of the Company	**3 767**	4 157
Weighted average number of ordinary shares in issue (millions)		
Issued shares at the beginning of the year	**718,2**	718,2
Basic earnings per share/diluted earnings per share (cents)	**524,5**	578,8

	Company			
	2011		2010	
	Gross Rm	**Net[1] Rm**	Gross Rm	Net[1] Rm
16. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Company		**3 767**		4 157
Headline earnings/diluted headline earnings		**3 767**		4 157
Headline earnings per share/diluted headline earnings per share (cents)		**524,5**		578,8

Note

[1]The net amount is reflected after tax.

	Company	
	2011 Rm	2010 Rm
17. Dividends per share		
Dividends paid to ordinary equity holders during the year		
15 February 2011 final dividend number 49 of 230 cents per ordinary share (16 February 2010: 220 cents)	**1 652**	1 580
2 August 2011 interim dividend number 50 of 292 cents per ordinary share (4 August 2010: 225 cents)	**2 098**	1 616
	3 750	3 196
Dividends paid to ordinary equity holders relating to income for the year		
2 August 2011 interim dividend number 50 of 292 cents per ordinary share (4 August 2010: 225 cents)	**2 098**	1 616
10 February 2012 final dividend number 51 of 392 cents per ordinary share (15 February 2011: 230 cents)	**2 815**	1 652
	4 913	3 268

The STC payable by the Company in respect of the dividend approved and declared subsequent to the reporting date, amounts to **R282 million** (2010: R165 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.

18. Related parties

Refer to note 49 of the Group's financial statements for the full disclosure of related party transactions.

18.1 Transactions with subsidiaries

The following are transactions entered into with subsidiaries:

	2011 Rm	2010 Rm
Transactions		
Interest and similar income (refer to note 10)	8	10

19. Financial risks

Refer to note 62 of the Group's financial statements.