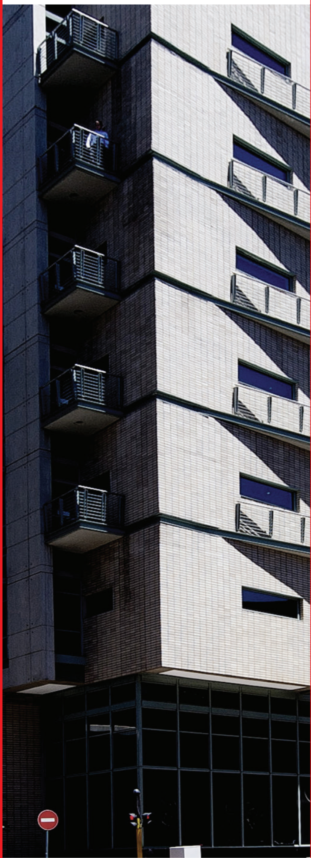
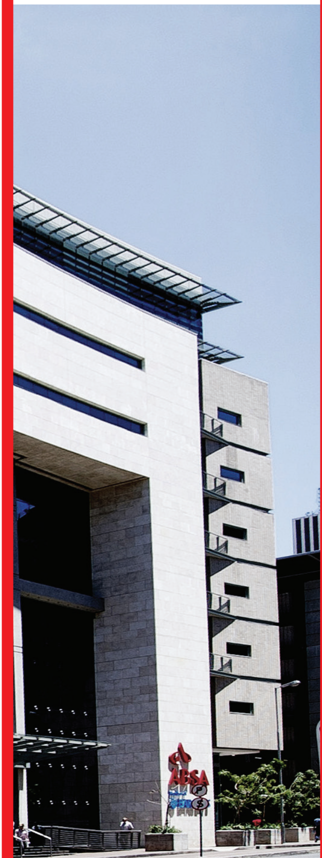
Absa Bank Limited





Annual consolidated and separate financial statements

for the reporting period ended 31 December 2012

Member of
BARCLAYS

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Annual Financial Statements

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Absa Bank Limited
(1986/004794/06)
Annual consolidated and separate financial statements for the reporting period ended 31 December 2012

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

The Absa Bank Limited audited annual consolidated and separate financial statements (financial statements) include the financial statements as well as the audited sections of the remuneration review. These financial statements should be read in conjunction with the audited sections of the remuneration review

Group Audit and Compliance Committee report

The Group Audit and Compliance Committee (GACC) is pleased to submit this report in respect of the current reporting period to the shareholders of Absa Bank 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 Governance Principles for South Africa 2009 (King III) and other regulatory requirements.

The GACC serves as the audit committee for Absa Bank Limited and its subsidiaries (the Bank).

Information on the membership and composition of the GACC, its terms of reference and its procedures are set out in the 2012 corporate governance statement available on the Group's website.[1]

Activities 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 Bank's board of directors in its terms of reference. During the current reporting period, the GACC undertook the following duties:

In respect of the external auditors and the external audit:

- nominated PricewaterhouseCoopers Inc. (PwC) and Ernst & Young Inc. (E&Y) as joint external auditors for the current reporting period;
- 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 2013 reporting period;
- ensured the appointment of the external auditors complied with the Companies Act and all other applicable legal and regulatory requirements;
- reviewed and approved the external audit plan, the budgeted fee for the reporting period 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 Bank's policy on non-audit services to be provided by the external auditors during the reporting period;
- 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;
- reviewed and approved the fees charged by the external auditors relating to the provision of non-audit services;
- considered whether any reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act, No. 26 of 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 Bank and the external auditors in relation to the Bank or any of its business units and subsidiaries.

In respect of the financial statements and accounting practices:

- confirmed the use of the going concern basis as appropriate for the preparation of the interim financial results and annual financial statements;
- reviewed the interim financial results and annual financial statements, prior to submission to and approval by the board, satisfied itself that they fairly present the consolidated financial position of the Bank and comply, in all material respects, with the relevant provisions of the Companies Act, International Financial Reporting Standards (IFRS) and Interpretations of IFRS standards;
- reviewed the interim and final dividend proposals for approval by the board;
- reviewed the solvency and liquidity tests undertaken for specific transactions and dividend declarations.

Note

[1]The Absa website can be accessed at www.absa.co.za.

Activities of the GACC *(continued)*

- 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; and
- considered the accounting policies, practices and internal controls of the Bank 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.

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

- approved an update to the internal audit charter;
- reviewed the current reporting period internal audit plan;
- reviewed the scope, nature and effectiveness of the work of Absa Internal Audit (AIA) and the performance of AIA against its objectives and the internal audit charter, and noted the completion of the current reporting period internal audit plan;
- reviewed reports from AIA on trends in audit assessments, issues identified and emerging risks in the control environment;
- regularly reviewed management's actions in remedying control deficiencies reported by AIA;
- considered a review by the external auditors, which concluded that there are adequate bases for external audit to place reliance on the work of AIA;
- considered the site review of AIA by Barclays Internal Audit (BIA), which determined that AIA 'generally conforms' with the standards of the Institute of Internal Auditors and meets the BIA standards on operating requirements in all material respects.

AIA continues to review the Banks' systems of internal control and risk management on an ongoing basis. Based on the work performed as part of the approved audit plan for the current reporting period, AIA can confirm that there is a framework of internal control and risk management in place in the Bank. Where areas of improvement were identified by AIA, management have completed corrective actions, or are in the process of implementing corrections. Progress is tracked to completion by AIA.

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

- reviewed and approved the Bank compliance monitoring plan and the Bank compliance policy;
- reviewed compliance practices and procedures for enabling the directors of the Bank to discharge their regulatory responsibilities;
- noted the status of compliance of the Bank with section 64B (2)(e) of the Banks Act, No. 94 of 1990 (as amended) (the Banks Act);
- considered compliance with Regulation 40(4) of the Banks Act, including the annual review of material malfunction, and recommended this to the board for approval;
- ensured that the competition policy of the Bank is aligned to the competition policy of Barclays Bank PLC (Barclays) and covers contact with the Competition Commission, instructions to attorneys and dealing with matters of Bank-wide significance;
- reviewed and approved the regulatory compliance risk control framework and applicable compliance policies, which include the requirements for the Bank to comply with applicable laws, rules, codes and standards;
- approved the compliance target operating model, which has features such as dual solid reporting lines into the general counsels by the product-based compliance teams, to ensure the business retains accountability for compliance;

Activities of the GACC *(continued)*

- satisfied itself that the functioning of Bank Compliance is in line with relevant regulatory requirements;
- assessed the adequacy and effectiveness of Bank Compliance's performance;
- considered any significant compliance risk matters reported by Bank Compliance and monitored progress in rectifying these matters;
- ensured procedures are 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 Bank;
- 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 Bank, the content or auditing of the Bank's financial statements, the internal financial controls of the Bank or any related matters (including internal, anonymous complaints from employees or any other person);
- reviewed and monitored the Bank's approach to, and compliance with, section 404 of the Sarbanes-Oxley Act (SOX), within the context of the materiality limits applicable to Barclays. The GACC also reviewed and monitored the Bank's approach to and compliance with Turnbull attestations;
- considered regular SOX reports providing status updates on SOX-related matters; and
- reviewed the Bank's anti-money laundering policy, which manages regulatory risk in general and, in particular, anti-money laundering risk relating to non-compliance with the requirements of the Financial Intelligence Centre Act, No. 38 of 2001, and recommended it to the board for approval.

In respect of risk management:

- reviewed the reports identifying significant control issues that require or are subject to remedial attention and which summarised the actions being taken to resolve these issues;
- reviewed the risk management report for the interim and annual reporting periods;
- reviewed reports issued in terms of the combined assurance framework for the Bank. The GACC determined that the process coordinating all assurance activities is appropriate to address the significant risks facing the Bank for each principal risk and business area. Reporting according to the combined assurance framework is expected to commence in the latter part of 2013. The framework is owned and managed by Group Risk with AIA being an integral part of the process; and
- reviewed the Bank's business continuity management plans and processes.

Regulatory and corporate governance requirements

In accordance with the provisions of the Johannesburg Stock Exchange (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 Bank's Financial Director, D W P Hodnett, has appropriate expertise and experience.

Pursuant to King lll, the GACC is satisfied that the composition, experience and skills set of the finance function are adequate to fulfil all financial, control and reporting requirements of the Bank.

Group Audit and Compliance Committee report

Independence of the external auditors

The GACC is satisfied that PwC and E&Y are independent of the Bank. 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 that 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 Bank;
- 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 auditors' independence was not prejudiced as a result of any previous appointment as auditor.

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.

During the current reporting period, the Bank reacted strongly to the emerging effects of the economy and the more recent experience of write-offs in the Home Loans Portfolio. The Bank updated and revised its models to deal effectively with Home Loan credit impairments and effected appropriate measures in its valuation of loan and equity financing of commercial property to help facilitate the proposed exit plans. The GACC is satisfied with the level of impairments and commercial property valuations at the reporting date and that ongoing controls over these aspects are adequate. Additionally, the GACC is satisfied that, in all other respects, the financial and internal controls are adequate and that no material breakdowns took place that resulted in material loss to the Bank.

The GACC reviewed the financial statements and recommended them for approval to the board on 11 February 2013.

On behalf of the GACC:

C Beggs
Chairman of the GACC

Johannesburg
11 February 2013

Directors' approval

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' responsibility statement 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 financial statements of the Bank.

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

To enable the directors to meet these responsibilities:

- all directors and senior management develop an environment whereby all directors and employees endeavour to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that, in all reasonable circumstances, is above reproach;
- the board sets standards and management implements systems of internal control and accounting as well as information systems aimed at providing reasonable assurance that both on- and off-statement of financial position assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;
- the board and management identify all key areas of risk across the Bank and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems, and discipline are applied and managed within predetermined procedures and constraints;
- the Bank's internal audit and compliance functions, which operate unimpeded and independently from operational management and have unrestricted access to the GACC, appraise, evaluate and, when necessary, recommend improvements to the systems of internal control, accounting and compliance practices, based on plans that, combined with the efforts of the Bank's risk functions, take cognisance of the relative degrees of risk of each function or aspect of the business;
- the GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC reviews reports on the principal risk areas and is responsible for approving the principal risk control frameworks. The GACC is satisfied that the external auditors are independent; and
- the Bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis. In this regard, the Bank allowance for impairments on home loans and valuation of commercial property received particular attention during the reporting period and the board is satisfied that these areas are fairly stated at the reporting date and that ongoing controls over these aspects are adequate.

Based on the above, and to the best of their knowledge and belief, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the current reporting period.

The financial statements of the Bank and the Company have been prepared in accordance with the provisions of the Companies Act and the Banks Act, and comply with the requirements of IFRS and all applicable legislation.

The directors have no reason to believe that the Bank and the Company will not be going concerns in the reporting period 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 joint external auditors to report on the financial statements. Their report to the shareholders of the Bank and Company is set out on page 6 of this report.

The directors' report on pages 7 to 11, the financial statements of the Bank and the Company, and the remuneration review were approved by the board of directors and are signed on their behalf by:

G Griffin
Group Chairman

M Ramos
Group Chief Executive (GCE)

Johannesburg
11 February 2013

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

In accordance with the provisions of the Companies Act, I certify that, in respect of the reporting period ended 31 December 2012, 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.

N R Drutman
Company Secretary

Johannesburg
11 February 2013

Independent auditors' report to the shareholders of Absa Bank Limited

We have audited the consolidated annual financial statements and annual financial statements of Absa Bank Limited, set out on pages 12 to 213, which comprise the consolidated and separate statements of financial position as at 31 December 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information and those sections marked as audited in the remuneration review, but excludes the sections marked as 'unaudited' in note 54.3.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 auditor's 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 auditor considers 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 consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Bank and of the Company as at 31 December 2012, 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.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2012, we have read the Directors' report, the GACC report and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.
Director – J P Bennett
Registered Auditor

2 Eglin Road, Sunninghill

Ernst & Young Inc.
Director – E L Pera
Registered Auditor

Wanderers Office Park
52 Corlett Drive, Illovo

Johannesburg
11 February 2013

General information and nature of activities

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

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

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

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

The Bank also provides products and services to selected markets in the United Kingdom, Nigeria and Namibia.

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

The consolidated and separate financial statements were approved for issue by the Board Finance Committee, a sub-committee of the board on 11 February 2013.

The financial statements set out fully the financial positions, results of operations and cash flows for the Bank and the Company for the reporting period ended 31 December 2012.

Group Audit and Compliance Committee report

Refer to page 1.

Bank results

Main business and operations

The Bank recorded a decline of 7% in headline earnings to **R7 425 million** (2011: R7 957 million) for the reporting period. Headline earnings per share (HEPS) and diluted HEPS decreased by 7% to **1 978,4** cents (2011: 2 127,0 cents).

Headline earnings was derived from the following activities:

	Bank	
	2012 Rm	2011[1] Rm
Banking operations		
Retail and Business Banking (RBB)	**4 318**	5 947
Retail Markets	**3 386**	4 096
Home Loans	**(1 078)**	448
Vehicle and Asset Finance	**788**	403
Card (including Edcon)	**1 933**	1 646
Personal Loans	**587**	720
Retail Bank	**1 156**	879
Business Markets	**932**	1 851
Corporate, Investment Banking and Wealth (CIBW)	**2 587**	2 014
Corporate Centre	**447**	(49)
Capital and funding centres	**368**	329
Preference equity holders	**(295)**	(284)
Headline earnings (refer to note 39)	**7 425**	7 957

Note

[1]Comparatives have been reclassified, refer to note 1.23 and note 54.1 for additional information.

Directors' report

Directors

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

C Beggs[1]
B P Connellan[1,2] (retired 3 May 2012)
Y Z Cuba[1]
S A Fakie[1]
G Griffin[1,2] (Group Chairman)
D W P Hodnett[3] (Group Financial Director)
M J Husain[1]
A P Jenkins[4]
R Le Blanc[4]
P B Matlare[1]
T M Mokgosi-Mwantembe[1]
E C Mondlane, Jr[1,5]
T S Munday[1]
S G Pretorius[1]
M Ramos[3] (GCE)
I R Ritossa[6] (resigned 31 December 2012)
L L von Zeuner[3,7] (Deputy GCE)
B J Willemse[1]

Re-election of retiring directors

In line with international best practice, the Bank has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting (AGM). The only director who would have retired in terms of the above arrangement and been eligible for re-election at the 2013 AGM is G Griffin. However, he retires from the board on 31 March 2013.

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

Directors' appointments after the reporting period

W Lucas-Bull has been appointed as an independent non-executive director and the non-executive chairman of the Bank with effect from 1 April 2013. She succeeds G Griffin, who will step down from the board, board committees and his other Absa positions on 31 March 2013.

Notes

[1]Independent director.
[2]Has been on the board for more than nine years.
[3]Executive director.
[4]British.
[5]Mozambican.
[6]Australian.
[7]Appointed as a non-executive director on 1 January 2013.

Directors' interests in the Company's preference shares

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

	Number of shares			
	2012		2011	
	Direct	Indirect	Direct	Indirect
Present directors				
G Griffin	—	1 680	—	1 680
L L von Zeuner	562	—	562	—
Past director				
B P Connellan	n/a	n/a	300	—
	562	1 680	862	1 680

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

Directors' and officers' personal financial interests in contracts

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.

T M Mokgosi-Mwantembe declared that she holds an equity interest, and serves as a director on the board of Johnson Controls Incorporated (JCI). JCI held a contract with the Bank to provide facilities management and other associated services for a five-year period. The Bank is currently in the process of exiting from this contract.

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

Directors' and prescribed officers' emoluments

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

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

Subsidiaries, associates and joint ventures

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

Directors' report

Acquisitions and disposals of businesses and other significant assets

Refer to notes 8, 13, 44 and 51 for additional information on the acquisitions and disposals of businesses and other significant assets.

Acquisitions

Subsidiaries and business combinations

During the reporting period, the Bank acquired the remaining 50% shareholding in NewFunds Proprietary Limited (NewFunds) from Vunani Capital Proprietary Limited. Following the acquisition, the Bank owns 100% of the shares in NewFunds. At the acquisition date, the investment was recognised at R2 million. No gain/(loss) was recognised in the statement of comprehensive income. NewFunds is a collective investment scheme manager that provides various management services to collective investment schemes.

Other significant assets

The Bank acquired the store card portfolio of Edcon Proprietary Limited (Edcon). This portfolio consists of approximately four million active store cards. A cash consideration equal to the net book value was paid on the acquisition date as at 1 November 2012. The Bank is responsible for credit management, fraud, risk, finance, legal, compliance and key back office operations, while Edcon manages the front office operations and primary customer interaction.

The net book value of the Edcon store card portfolio (Edcon portfolio), as at 1 November 2012, amounted to approximately R8,7 billion. The Edcon portfolio is not considered to be a business combination in terms of IFRS 3 Business Combinations (IFRS 3). The acquisition was accounted for as an acquisition of a financial asset and therefore disclosed as 'Credit cards' in 'Loans and advances to customers', refer to note 9. The acquisition will result in an increase of R8 279 million in net loans and advances and R388 million in intangible assets (the majority of which relates to 'Customer lists and relationships') with no impact on the statement of comprehensive income at the acquisition date. This transaction relates to the acquisition of the South African Edcon portfolio. The transactions relating to the other jurisdictions are to be completed in 2013.

The significant ratios are impacted mainly by the increase in the Bank's asset base as a result of the increase in 'Loans and advances to customers'. The statement of comprehensive income impact is R141 million in the current reporting period.

Associates and joint ventures

During the reporting period, the Bank, through its Home Loans division, entered into a joint venture arrangement with other commercial banks in South Africa and created the Document Exchange Association (DEA), an unincorporated entity. The DEA's main purpose will be the facilitation and development of software to electronically exchange bank statements between local banks where these documents are used in the customer credit application process.

Disposals

Subsidiaries, business combinations and other

The Bank through its Commercial Property Finance (CPF) division, sold all of its Class C units (effectively a holding of 64,08%) in the Absa Property Equity Fund (APEF) to Absa Financial Services Proprietary Limited (AFS) on 28 June 2012. The transaction is a common control transaction since APEF and AFS are ultimately controlled by the same party, both before and after the transaction. No profit or loss was recognised in the Absa Bank consolidated results due to the underlying investments being measured at fair value.

Dividends

- On 10 February 2012, a final dividend of 620,1 cents per ordinary share was announced to the ordinary shareholder registered on 30 March 2012.
- On 10 February 2012, a final dividend of 2 827,2329 cents per preference share was announced to preference shareholders registered on 30 March 2012.
- On 27 July 2012, an interim dividend of 695,5 cents per ordinary share was announced to the ordinary shareholder registered on 7 September 2012.
- On 27 July 2012, an interim dividend of 3 134,6575 cents per preference share was announced to preference shareholders registered on 7 September 2012.
- On 27 September 2012, a special dividend of 330,5 cents per ordinary share was announced to the ordinary shareholder.
- On 11 February 2013, a final dividend of 605,5 cents per ordinary share was approved. The dividend was announced on 12 February 2013 to the ordinary shareholder registered on 5 April 2013. The dividend is payable on 8 April 2013.
- On 11 February 2013, a final dividend of 2 950,5479 cents per preference share was approved. The dividend was announced on 12 February 2013 to preference shareholders registered on 5 April 2013. The dividend is payable on 8 April 2013.

Directors' report

Company Secretary

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

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

Telephone: (+27 11) 350 5347

E-mail: groupsec@absa.co.za

Auditors

PricewaterhouseCoopers (PwC) and Ernst & Young (E&Y) continued in office as auditors of the Bank. At the AGM of 2 May 2013, shareholders will be requested to re-appoint PwC and E&Y as auditors of the Bank for the 2013 reporting period. J P Bennett and E L Pera will be the individual registered auditors that will undertake the audit.

Authorised and issued share capital

Authorised

The authorised share capital of the Company of **R322 800 000** (2011: R322 800 000) consists of:

- **320 000 000** (2011: 320 000 000) ordinary shares of R1,00 each;
- **250 000 000** (2011: 250 000 000) 'A' ordinary shares of R0,01 each; and
- **30 000 000** (2011: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each.

Issued

An additional 4 646 408 'A' ordinary shares were issued during the current reporting period.

The total issued share capital at the reporting date, consists of:

- **302 609 359** (2011: 302 609 359) ordinary shares of R1,00 each;
- **76 149 040** (2011: 71 502 632) 'A' ordinary shares of R0,01 each; and
- **4 944 839** (2011: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each.

Consolidated statement of financial position

as at 31 December

		Bank		
	Note	**2012 Rm**	2011[1] Rm	2010[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**20 435**	19 505	17 343
Statutory liquid asset portfolio	3	**63 020**	57 473	48 215
Loans and advances to banks	4	**42 405**	55 870	26 328
Trading portfolio assets	5	**82 302**	79 603	57 647
Hedging portfolio assets	5	**5 439**	4 299	4 662
Other assets	6	**11 362**	11 459	8 783
Current tax assets	7	**35**	84	5
Non-current assets held for sale	8	**1 438**	35	—
Loans and advances to customers	9, 10	**511 179**	488 332	496 551
Loans to Group companies	11	**10 777**	7 164	8 071
Investment securities	12	**6 363**	8 331	12 906
Investments in associates and joint ventures	13	**562**	412	406
Investment properties	14	**331**	1 840	1 771
Property and equipment	15	**7 653**	7 268	6 987
Goodwill and intangible assets	16	**1 160**	700	643
Deferred tax assets	17	**30**	61	92
Total assets		**764 491**	742 436	690 410
Liabilities				
Deposits from banks	18	**42 936**	44 702	21 740
Trading portfolio liabilities	19	**47 889**	49 232	43 530
Hedging portfolio liabilities	19	**3 855**	2 456	1 881
Other liabilities	20	**14 431**	10 536	7 788
Provisions	21	**1 394**	1 457	1 533
Current tax liabilities	7	**59**	255	929
Non-current liabilities held for sale	8	**177**	—	—
Deposits due to customers	22	**467 318**	431 762	382 131
Debt securities in issue	23	**106 188**	128 051	162 526
Loans from Group companies	24	**—**	1 438	—
Borrowed funds	25	**17 907**	14 051	13 649
Deferred tax liabilities	17	**1 411**	1 104	2 073
Total liabilities		**703 565**	685 044	637 780
Equity				
Capital and reserves				
Attributable to equity holders:				
Ordinary share capital	26	**303**	303	303
Ordinary share premium	26	**12 465**	11 465	11 465
Preference share capital	26	**1**	1	1
Preference share premium	26	**4 643**	4 643	4 643
Retained earnings		**38 025**	37 217	32 449
Other reserves	27	**5 441**	3 605	3 704
		60 878	57 234	52 565
Non-controlling interest		**48**	158	65
Total equity		**60 926**	57 392	52 630
Total liabilities and equity		**764 491**	742 436	690 410

Note

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

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Bank 2012 Rm	Bank 2011[1] Rm
Net interest income		**21 995**	22 110
Interest and similar income	28	**48 682**	49 180
Interest expense and similar charges	29	**(26 687)**	(27 070)
Impairment losses on loans and advances	10.1	**(7 918)**	(4 876)
Net interest income after impairment losses on loans and advances		**14 077**	17 234
Non-interest income		**17 870**	16 514
Net fee and commission income		**13 759**	13 393
Fee and commission income	30	**14 890**	14 421
Fee and commission expense	30	**(1 131)**	(1 028)
Gains and losses from banking and trading activities	31	**3 543**	2 504
Gains and losses from investment activities	32	**20**	54
Other operating income	33	**548**	563
Operating income before operating expenditure		**31 947**	33 748
Operating expenditure		**(21 967)**	(22 462)
Operating expenses	34	**(21 088)**	(21 485)
Other impairments	35	**(344)**	(73)
Indirect taxation	36	**(535)**	(904)
Share of post-tax results of associates and joint ventures	13.1	**240**	47
Operating profit before income tax		**10 220**	11 333
Taxation expense	37	**(2 669)**	(3 140)
Profit for the reporting period		**7 551**	8 193
Other comprehensive income			
Foreign exchange differences on translation of foreign operations		**183**	218
Movement in cash flow hedging reserve		**405**	(242)
Fair value gains arising during the reporting period		**2 650**	1 964
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		**(2 088)**	(2 300)
Deferred tax	17	**(157)**	94
Movement in available-for-sale reserve		**1 101**	(24)
Fair value gains/(losses) arising during the reporting period		**1 524**	(65)
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	31	**10**	20
Deferred tax	17	**(433)**	21
Movement in retirement benefit fund asset		**(201)**	(47)
Decrease in retirement benefit fund surplus	40	**(279)**	(66)
Deferred tax	17	**78**	19
Total comprehensive income for the reporting period		**9 039**	8 098
Profit attributable to:			
Ordinary equity holder		**7 272**	7 901
Preference equity holders		**295**	284
Non-controlling interest		**(16)**	8
		7 551	8 193
Total comprehensive income attributable to:			
Ordinary equity holder		**8 760**	7 806
Preference equity holders		**295**	284
Non-controlling interest		**(16)**	8
		9 039	8 098
Earnings per share:			
Basic earnings per share (cents)	38	**1 937,6**	2 112,0
Diluted earnings per share (cents)	38	**1 937,6**	2 112,0

Note

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

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Note	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the reporting period		**374 112**	**303**	**11 465**	**1**	**4 643**
Total comprehensive income for the reporting period		—	—	—	—	—
Profit for the reporting period		—	—	—	—	—
Other comprehensive income		—	—	—	—	—
Dividends paid during the reporting period		—	—	—	—	—
Shares issued		**4 646**	**0**	**1 000**	—	—
Purchase of Absa Group Limited shares in respect of equity-settled share-based payment schemes		—	—	—	—	—
Movement in share-based payment reserve		—	—	—	—	—
Transfer from share-based payment reserve		—	—	—	—	—
Value of employee services		—	—	—	—	—
Share of post-tax results of associates and joint ventures		—	—	—	—	—
Increase in the interest of non-controlling equity holders	51	—	—	—	—	—
Release of non-controlling interest arising from disposal of business	51	—	—	—	—	—
Balance at the end of the reporting period		**378 758**	**303**	**12 465**	**1**	**4 643**
Notes			26	26	26	26

	Note	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the reporting period		374 112	303	11 465	1	4 643
Total comprehensive income for the reporting period		—	—	—	—	—
Profit for the reporting period		—	—	—	—	—
Other comprehensive income		—	—	—	—	—
Dividends paid during the reporting period		—	—	—	—	—
Purchase of Absa Group Limited shares in respect of equity-settled share-based payment schemes		—	—	—	—	—
Movement in share-based payment reserve		—	—	—	—	—
Transfer from share-based payment reserve		—	—	—	—	—
Value of employee services		—	—	—	—	—
Share of post-tax results of associates and joint ventures		—	—	—	—	—
Disposal of associates and joint ventures – release of reserves		—	—	—	—	—
Increase in the interest of non-controlling equity holders	51	—	—	—	—	—
Non-controlling interest arising from business combinations	51	—	—	—	—	—
Balance at the end of the reporting period		374 112	303	11 465	1	4 643
Notes			26	26	26	26

Note

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

Consolidated statement of changes in equity

for the reporting period ended 31 December

Bank

2012

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest Rm	Total equity Rm
37 217	3 605	(217)	2 025	(71)	1 422	152	294	57 234	158	57 392
7 366	1 689	1 101	405	183	—	—	—	9 055	(16)	9 039
7 567	—	—	—	—	—	—	—	7 567	(16)	7 551
(201)	1 689	1 101	405	183	—	—	—	1 488	—	1 488
(6 217)	—	—	—	—	—	—	—	(6 217)	—	(6 217)
—	—	—	—	—	—	—	—	1 000	—	1 000
(211)	—	—	—	—	—	—	—	(211)	—	(211)
110	(93)	—	—	—	—	(93)	—	17	—	17
110	(110)	—	—	—	—	(110)	—	—	—	—
—	17	—	—	—	—	17	—	17	—	17
(240)	240	—	—	—	—	—	240	—	—	—
—	—	—	—	—	—	—	—	—	35	35
—	—	—	—	—	—	—	—	—	(129)	(129)
38 025	5 441	884	2 430	112	1 422	59	534	60 878	48	60 926
		27	27	27	27	27	27			

2011

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest Rm	Total equity Rm
32 449	3 704	(193)	2 267	(289)	1 422	263	234	52 565	65	52 630
8 138	(48)	(24)	(242)	218	—	—	—	8 090	8	8 098
8 185	—	—	—	—	—	—	—	8 185	8	8 193
(47)	(48)	(24)	(242)	218	—	—	—	(95)	—	(95)
(3 184)	—	—	—	—	—	—	—	(3 184)	—	(3 184)
(281)	—	—	—	—	—	—	—	(281)	—	(281)
155	(111)	—	—	—	—	(111)	—	44	—	44
155	(155)	—	—	—	—	(155)	—	—	—	—
—	44	—	—	—	—	44	—	44	—	44
(47)	47	—	—	—	—	—	47	—	—	—
(13)	13	—	—	—	—	—	13	—	—	—
—	—	—	—	—	—	—	—	—	21	21
—	—	—	—	—	—	—	—	—	64	64
37 217	3 605	(217)	2 025	(71)	1 422	152	294	57 234	158	57 392
		27	27	27	27	27	27			

Consolidated statement of cash flows

for the reporting period ended 31 December

	Note	Bank 2012 Rm	Bank 2011[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**64 031**	62 965
Interest, fee and commission expense		**(26 616)**	(27 666)
Net trading and other income		**(2 261)**	(1 054)
Cash payments to employees and suppliers		**(20 200)**	(20 863)
Dividends (paid)/received from banking and trading activities		**(117)**	184
Income taxes paid		**(2 850)**	(4 702)
Cash flow from operating profit before changes in operating assets and liabilities		**11 987**	8 864
Net decrease/(increase) in trading and hedging portfolio assets		**1 827**	(17 534)
Net (increase)/decrease in loans and advances to customers		**(31 242)**[2]	2 593
Net decrease/(increase) in other assets		**4 035**	(36 615)
Net increase in trading and hedging portfolio liabilities		**198**	5 980
Net increase in amounts due to customers and banks		**32 262**	71 893
Net decrease in other liabilities		**(17 283)**	(31 717)
Net cash generated from operating activities		**1 784**	3 464
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale	8	**35**	356
Net decrease in investment securities		**2 948**	4 532
Dividends (paid)/received from investment activities		**(19)**	59
Acquisition of associates, net of cash		**(26)**	—
Net (increase)/decrease in loans to associates and joint ventures	13.1	**2**	(2)
Dividends received from associates and joint ventures		**78**	—
Purchase of investment properties	14	**—**	(36)
Proceeds from disposal of investment properties		**43**	—
Purchase of property and equipment	15	**(1 650)**	(1 519)
Proceeds from disposal of property and equipment		**170**	77
Purchase of intangible assets	16	**(688)**[2]	(230)
Acquisitions and disposals of businesses, net of cash	51	**239**	(211)
Net cash generated from investing activities		**1 132**	3 026
Cash flow from financing activities			
Issue of ordinary 'A' shares		**1 000**	—
Purchase of Absa Group Limited shares in respect of equity-settled share-based payment schemes		**(211)**	(281)
Proceeds from borrowed funds		**5 000**	—
Repayment of borrowed funds		**(1 500)**	—
Dividends paid		**(6 217)**	(3 184)
Net cash utilised in financing activities		**(1 928)**	(3 465)
Net increase in cash and cash equivalents		**988**	3 025
Cash and cash equivalents at the beginning of the reporting period		**7 798**	4 773
Effect of foreign exchange rate movements on cash and cash equivalents		**—**	0
Cash and cash equivalents at the end of the reporting period	49	**8 786**	7 798

Notes

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

[2]Includes an amount of R8 279 million relating to the acquisition of the Edcon portfolio. The R388 million cost of the related intangible assets recognised has been included in 'Purchase of intangible assets'.

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 IFRS Interpretations Committee (IFRS-IC) and the requirements of the Companies Act.

Refer to note 1.25 for new standards and interpretations not yet adopted.

Standards and amendments to standards mandatory for the first time for the current reporting period

Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendments to IFRS 1):

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, applicable to reporting periods beginning on or after 1 July 2011 have had no impact on the financial statements of the Bank.

Disclosures – Transfers of Financial Assets (Amendments to IFRS 7):

Applicable to reporting periods beginning on or after 1 July 2011, requires 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.

Refer to note 43 for the required disclosures.

Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12):

Applicable to reporting 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 is that investment properties measured at fair value are recovered entirely through disposal. 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 had a minimal impact on the Bank. It impacted deferred tax balances on assets revalued to above its original cost at the IFRS transition done in 2005.

Circular 3/2012 – Headline Earnings

Circular 3/2012 replaces Circular 3/2009 and is effective for reporting periods ending on or after 31 July 2012. The amendments to the circular indicate that changes in the deferred tax balance resulting from the use of a different tax rate, which relates to items that are excluded from headline earnings in the current or previous reporting periods, are also excluded from headline earnings. The amendments to the circular also indicate that compensation from third parties for property, plant and equipment which were impaired, lost or given up are considered to be re-measurements of an asset, and are excluded from headline earnings.

The amendments have had a minimal impact on the financial statements of the Bank, refer to note 39 for the required disclosures.

1.1 Basis of presentation

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

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

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

1.2 Use of estimates, assumptions and judgements

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

1.2.1 Impairment of loans and advances

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

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

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

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

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

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

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

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

1.2.2 Goodwill impairment

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

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

- The future cash flows of the cash-generating units (CGUs) are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are

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

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

1.2.2 Goodwill impairment (continued)

compared with actual performance and verifiable economic data in future years; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects at the time of the assessment.

- The discount rate used to discount the future expected cash flows is based on the Bank's weighted average cost of capital. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions outside of management's control and are therefore established on the basis of significant management judgement and are subject to uncertainty.

Note 16 includes details of the CGUs with significant balances of goodwill and states the key assumptions used to assess the goodwill in each of those CGUs for impairment.

1.2.3 Valuation of financial instruments

The Bank's policy for determining the fair value of financial instruments is described in note 56.

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

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

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

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

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the unobservable inputs are significant. Refer to note 13.3 for details of changes in the fair value of unlisted equity investments during the current reporting period.

1.2.4 Impairment of available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value, and changes in fair value are recognised in other comprehensive income 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 other comprehensive income relating to that asset is reclassified from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income as an impairment loss.

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

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

1.2.4 Impairment of available-for-sale financial assets (continued)

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, refer to note 1.2.3.

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

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

1.2.5 Impairment of investments in associates and joint ventures

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

1.2.6 Deferred tax assets

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

The amount of deferred tax assets recognised is based on the evidence available about conditions at the reporting date. Management's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance 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 profit 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 profit to utilise the deferred tax assets.

1.2.7 Consolidation of special purpose entities

The Bank consolidates certain special purpose entities (SPEs), which may or may not be directly or indirectly owned subsidiaries. These SPEs are consolidated when they are controlled by the Bank. Judgement is required in assessing and determining if the Bank controls SPEs. Refer to note 1.3.4 where the factors considered when assessing whether an SPE is to be consolidated are outlined.

1.2.8 Post-retirement benefits

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

1.2.9 Provisions

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

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

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

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

1.2.10 Share-based payments

Where the fair value of share awards relating to share-based payments is not based on Absa Group Limited's share price with a zero strike price, it is determined using option pricing models. The inputs to the option pricing models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The valuation of share awards is described in more detail in note 50. Refer to note 20 for the carrying amount of liabilities arising from cash-settled schemes.

1.2.11 Income taxes

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

1.2.12 Offsetting financial assets and liabilities

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

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

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

1.3 Consolidation

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

1.3.1 Subsidiaries

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

The Bank uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Bank. The consideration transferred includes the fair value at acquisition date of any asset or liability resulting from a contingent consideration

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

1.3 Consolidation *(continued)*

1.3.1 Subsidiaries *(continued)*

arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes (IAS 12) and IAS 19 Employee Benefits (IAS 19), respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payments (IFRS 2) at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (IFRS 5) are measured in accordance with that standard.

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

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

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

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

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

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

1.3.2 Investments in associates and joint ventures

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

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

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

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

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

1.3 Consolidation *(continued)*

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

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

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

Investments in entities that form part of venture capital activities of the Bank have been designated at fair value through profit or loss and disclosed under 'Investment securities'. The designation has been made in accordance with IAS 39, based on the scope exclusion that is provided in IAS 28 Investments in Associates and Joint Ventures (IAS 28) and IAS 31 Interests in Joint Ventures (IAS 31).

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

1.3.3 Transactions with non-controlling interests

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

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

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

1.3.4 Special purpose entities

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

SPEs controlled by the Bank are established under terms that:

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

1.3.5 Business combinations achieved in stages (step acquisitions)

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

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

1.3 Consolidation *(continued)*

1.3.6 Common control

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

The assets and liabilities of the combining entities are not adjusted to fair value but are 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 for all periods that such entities were under common control as if the entities had always been combined, regardless of the date of the transaction.

1.4 Segment reporting

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

The Bank has identified its reportable segments based on a combination of products and services offered to customers, external revenue and the location of the markets served. The segments also reflect how the Bank's businesses are managed and reported to the CODM, refer to note 54 for more detail.

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

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

1.4.1. Segment restructurings

The One Absa strategy is aimed at creating a bank with a simplified business model that is more customer- and people-centred. Accordingly, the Bank has been dividend into two specific segments, RBB and CIBW, each with its own management team.

RBB: During October 2011, as part of the One Absa strategy, the divisions formerly known as 'Absa Retail' and 'Absa Corporate and Business Bank' (ACBB) were merged into the RBB segment. The establishment of the RBB segment is aligned with the existing Barclays and Africa structures and is part of a strategic initiative to consolidate Absa's offerings to its customers, locally and throughout the continent. This segment represents the consolidation of the Retail, Unsecured Lending and Business Bank divisions. In line with IFRS operating segments reporting requirements, the June 2012 results reported, for the first time, a combined RBB view.

CIBW: CIBW represents the Bank's wholesale banking operations. In order to achieve this, certain operating products and client relationships were transferred to CIBW, mainly from ACBB, to enable a full service capability for corporate clients.

As a result of this transition, other functions such as the relevant human resources, technology and governance structures also transferred to CIBW. Management adopted a two phase approach to facilitate the transfer of ACBB's corporate clients to CIBW, with the first phase involving client and product migration into CIBW and the second phase consisting of the transfer of operational structures. In total, approximately 800 clients were migrated from ACBB to CIBW. This project was successfully completed in the first half of 2012.

Enterprise Core Services Cluster: As part of the divisional restructuring, the Services Cluster (Group Support) was renamed the Enterprise Core Services Cluster. This cluster, mainly comprises the Corporate Centre. The following business units were transferred from the 'Services Cluster' as part of a restructuring exercise that took place at the beginning of the current reporting period:

- Absa Cash Solutions, Group Processing Centre and Integrated Processing Services moved to RBB; and
- Forex Operations and Payments moved to CIBW.

The financial results for 31 December 2011 have been reclassified for the above mentioned segment restructurings.

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

1.5 Foreign currencies

1.5.1 Functional and presentation currency

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

1.5.2 Foreign currency translations

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

- The assets and liabilities of foreign subsidiary companies are translated at the closing exchange rates ruling at the reporting date. Statement of comprehensive income items in respect of foreign entities are translated at the appropriate weighted average exchange rate for the reporting period, 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 'Other operating income' or 'Operating expenses'.

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 reporting period-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 Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary equity holders by the weighted average number of ordinary shares in issue during the reporting period. 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 could 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 (incremental costs directly

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

1.7 Financial instruments *(continued)*

attributable to the acquisition, issue or disposal of a financial instrument) and transaction income (i.e. initiation fees) are capitalised to the initial carrying amount.

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

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

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

1.7.1 Held-to-maturity

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

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

The Bank does not have a positive intention to hold to maturity a financial asset with a fixed maturity if:
- the Bank intends to hold the financial asset for an undefined period;
- the Bank stands ready to sell the financial asset in response to market interest rates or risks, liquidity needs, changes in availability of and the yield on alternative investments, changes in financing sources and terms or changes in foreign currency risk; or
- the issuer has a right to settle the financial asset at an amount significantly below its amortised cost.

1.7.2 Financial instruments at fair value through profit or loss

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

Financial instruments classified as held for trading

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

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

Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are designated at fair value through pofit or loss if they meet one or more of the criteria set out below at initial recognition, and are so designated by management. The Bank may only designate financial instruments at fair value through profit or loss when the designation results in more relevant information, as follows:
- It eliminates or significantly reduces valuation or recognition inconsistencies that would arise from measuring financial assets or financial liabilities, or recognising gains or losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by the Bank are financial assets, loans to customers, financial liabilities and structured notes, where doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost.
- When groups of financial assets, financial liabilities or combinations thereof are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Under this criterion, certain private equity and other investments are

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)

the main class of financial instruments so designated. The Bank has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks.

- The Bank can also designate a financial instrument at fair value through profit or loss if it relates to a contract containing one or more embedded derivatives that significantly modify the cash flows resulting from that contract.

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

Derivatives

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

1.7.3 Available-for-sale assets

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

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

Available-for-sale assets are regularly assessed for impairment. In assessing whether or not impairment of an equity available-for-sale instrument 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 fair value of the equity instrument below its cost include:

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

If impairment is assessed to have occurred, the cumulative gain or loss that has been previously recognised directly in other comprehensive income is reclassified 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. Summary of significant accounting policies *(continued)*

1.7 Financial instruments *(continued)*

1.7.4 Loans and receivables

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

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

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

1.7.5 Embedded derivatives

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

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

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

1.7.6 Financial liabilities

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

1.7.7 Impairment of financial assets at amortised cost

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

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

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

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

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

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

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter insolvency or other financial reorganisation; and
- the disappearance of an active market for that financial asset because of financial difficulties.

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

1.7 Financial instruments *(continued)*

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

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

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

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

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

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

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (i.e. changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

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

Identified impairment

Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows of that instrument being assessed are taken into account, for example, the business prospects for the customer, the fair value of collateral, the Bank's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements are made in this process by management. Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in revisions to the impairment allowance as individual decisions are taken case by case.

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

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

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

1.7 Financial instruments *(continued)*

1.7.7 Impairment of financial assets at amortised cost (continued)

Unidentified impairment

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

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

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

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

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

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

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

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

1.7.8 Renegotiated loans

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

Restructuring activities will vary depending on the nature of the client, for example whether the client is a corporate client or an individual and include extended payment arrangements, approved external management plans, deferral of payments, debt consolidation, reassessment of collateral requirements, restructuring fees and reassessment of the interest rate charged. 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.

When a financial asset subsequently measured at amortised cost is renegotiated, the terms of the renegotiation are considered. If the renegotiation results in a fundamental change to the nature of the financial asset (for example significant reductions in interest rates or significant term extensions), such renegotiation is seen to in substance, result in the rights associated with the original financial asset expiring and a new financial asset being entered into. The original financial asset is derecognised in such a case and a new financial asset is recognised at fair value. Any gains or losses on such derecognition are recognised in profit or loss.

If the renegotiation of a financial asset does not result in a fundamental change to the nature of the financial asset, then the financial asset is not derecognised. Rather, it is assessed for any additional impairment required as a result of the renegotiated terms. Any impairment resulting from such assessment is recognised in profit or loss.

1.7.9 Derecognition of financial assets

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

- the rights to receive cash flows from the asset have been discharged, cancelled or have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; and

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

1.7 Financial instruments *(continued)*

1.7.9 Derecognition of financial assets *(continued)*

- the Bank has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all of the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

1.7.10 Derecognition of financial liabilities

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

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

1.7.11 Fair value

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

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

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

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

- 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.
- Level 2 – Valuation techniques using market observable inputs. Such techniques may include:
  - sing 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.
- Level 3 – Valuation techniques, as described under level 1 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 above use inputs such as interest rate yield curves, equity prices, commodity and currency prices/yields, volatilities of underlyings and correlations between inputs. The models used in these valuation techniques are calibrated against industry standards, economic models and to observed transaction prices, where available.

1.7.12 Scrip lending

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

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

1.7 Financial instruments *(continued)*

1.7.12 Scrip lending *(continued)*

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

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

Securities lent are retained in the statement of financial position when substantially all the risks and rewards of ownership remain with the Bank, and a counterparty liability is included separately on the statement of financial position, as appropriate. Securities will only be repurchased when the lender defaults. 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 Bank uses derivative instruments as part of its asset and liability management activities to hedge exposures to interest rate, foreign currency and credit risks. The Bank applies either fair value or cash flow hedge accounting when transactions meet the criteria as set out in IAS 39.

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

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

Hedge accounting is discontinued when a derivative is not highly effective as a hedge, is sold, terminated, exercised or where the forecast transaction is no longer highly probable to occur. The same applies if the hedged item is sold or repaid. Instruments that have been designated as hedging instruments are reported 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.

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

1.7 Financial instruments *(continued)*

1.7.13 Hedge accounting *(continued)*

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 an income or an expense, the associated gain or loss on the hedging instrument is simultaneously transferred from other comprehensive income to the corresponding line in the profit and loss component of the statement of comprehensive income.

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

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

1.7.14 Offsetting

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

1.7.15 Repurchase and reverse repurchase agreements

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

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

Repurchase and reverse repurchase agreements may either be designated at fair value through profit or loss if the requirements in IAS 39 to designate as such are met or classified as loans and receivables. Repurchase and reverse agreements are included in various notes to 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 Bank enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Bank subject to notice conditions. Provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities if it is probable that the facility will be drawn and result in recognition of an asset at an amount less than the amount advanced.

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

1.7 Financial instruments *(continued)*

1.7.18 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

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

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

1.8 Share capital

1.8.1 Ordinary share capital

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

1.8.2 Preference share capital

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

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

Where preference shares contain both a liability and an equity component, such components are classified separately as financial liabilities and equity components as set out in note 1.7.16.

1.9 Revenue recognition

Revenue is recognised at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

1.9.1 Net interest income

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

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

- Origination fees relating to the creation or acquisition of a financial asset, which may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instruments, preparing and processing documents and closing the transaction.
- Origination fees received on issuing financial liabilities measured at amortised cost.
- Commitment fees received by the Bank to originate a loan and the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of the financial instrument.

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

1.9 Revenue recognition *(continued)*

1.9.1 Net interest income (continued)

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

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

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

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

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

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

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

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

1.9.3 Instalment credit agreements

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

1.9.4 Net fee and commission income

Fee and commission income

The Bank earns fee and commission income from customers for: credit and bank cards; transaction processing fees; advisory, equity and underwriting services; lending and deposit-related transactions, such as loan commitments, standby letters of credit, and other deposit and loan servicing activities; 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 Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as other participants. The commission on the allotment of shares to a customer is recognised when the shares have been allotted. Placement fees for arranging a loan between a borrower and an investor are recognised when the loan has been arranged.
- Income earned from the provision of services is recognised as revenue as the services are provided (i.e. investment or asset management, portfolio and other management advisory and service fees).

Fee and commission expense

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

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

1.9 Revenue recognition *(continued)*

1.9.4 Net fee and commission income *(continued)*

Trust and other fiduciary activities

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

1.9.5 Gains and losses from derivative and trading portfolio instruments

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

1.9.6 Dividends received on investments in equity instruments

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

1.9.7 Sale of assets under construction

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

1.9.8 Rental income

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

1.10 Commodities

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

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

1.11 Intangible assets

1.11.1 Goodwill

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

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

The first step of the impairment review process requires the identification of independent operating units by dividing the Bank's business into as many largely independent income streams as is reasonably practical. The goodwill is then allocated to these independent operating units. The first step of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second step reflects the allocation of the net assets acquired to the operating units and the difference between the consideration paid for those net assets and their fair value. The carrying value of the operating unit, including the allocated goodwill, is

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

1.11 Intangible assets *(continued)*

1.11.1 Goodwill (continued)

compared with the higher of its fair value less cost to sell and its value in use to determine whether any impairment exists. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (e.g. competition activity or regulatory change). In the absence of readily available market price data, these calculations are usually based on discounting expected cash flows at the Bank's weighted average cost of capital, the determination of which requires the exercise of judgement. An impairment loss in respect of goodwill is recognised in the profit and loss component of the statement of comprehensive income and is not reversed.

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

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

1.11.2 Computer software development costs, customer lists and relastionship, 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 accumulated impairment losses.

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

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

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

Customer lists and relationships as well as 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 reporting date. 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 assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Intangible assets relating to customer lists and relationships acquired are not amortised on a straight-line basis. Such intangible assets are amortised on a systematic basis over the useful life of the asset with amortisation being higher in the earlier years of the asset's useful life.

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

1.11 Intangible assets *(continued)*

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

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

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

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

1.12 Property and equipment

1.12.1 Property and equipment not subject to lease agreements

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

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

The Bank uses the following annual rates in calculating depreciation:

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

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

All borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

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)*

1.12 Property and equipment *(continued)*

1.12.1 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 reporting period that the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively, if appropriate.

1.12.2 Property and equipment subject to lease agreements

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

Finance leases

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

Operating leases

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

1.12.3 Investment properties

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

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

An external, independent valuator company, having appropriate recognised professional qualifications and recent experience in the location and category of the properties being valued, values the Bank's investment properties each year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing 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 Bank and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and, when appropriate, counter-notices, have been served validly and within the appropriate time.

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

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. Summary of significant accounting policies *(continued)*

1.13 Repossessed properties

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

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

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

1.14 Constructed assets held for sale

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

1.15 Non-current assets and non-current liabilities held for sale

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

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

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

1.16 Impairment of property, equipment and intangible assets

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

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

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

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

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

1.17 Cash and cash equivalents

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

1.18 Provisions, contingent liabilities and commitments

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

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

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

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

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

1.19 Employee benefits

1.19.1 Post-retirement benefits

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

Defined contribution structures

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

Contributions to any defined contribution plan are expensed as incurred.

Defined benefit structures

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank nor can they be paid directly to the Bank. Fair value is based on market price information and, in the case of quoted securities, it is the published bid price. The value of any plan asset recognised is restricted to the sum of any past-service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. Actuaries determine the balances of employer and other reserves based on the excess of fund assets over fund liabilities at the statutory valuation date of 31 March of a year. The statutory valuation uses the actuarial values of fund assets, which are not necessarily equal to the current market value of such assets. IAS 19 requires fund assets to be valued based on current market values. As a result of the potential differences between the actuarial valuation and the IAS 19 valuation, an investment reserve

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

1.19 Employee benefits *(continued)*

1.19.1 Post-retirement benefits *(continued)*

may exist at year end. As at year end, there may be an unallocated portion of such reserve if the Trustees have not yet allocated such reserve to the Bank, as employer. In such a case, the Bank will not control such reserve at year end and the reserve will not be recognised as an asset by the Bank.

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

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

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

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

Short-term benefits

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

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

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

1.19.2 Share-based payments

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

Employee services settled in equity instruments

The fair value of the employee services received in exchange for the grant of awards is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards determined at the grant date, excluding the impact of any non-market vesting conditions (e.g. profitability). These awards will be equity instruments of the Bank's parent company, Absa Group Limited. The grant date is the date at which the entity and employee have a shared understanding of the terms and conditions of an employee share-based payment arrangement. If services are effectively being rendered by the employee for the award from a date earlier than the grant date, then the cost of the awards is recognised over a period starting at such earlier date. 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.

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.

Upon vesting of the awards, the amount accumulated in the share-based payment reserve relating to these vested awards is transferred from this reserve to share capital and share premium. The proceeds received net of any attributable transaction costs are credited to retained earnings. The total cash outflow incurred to fund the acquisition of equity instruments in the parent company granted to employees is charged against share premium.

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

1.19 Employee benefits *(continued)*

1.19.2 Share-based payments *(continued)*

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.

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 to fair value 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.

1.20 Taxation

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

1.20.1 Current tax

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

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

1.20.2 Deferred tax

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

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

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

1.20 Taxation *(continued)*

1.20.2 Deferred tax *(continued)*

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

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

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

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

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

1.20.3 Dividends withholding tax and secondary tax on companies

Dividends withholding tax (DWT) – a new dividends withholding tax regime, became effective from 1 April 2012. Dividends are taxed at 15% in the hands of certain of the recipients of the dividends, rather than in the hands of the declarer of the dividend. As such, for dividends declared and paid by the Bank after 1 April 2012, the Bank does not recognise tax on dividends declared.

Secondary tax on companies (STC) – was provided for at 10% on the net of dividends declared less dividends received (unless exempt from STC) by the Bank at the same time as the liability to pay the related dividends was recognised. STC credits that arose from dividends received and receivable that exceeded dividends paid were accounted for as a deferred tax asset. STC was included in the 'Taxation expense' line in the profit and loss component of the statement of comprehensive income.

1.20.4 Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except:

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

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

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

1.21 Borrowing costs

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

1.22 Assets under management and administration

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

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

1.23 Reclassifications *(continued)*

Some items within the financial statements for the reporting periods ended 31 December 2011 and 31 December 2010 were reclassified in the current reporting period.

1.23.1 Initial margin

During the current reporting period, the Bank reclassified certain initial margins placed as collateral which were previously disclosed as 'Other assets' to 'Loans and advances to banks' and 'Loans and advances to customers' in order to better reflect the true nature of these balances as collateralised loans. This resulted in comparatives being reclassified for the 2011 and 2010 reporting periods as reflected in the table that follows:

	Bank					
	2011			2010		
	As previously reported Rm	Reclassi-fications Rm	Reclassified Rm	As previously reported Rm	Reclassi-fications Rm	Reclassified Rm
Loans and advances to banks	55 803	67	55 870	26 251	77	26 328
Other assets	12 948	(1 489)	11 459	9 678	(895)	8 783
Loans and advances to customers	486 910	1 422	488 332	495 733	818	496 551

1.23.2 Elimination of funding interest

During the current reporting period, the Bank refined the elimination of funding interest between 'Interest and similar income' and 'Interest expense and similar charges'. This resulted in comparatives being reclassified for the 2011 reporting period as reflected in the table that follows:

	Bank 2011		
	As previously reported Rm	Reclassifi-cations Rm	Reclassified Rm
Interest and similar income	49 210	(30)	49 180
Interest expense and similar charges	(27 100)	30	(27 070)

1.24 Changes in accounting policies

The application of the Bank's accounting policies are consistent with those adopted in the previous reporting period, except for those standards and amendments which became effective in the current reporting period as detailed in note 1 on page 17.

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

1.25 New standards and interpretations not yet adopted

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

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

IFRS 10 Consolidated Financial Statements (IFRS 10), which is applicable to annual reporting 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 Consolidated and Separate Financial Statements (2008) (IAS 27) and SIC-12 Consolidated – Special Purpose Entities (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 impact comparative information.

The impact of IFRS 10 was assessed and although not material will result in some previously unconsolidated entities being consolidated under IFRS 10 as well as some previously consolidated entities being deconsolidated.

IFRS 11 Joint Arrangements (IFRS 11), which is effective for annual reporting 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 comparative information.

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

IFRS 12 Disclosure of Interests in Other Entities (IFRS 12), which is applicable to annual reporting 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 comparative information.

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

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

The Bank is in the process of assessing the impact for future reporting periods and expect the application of IFRS 12 to result in additional disclosures.

Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12), which is applicable to annual reporting periods beginning on or after 1 January 2013, changes the transition guidance to provide further relief from full retrospective application of IFRS 10, 11 and 12. The amendments clarify that the date of initial application is the beginning of the annual reporting period in which IFRS 10 is applied for the first time. If the control assessment at the date of initial application is the same under IFRS 10 as under IAS 27, no retrospective application is required. If the control assessment is different, then retrospective adjustments are required to be determined. These retrospective adjustments are only required for the period immediately preceding the date of initial application of IFRS 10.

The transition guidance will be taken into account upon adopting IFRS 10, IFRS 11 and IFRS 12 but is not expected to have a material impact on the Bank.

IFRS 13 Fair Value Measurement (IFRS 13), which is applicable to annual reporting 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 initial assessment indicated that the impact of IFRS 13 in the Bank will be minimal. A detailed assessment will be performed in future reporting periods.

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1), is applicable to annual reporting 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 Bank.

IAS 19 Employee Benefits (amended 2011), which is applicable for annual reporting periods beginning on or after 1 January 2013 and 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 amendments are not expected to have a material impact on the Bank.

IAS 27 Separate Financial Statements (2011), is the amended version of IAS 27 and is applicable to annual reporting 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 application of these amendments will have a minimal impact on the Bank.

IAS 28 Investments in Associates and Joint Ventures (2011), is the amended version of the current IAS 28 and is applicable to annual reporting 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 application of this standard will have a minimal impact on the Bank.

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

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

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

The interpretation is applicable to annual reporting periods beginning on or after 1 January 2013 and will have no impact on the Bank.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32), is effective for annual reporting 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. An entity shall apply the amendments retrospectively, and early 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 IFRS 7: Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7).

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

Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7), is effective for annual reporting 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 generally accepted accounting principles (GAAP). An entity shall provide the disclosures required by these amendments retrospectively.

This amendment will result in additional disclosures being presented in the consolidated financial statements of the Bank.

Government loans (Amendments to IFRS 1), is effective for annual reporting periods beginning on or after 1 January 2013. These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance (IAS 20) prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below market rate of interest. As a result of not applying IFRS 9 (or IAS 39, as applicable) and IAS 20 retrospectively, first-time adopters would not have to recognise the corresponding benefit of a below-market rate government loan as a government grant. The amendments may be applied earlier than the effective date, in which case, this must be disclosed.

The amendments are not expected to have a material impact on the Bank.

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

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

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), is applicable for annual reporting periods beginning on or after 1 January 2014 to a reporting entity that meets the definition of an investment entity. An entity is required to consider specific factors to determine whether it qualifies as an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained. The amendments will be applied retrospectively, subject to certain transition reliefs. Early application is permitted and must be disclosed.

The impact will be assessed for future reporting periods, but is not expected to have a significant impact, if any. The Group's equity investments in associates and joint ventures held by the CPF division currently measured on a fair value basis in terms of the IAS 28 and IAS 31 exemptions will continue to be measured on a fair value basis. It is unlikely that at any level within the Group structure the investment entity definition will be met, making it unlikely that any subsidiaries held by the CPF division will be treated in accordance with these amendments on a fair value basis and will continue to be consolidated.

The following improvements in terms of the annual improvements project were issued in May 2012. They are effective for annual reporting periods beginning on or after 1 January 2013 and are to be applied retrospectively:

Amendment to IFRS 1 First-time Adoption of IFRS – The amendments clarify that an entity that has stopped applying IFRS may choose to either reapply IFRS 1 (even if the entity applied IFRS 1 in a previous period) or apply IFRS retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8) in order to resume reporting under IFRS. If the entity reapplies IFRS 1 or applies IAS 8, it must disclose the reasons for previously stopping reporting in terms of IFRS and resuming reporting in terms of IFRS. The amendments clarify that upon adoption of IFRS, an entity that capitalised borrowing costs in accordance with its previous GAAP may carry forward, without adjustment, the amount previously capitalised in its opening statement of financial position at the date of transition.

The amendments are not expected to have an impact on the Bank.

Amendments to IAS 1 Presentation of Financial Statements – When an entity provides comparative information that goes beyond the minimum requirements in the current period, it would be clarified that comparative information is required for all amounts reported, with comparatives for narrative and descriptive information being included where this is relevant to understanding the current period financial statements. Where an entity changes accounting policies, or makes retrospective restatements or reclassifications and such changes have a material effect on the statement of financial position, an opening statement of financial position would be required as at the beginning of the required comparative period but related notes would not be required.

These requirements will be taken into account where restatements, reclassifications and changes in accounting policies are affected in future periods.

Amendment to IAS 16 Property, Plant and Equipment – The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

The amendment is not expected to have an impact on the Bank.

Amendments to IAS 32 Financial Instruments: Presentation – The amendment clarifies that the income tax relating to distributions to equity holders, are required to be accounted for in accordance with IAS 12.

The amendments are not expected to have an impact on the Bank.

Amendment to IAS 34 Interim Financial Reporting – The amendment requires that total assets for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

The amendment is not expected to have a significant impact on the Bank.

	Bank	
	2012 Rm	2011 Rm
2. Cash, cash balances and balances with central banks		
Balances with the South African Reserve Bank (SARB)	**12 338**	12 279
Coins and bank notes	**8 094**	7 226
Money market assets	**3**	—
	20 435	19 505
Portfolio analysis		
Loans and receivables		
Balances with the SARB	**12 338**	12 279
Coins and bank notes	**8 094**	7 226
Money market assets	**3**	—
	20 435	19 505
3. Statutory liquid asset portfolio		
Republic of South Africa (RSA) government bonds	**51 853**	44 222
Reverse repurchase agreements, refer to note 42	**3**	3
SARB debentures	**—**	200
Treasury bills	**11 164**	13 048
	63 020	57 473
Portfolio analysis		
Available-for-sale financial assets	**35 047**	33 327
RSA government bonds	**23 883**	20 079
SARB debentures	**—**	200
Treasury bills	**11 164**	13 048
Available-for-sale financial assets in a fair value hedging relationship		
RSA government bonds	**27 173**	23 342
Financial assets designated at fair value through profit or loss	**800**	804
RSA government bonds	**797**	801
Reverse repurchase agreements	**3**	3
	63 020	57 473

RSA government bonds, SARB debentures and treasury bills valued at **R2 592 million** (2011: R2 289 million) have been pledged with the SARB, refer to note 42.

	Bank		
	2012 Rm	2011[1] Rm	2010[1] Rm
4. Loans and advances to banks			
Collateralised loans	1 274	3 478	2 695
Other	31 997	45 653	18 061
Reverse repurchase agreements (refer to note 42)	9 134	6 739	5 572
	42 405	55 870	26 328
Portfolio analysis			
Financial assets designated at fair value through profit or loss	9 729	7 886	7 548
Collateralised loans	—	306	501
Other	6 760	1 672	1 475
Reverse repurchase agreements	2 969	5 908	5 572
Loans and receivables	32 676	47 984	18 780
Collateralised loans	1 274	3 172	2 194
Other	25 237	43 981	16 586
Reverse repurchase agreement	6 165	831	—
	42 405	55 870	26 328

Loans with variable rates are **R25 215 million** (2011: R49 106 million; 2010: R19 447 million) and fixed rates are **R17 190 million** (2011: R6 764 million; 2010: R6 881 million).

Included above are loans and advances to banks with a carrying value of **R2 668 million** (2011: R1 313 million; 2010: R1 445 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42. The amounts pledged are the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

	Bank	
	2012 Rm	2011 Rm
5. Trading and hedging portfolio assets		
Commodities	514	243
Debt instruments	24 614	27 114
Derivative assets (refer to note 55.3)	46 697	45 474
Commodity derivatives	605	298
Credit derivatives	195	205
Equity derivatives	969	1 085
Foreign exchange derivatives	5 814	12 151
Interest rate derivatives	39 114	31 735
Equity instruments	503	31
Money market assets	9 974	6 741
Total trading portfolio assets	82 302	79 603
Hedging portfolio assets (refer to note 55.3)	5 439	4 299
	87 741	83 902
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	3 859	3 168
Derivatives designated as fair value hedging instruments	1 580	1 131
Financial assets held for trading	81 788	79 360
Debt instruments	24 614	27 114
Derivative assets	46 697	45 474
Equity instruments	503	31
Money market assets	9 974	6 741
Non-financial instruments	514	243
	87 741	83 902

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

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

Included in the previous table are financial instruments which related to the Bank's interest rate economic hedging programme with a notional value of **R5 560 million** (2011: R6 381 million) and a fair value of **R655 million** (2011: R781 million).

Trading portfolio assets with a carrying value of **R12 063 million** (2011: R20 059 million) were pledged as security for repurchase agreements, refer to note 42. In addition, trading portfolio assets with a carrying value of **R645 million** (2011: Rnil) were restricted as security under lending transactions. These assets are pledged for the duration of the respective agreements.

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

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

	Bank		
	2012 Rm	2011[1] Rm	2010[1] Rm
6. Other assets			
Accounts receivable and prepayments	**6 766**	4 405	3 731
Deferred costs	**95**	61	51
Inventories	**442**	887	590
Cost	**506**	973	679
Write-down	**(64)**	(86)	(89)
Retirement benefit fund surplus (refer to note 40)	**466**	628	705
Settlement accounts	**3 593**	5 478	3 706
	11 362	11 459	8 783
Portfolio analysis			
Loans and receivables	**10 101**	9 502	6 998
Accounts receivable	**6 508**	4 024	3 292
Settlement accounts	**3 593**	5 478	3 706
Financial assets designated at fair value through profit or loss	**16**	16	—
Non-financial assets	**1 245**	1 941	1 785
	11 362	11 459	8 783

	Bank	
	2012 Rm	2011 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**35**	84
Current tax liabilities		
Amount due to revenue authorities	**59**	255
8. Non-current assets and non-current liabilities held for sale		
8.1 Non-current assets held for sale		
Balance at the beginning of the reporting period	**35**	—
Disposal of assets previously disclosed under non-current assets held for sale	**(35)**	(354)
Transfer from loans and advances to banks	**(4)**	—
Transfer from other assets	**41**	—
Transfer from investment securities	**30**	311
Transfer from investments in associates and joint ventures (refer to note 13.6)	**36**	43
Transfer from investment properties	**1 312**	—
Transfer from property and equipment	**23**	35
Balance at the end of the reporting period	**1 438**	35

Note

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

	Bank 2012 Rm	Bank 2011 Rm
8. Non-current assets and non-current liabilities held for sale *(continued)*		
8.2 Non-current liabilities held for sale		
Balance at the beginning of the reporting period	—	—
Transfer from other liabilities	25	—
Transfer from deferred tax liabilities (refer to note 17.1)	152	—
Balance at the end of the reporting period	177	—

During the reporting period, the Bank effected the following transfers to non-current assets and non-current liabilities held for sale:

- Through the RBB segment:
  - The investment in Sekunjalo Investments Limited, with a carrying value of R20 million. This investment was subsequently sold in January 2013.
  - In the Commercial Property Finance Equity (CPF Equity) division, net assets in one of its subsidiaries, totalling R1 209 million, as well as one of its property equity investments with a carrying value of R10 million.
  - In the CPF Equity division, investments in Kilkishen Investments Proprietary Limited and Stand 1135 Houghton Proprietary Limited with a carrying value of R36 million previously classified as investments in associates and joint ventures.
  - In the CPF Equity division, property and equipment with a carrying value of R22 million. A contract for the sale of The Pivot Office Park, with a carrying value of R66 million, was also concluded (previously classified as investment property).
- Through the Head office and Other segment:
  - Transferred several properties in the Corporate Real Estate division, whose contracts for sale were concluded in the previous reporting period.

	Bank 2012 Rm	Bank 2011[1] Rm	Bank 2010[1] Rm
9. Loans and advances to customers			
Cheque accounts	31 619	31 370	30 696
Corporate overdrafts and specialised finance loans	5 121	10 681	9 612
Credit cards[2]	27 051	16 072	15 258
Foreign currency loans	12 152	8 564	5 602
Instalment credit agreements (refer to note 9.1)	60 364	57 246	56 874
Gross advances	72 999	68 401	67 424
Unearned finance charges	(12 635)	(11 155)	(10 550)
Reverse repurchase agreements with non-banks (refer to note 42)	4 698	1 613	3 063
Loans to associates and joint ventures (refer to note 44.8)	10 094	7 909	8 025
Microloans	1 846	1 690	1 766
Mortgages	278 200	287 710	302 516
Other advances[3]	3 230	4 601	3 779
Overnight finance	18 862	12 320	7 647
Personal and term loans	29 638	26 324	25 262
Preference shares	6 352	6 973	6 637
Wholesale overdrafts	34 950	26 647	32 638
Gross loans and advances to customers	524 177	499 720	509 375
Impairment losses on loans and advances (refer to note 10)	(12 998)	(11 388)	(12 824)
	511 179	488 332	496 551
Portfolio analysis			
Amortised cost items held in a fair value hedging relationship	6 810	5 346	3 634
Corporate overdrafts and specialised finance loans	194	110	118
Wholesale overdrafts	6 616	5 236	3 516
Financial assets designated at fair value through profit or loss	11 937	10 187	10 316
Corporate overdrafts and specialised finance loans	—	—	593
Foreign currency loans	950	955	703
Mortgages	1 019	1 664	1 161
Preference shares	1 175	1 264	1 245
Reverse repurchase agreements	4 698	1 613	3 063
Wholesale overdrafts	4 095	4 691	3 551
Loans and receivables	505 430	484 187	495 425
	524 177	499 720	509 375

The Bank has securitised certain loans and advances to customers, the total value of these securitised assets is R6 444 million (2011: R7 436 million; 2010: R5 140 million), refer to note 43 for additional details.

Included above are loans and advances to customers with a carrying value of Rnil (2011: Rnil; 2010: R589 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42. The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

The total value of collaterised loans is R3 936 million (2011: R3 310 million; 2010: R1 476 million). Included in the total value of collateralised loans is R2 474 million (2011: R1 888 million; 2010: R658 million) relating to securities borrowed, refer to note 42.

Notes

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

[2]Includes the acquisition of the Edcon portfolio, refer to the directors' report.

[3]Includes customer liabilities under acceptances and working capital solutions and collaterised loans.

9. Loans and advances to customers *(continued)*

9.1 Instalment credit agreements

	Bank		
	2012		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Maturity analysis			
Less than one year	**23 417**	**(3 746)**	**19 671**
Between one and five years	**47 428**	**(8 461)**	**38 967**
More than five years	**2 154**	**(428)**	**1 726**
	72 999	**(12 635)**	**60 364**

	2011		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	22 185	(3 431)	18 754
Between one and five years	44 798	(7 458)	37 340
More than five years	1 418	(266)	1 152
	68 401	(11 155)	57 246

	2010		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	22 769	(3 398)	19 371
Between one and five years	43 337	(6 931)	36 406
More than five years	1 318	(221)	1 097
	67 424	(10 550)	56 874

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

The majority of the 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 290 million** (2011: R4 819 million; 2010: R5 638 million).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R1 758 million** (2011: R1 517 million; 2010: R1 478 million).

10. Impairment losses on loans and advances

	Bank	
	2012 Rm	2011 Rm
Balance at the beginning of the reporting period	**11 388**	12 824
Amounts written off during the reporting period	**(6 084)**	(5 787)
Exchange differences	**3**	1
Interest on impaired assets (refer to note 28)	**(1 020)**	(1 176)
	4 287	5 862
Impairments raised during the reporting period (refer to note 10.1)	**8 711**	5 526
Balance at the end of the reporting period (refer to note 9)	**12 998**	11 388

	Bank	
	2012 Rm	2011 Rm
10. Impairment losses on loans and advances *(continued)*		
Comprising:		
Identified impairments	**12 089**	10 618
Unidentified impairments	**909**	770
	12 998	11 388
10.1 Statement of comprehensive income charge for the reporting period ended 31 December		
Impairments raised	**8 711**	5 526
Identified impairments	**8 560**	5 642
Unidentified impairments	**151**	(116)
Recoveries of loans and advances previously written off	**(793)**	(650)
	7 918	4 876
11. Loans to Group companies		
Fellow subsidiaries	**10 777**	7 164
Portfolio analysis		
Loans and receivables	**10 777**	7 164
12. Investment securities		
Debt instruments	**3 146**	2 866
Listed equity instruments	**443**	505
Unlisted equity and hybrid instruments	**2 774**	4 960
	6 363	8 331
Market value		
Directors' valuation of unlisted equity and hybrid instruments	**2 774**	4 960
Market value of debt instruments	**3 146**	2 866
Market value of listed equity instruments	**443**	505
	6 363	8 331
Portfolio analysis		
Available-for-sale financial assets (refer to note 12.1)	**1 843**	1 118
Debt instruments	**1 708**	916
Listed equity instruments	**51**	54
Unlisted equity and hybrid instruments	**84**	148
Financial instruments designated at fair value through profit or loss	**4 520**	7 213
Debt instruments	**1 438**	1 950
Listed equity instruments	**392**	451
Unlisted equity and hybrid instruments	**2 690**	4 812
	6 363	8 331

	Bank	
	2012 Rm	2011 Rm
12. Investment securities *(continued)*		
12.1 Available-for-sale financial assets		
Carrying value at the beginning of the reporting period	1 118	1 392
Cost plus fair value movements	1 170	1 529
Impairments[1]	(52)	(137)
Movement in investment securities	725	(274)
Net acquisitions/(disposals)	733	(393)
Transferred to investments in associates and joint ventures (refer to note 13.4)	(25)	—
Fair value movements and accrued interest income	17	119
Carrying value at the end of the reporting period	1 843	1 118
Cost plus fair value movements	1 882	1 170
Impairments[1]	(39)	(52)
13. Investments in associates and joint ventures		
Unlisted investments	562	412
13.1 Movement in carrying value		
Balance at the beginning of the reporting period	412	406
Share of current reporting period's post-tax results[2]	240	47
Share of current reporting period's results before taxation	330	67
Taxation on current reporting period's results	(90)	(20)
Net movement resulting from acquisitions, disposals and transfers (refer to note 13.4)	(10)	(45)
Dividends received	(78)	—
Impairment reversal in the statement of comprehensive income (refer to note 35)	—	2
(Decrease)/increase in loans and receivables	(2)	2
Balance at the end of the reporting period	562	412
13.2 Analysis of carrying value		
Unlisted investments		
Loans and receivables	0	2
Shares at cost	102	114
Share of post-acquisition reserves	460	296
	562	412

Notes

[1]All impairments relate to equity instruments.

[2]For the purposes of providing additional information, the current reporting period results include a cumulative correction of earnings from previous reporting periods of R139 million that have been considered by management to be quantitatively and qualitatively immaterial in terms of IAS 8 to require restatement of comparative numbers.

	Bank 2012 Rm	Bank 2011 Rm
13. Investments in associates and joint ventures *(continued)*		
13.3 Market value		
Directors' valuation of unlisted investments	562	412

	Bank 2012 Effective holding (%)	Bank 2012 Movement Rm	Bank 2011 Effective holding (%)	Bank 2011 Movement Rm
13.4 Net movement resulting from acquisitions, disposals and transfers				
Acquired during the current reporting period, at cost:				
The Document Exchange Association	33	1	—	—
Transferred from investment securities during the current reporting period (refer to note 12.1):		25		
SBV Services Proprietary Limited	25	25	—	—
The South African Bankers Services Company Proprietary Limited	23	0	—	—
Transferred to non-current assets held for sale during the current reporting period (refer to note 8):		36		
Kilkishen Investments Proprietary Limited	50	(29)	—	—
Stand 1135 Houghton Proprietary Limited	50	(7)	—	—
Transferred to non-current assets held for sale during the previous reporting period (refer to note 8):				
Sekunjalo Investments Limited	—	—	9	(43)[1]
		(10)		(43)

	Bank 2012 Rm	Bank 2011 Rm
13.5 Details of the purchase consideration on net assets acquired		
Cash consideration	1	—
	1	—
13.6 Details of transfers and consideration received on net assets disposed		
Transfer to non-current assets held for sale (refer to note 8)	(36)	(43)[1]
Transfer from investment securities	25	—
	(11)	(43)

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

Note

[1]Includes R45 million transferred from investments in associates and an impairment reversal of R2 million, refer to note 13.1.

	Bank 2012 Rm	Bank 2011 Rm
14. Investment properties		
Balance at the beginning of the reporting period	**1 840**	1 771
Additions	**—**	36
Additions through business combinations (refer to note 51)	**—**	40
Change in fair value (refer to notes 33 and 34)	**(162)**	(43)
Disposals	**(43)**	—
Foreign exchange movements	**8**	36
Transfer to non-current assets held for sale (refer to note 8)	**(1 312)**	—
Balance at the end of the reporting period	**331**	1 840

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

	Bank 2012 Cost Rm	Bank 2012 Accumulated depreciation and/or impairments Rm	Bank 2012 Carrying value Rm	Bank 2011 Cost Rm	Bank 2011 Accumulated depreciation and/or impairments Rm	Bank 2011 Carrying value Rm
15. Property and equipment						
Computer equipment	**5 308**	**(3 936)**	**1 372**	4 977	(3 459)	1 518
Freehold property	**3 940**	**(327)**	**3 613**	3 652	(253)	3 399
Furniture and other equipment	**5 792**	**(3 144)**	**2 648**	4 995	(2 685)	2 310
Leasehold property	**386**	**(366)**	**20**	387	(346)	41
Motor vehicles	**4**	**(4)**	**—**	4	(4)	—
	15 430	**(7 777)**	**7 653**	14 015	(6 747)	7 268

Bank 2012	Opening balance Rm	Additions Rm	Disposals Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Closing balance Rm
Reconciliation of property and equipment							
Computer equipment	**1 518**	**510**	**(80)**	**(1)**	**—**	**(575)**	**1 372**
Freehold property	**3 399**	**253**	**—**	**(22)**	**3**	**(20)**	**3 613**
Furniture and other equipment	**2 310**	**887**	**(10)**	**—**	**—**	**(539)**	**2 648**
Leasehold property	**41**	**—**	**—**	**—**	**—**	**(21)**	**20**
	7 268	**1 650**	**(90)**	**(23)**	**3**	**(1 155)**	**7 653**
Notes				8		34	

	Bank						
	2011						
	Opening balance Rm	Additions Rm	Disposals Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Closing balance Rm
15. Property and equipment *(continued)*							
Reconciliation of property and equipment							
Computer equipment	1 585	586	(36)	—	—	(617)	1 518
Freehold property	3 170	322	(12)	(35)	2	(48)	3 399
Furniture and other equipment	2 168	611	—	—	—	(469)	2 310
Leasehold property	64	—	(2)	—	—	(21)	41
	6 987	1 519	(50)	(35)	2	(1 155)	7 268
Notes				8		34	

The fair value of freehold property is determined by both external and internal valuers. The most recent valuation was performed during the current reporting period and indicated that the fair value of the freehold property amounted to **R3 732 million** (2011: R3 801 million).

Leasehold property and computer equipment with a carrying value of **R116 million** (2011: R147 million) are encumbered under finance leases, refer to note 20.

Included in the above additions is **R185 million** (2011: R221 million) that relates to expenditure capitalised to the cost of the asset during the course of its construction. During the current reporting period, an amount of **R209 million** (2011: R1 745 million) was transferred from assets under construction and brought into use.

No borrowing costs were capitalised during the current or previous reporting period.

	Bank					
	2012			2011		
	Cost Rm	**Accumulated amortisation and/or impairments Rm**	**Carrying value Rm**	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
16. Goodwill and intangible assets						
Computer software development costs	**1 474**	**(833)**	**641**	1 192	(622)	570
Customer lists and relationships[1]	**387**	**(1)**	**386**	1	(1)	—
Goodwill	**200**	**(87)**	**113**	199	(69)	130
Other	**22**	**(2)**	**20**	2	(2)	—
	2 083	**(923)**	**1 160**	1 394	(694)	700

	Bank						
	2012						
	Opening balance Rm	**Additions Rm**	**Additions through business combi-nations Rm**	**Disposals Rm**	**Amorti-sation Rm**	**Impairment charge Rm**	**Closing balance Rm**
Reconciliation of goodwill and intangible assets							
Computer software development costs	**570**	**282**	**—**	**—**	**(143)**	**(68)**	**641**
Customer lists and relationships[1]	**—**	**386**	**—**	**—**	**—**	**—**	**386**
Goodwill	**130**	**—**	**1**	**—**	**—**	**(18)**	**113**
Other	**—**	**20**	**—**	**—**	**—**	**—**	**20**
	700	**688**	**1**	**—**	**(143)**	**(86)**	**1 160**
Notes					34	35	

Note

[1] Includes the Edcon portfolio.

	Bank 2011						
	Opening balance Rm	Additions Rm	Additions through business combi-nations Rm	Disposals Rm	Amorti-sation Rm	Impairment charge Rm	Closing balance Rm

16. Goodwill and intangible assets *(continued)*

Reconciliation of goodwill and intangible assets

	Opening balance Rm	Additions Rm	Additions through business combi-nations Rm	Disposals Rm	Amorti-sation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	488	230	—	—	(148)	—	570
Customer lists and relationships	—	—	—	—	—	—	—
Goodwill	155	—	3	—	—	(28)	130
Other	—	—	—	—	—	—	—
	643	230	3	—	(148)	(28)	700
Notes					34	35	

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

Included in computer software development costs is **R156 million** (2011: R168 million) relating to assets under construction.

The intangible asset acquired through the Edcon portfolio transaction, relates to purchased credit card relationships. The relationships and other intangible assets acquired were valued by discounting expected future income relating thereto over the life of the assets. At the end of the reporting period, there were no indicators of impairment of the intangible assets.

No borrowing costs were capitalised during the current or previous reporting periods.

	Bank	
	2012 Rm	2011 Rm
Composition of goodwill		
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
NewFunds Proprietary Limited	**1**	—
Ngwenya River Estate Proprietary Limited	**—**	18
	113	130

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 12,0% (2011: 14,0%). Growth rates used in the impairment calculations range from **4,8% to 5,0%** (2011: 4,0% to 6,0%).

		Bank 2012 Rm	Bank 2011 Rm
17.	**Deferred tax**		
17.1	**Reconciliation of net deferred tax liability**		
	Balance at the beginning of the reporting period	1 043	1 981
	Deferred tax asset released on STC credits (refer to note 17.4)	27	38
	Net movement resulting from business combinations (refer to note 51)	—	(1)
	Deferred tax on amounts charged directly to other comprehensive income	512	(134)
	Available-for-sale financial assets	433	(21)
	Fair value measurement	430	(21)
	Transfer to profit and loss component of the statement of comprehensive income	3	—
	Cash flow hedges	157	(94)
	Fair value measurement	741	(738)
	Transfer to the profit and loss component of the statement of comprehensive income	(584)	644
	Retirement benefit fund asset	(78)	(19)
	Charge to the profit and loss component of the statement of comprehensive income (refer to note 37)	(26)	(857)
	Tax effect of translation and other differences	(23)	16
	Transfer to non-current assets held for sale (refer to note 8)	(152)	—
	Balance at the end of the reporting period	1 381	1 043
17.2	**Deferred tax liability/(asset)**		
	Tax effects of temporary differences between tax and book value for:		
	Accruals and provisions	1 469	966
	Fair value adjustments on financial instruments	(174)	(230)
	Impairment of loans and advances	(146)	(138)
	Lease and rental debtor allowances	(20)	96
	Other differences	4	16
	Property allowances	(23)	83
	Retirement benefit fund asset	130	176
	Share-based payments	171	135
	Deferred tax liability	1 411	1 104
	Deferred tax asset	(30)	(61)
	Deferred tax asset – normal	(30)	(34)
	Accruals and provisions	(9)	—
	Assessed losses	(7)	(20)
	Fair value adjustments on financial instruments	(0)	(5)
	Impairment of loans and advances	—	(2)
	Other differences	(8)	(7)
	Property allowances	(6)	—
	Deferred tax asset – STC credits (refer to note 17.4)	—	(27)
	Net deferred tax liability	1 381	1 043

	Bank	
	2012 Rm	2011 Rm
17. Deferred tax *(continued)*		
17.3 Future tax relief		
Balance at the beginning of the reporting period	**—**	—
Losses incurred	**203**	—
Operating losses utilised	**(143)**	—
Balance at the end of the reporting period	**60**	—
17.4 Secondary taxation on companies		
Accumulated STC credits	**—**	271
Deferred tax asset raised (refer to note 17.2)	**—**	27
Movement in deferred tax asset for the reporting period (refer to note 17.1)	**(27)**	(38)

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 withholding tax on shareholders (DWT). On 1 April 2012, DWT came into effect and the tax ceased to be levied at a company level, and is now levied on shareholders who receive the dividends.

Unutilised STC credits at the end of December 2011 have been utilised against the STC payable on the final dividend declared after the reporting date. Deferred tax assets relating to unutilised STC credits up to 31 March 2012 have also been utilised.

18. Deposits from banks

	2012 Rm	2011 Rm
Call deposits	**10 163**	15 539
Fixed deposits	**7 777**	5 905
Foreign currency deposits	**5 668**	6 809
Other	**6 259**	5 124
Repurchase agreements (refer to note 42)	**13 069**	11 325
	42 936	44 702
Portfolio analysis		
Financial liabilities at amortised cost	**27 960**	31 288
Financial liabilities designated at fair value through profit or loss	**14 976**	13 414
Fixed deposits	**4 383**	4 219
Foreign currency deposits	**35**	71
Repurchase agreements	**10 558**	9 124
	42 936	44 702

Deposits with variable rates are **R21 609 million** (2011: R26 709 million) and with fixed rates are **R21 327 million** (2011: R17 993 million).

	Bank	
	2012 Rm	2011 Rm
19. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 55.3)	46 763	48 703
Commodity derivatives	174	154
Credit derivatives	182	666
Equity derivatives	1 782	3 399
Foreign exchange derivatives	5 610	13 353
Interest rate derivatives	39 015	31 131
Short positions	1 126	529
Total trading portfolio liabilities	47 889	49 232
Hedging portfolio liabilities (refer to note 55.3)	3 855	2 456
	51 744	51 688
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	14	26
Derivatives designated as fair value hedging instruments	3 841	2 430
Financial liabilities held for trading	47 889	49 232
Derivative liabilities	46 763	48 703
Short positions	1 126	529
	51 744	51 688

Included above are financial instruments related to the Bank's interest rate economic hedging programme with a notional value of **R1 119 million** (2011: R1 070 million) and a fair value of **R76 million** (2011: R81 million).

	Bank	
	2012 Rm	2011 Rm
20. Other liabilities		
Accruals	1 040	891
Audit fee accrual	57	38
Creditors	4 669	5 307
Deferred income	340	218
Liabilities under finance leases (refer to note 20.1)	289	504
Settlement balances	7 426	3 095
Share-based payment liability (refer to note 50)	610	483
	14 431	10 536
Portfolio analysis		
Financial liabilities at amortised cost	12 384	8 906
Creditors	4 669	5 307
Liabilities under finance leases	289	504
Settlement balances	7 426	3 095
Non-financial liabilities	2 047	1 630
	14 431	10 536

	Bank		
	2012		
	Minimum lease payments due Rm	Interest Rm	Principal Rm
20. Other liabilities *(continued)*			
20.1 Liabilities under finance leases			
Less than one year	**227**	**(23)**	**204**
Between one and two years	**82**	**(2)**	**80**
Between two and three years	**5**	**(0)**	**5**
	314	**(25)**	**289**

	2011		
	Minimum lease payments due Rm	Interest Rm	Principal Rm
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

Under the terms of the leases, no contingent rentals are payable. Refer to note 15 for details of property and equipment subject to finance leases.

20.1.1 Terms and conditions of finance leases

Description	Address	Details
Absa Towers	170 Main Street, Johannesburg 180 Main Street, Johannesburg 10 Troye Street, Johannesburg	Original term of 18 years with negotiable escalation clauses and a renewal date of 31 March 2014.
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.
IBM Global Financing	Various locations	Lease of various items of information technology systems with an original term of between three and five years with no escalation clauses and an earliest renewal date of 1 June 2013.

	Bank	
	2012 Rm	2011 Rm
20. Other liabilities *(continued)*		
20.1 Liabilities under finance leases *(continued)*		
20.1.2 Minimum future income receivable from subleasing		
Receivable within one year	**1**	1
Receivable within two to five years	**0**	1
	1	2

	Bank		
	2012		
	Staff bonuses and incentive provisions Rm	**Sundry provisions Rm**	**Total Rm**
21. Provisions			
Balance at the beginning of the reporting period	**972**	**485**	**1 457**
Additions	**844**	**231**	**1 075**
Amounts used	**(948)**	**(81)**	**(1 029)**
Reversals	**(24)**	**(85)**	**(109)**
Balance at the end of the reporting period	**844**	**550**	**1 394**
	2011		
	Staff bonuses and incentive provisions Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the reporting period	811	722	1 533
Additions	939	306	1 245
Amounts used	(777)	(238)	(1 015)
Reversals	(1)	(305)	(306)
Balance at the end of the reporting period	972	485	1 457

Provisions expected to be recovered or settled within no more than 12 months after the reporting date amounted to **R1 061 million** (2011: R1 142 million).

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

	Bank	
	2012	2011
	Rm	Rm
22. Deposits due to customers		
Call deposits	**56 648**	55 528
Cheque account deposits	**139 857**	130 953
Credit card deposits	**1 938**	1 884
Fixed deposits	**124 832**	124 341
Foreign currency deposits	**9 723**	6 898
Notice deposits	**55 728**	28 500
Other[1]	**1 557**	2 695
Repurchase agreements with non-banks (refer to note 42)	**1 503**	8 734
Savings and transmission deposits	**75 532**	72 229
	467 318	431 762
Portfolio analysis		
Financial liabilities at amortised cost	**448 655**	411 262
Financial liabilities designated at fair value through profit or loss	**18 663**	20 500
Cheque account deposits	**61**	5
Fixed deposits	**17 099**	11 761
Repurchase agreements with non-banks	**1 503**	8 734
	467 318	431 762
23. Debt securities in issue		
Credit linked notes	**9 800**	8 976
Floating rate notes	**53 904**	69 854
Negotiable certificates of deposit	**17 926**	30 302
Other	**7**	—
Promissory notes	**1 561**	3 168
Structured notes and bonds	**1 098**	1 451
Senior notes	**21 892**	14 300
	106 188	128 051
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**9 887**	10 774
Floating rate notes	**—**	5 868
Negotiable certificates of deposit	**44**	87
Senior notes	**9 843**	4 819
Financial liabilities at amortised cost	**92 860**	113 890
Financial liabilities designated at fair value through profit or loss	**3 441**	3 387
Credit linked notes	**1 572**	—
Negotiable certificates of deposit	**59**	8
Promissory notes	**712**	1 928
Structured notes and bonds	**1 098**	1 451
	106 188	128 051

Note

[1]Includes partnership contributions received, deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.

			Bank	
			2012 Rm	2011 Rm
24. Loans from Group companies				
Fellow subsidiaries			—	1 438
Portfolio analysis				
Financial liabilities at amortised cost			—	1 438

25. Borrowed funds

Subordinated callable notes

The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act.

Interest rate	*Final maturity date*	*Note*	**2012 Rm**	2011 Rm
8,75%	1 September 2017	i	—	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
8,295%	21 November 2023	v	**1 188**	—
Three-month JIBAR + 2,10%	3 May 2022	vi	**400**	400
Three-month JIBAR + 1,95%	21 November 2022	vii	**1 805**	—
Three-month JIBAR + 2,05%	21 November 2023	viii	**2 007**	—
CPI-linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	ix	**1 886**	1 886
6,00%	20 September 2019	x	**3 000**	3 000
5,50%	7 December 2028	xi	**1 500**	1 500
Accrued interest			**1 462**	1 157
Fair value adjustment			**334**	283
			17 907	14 051

	2012 Rm	2011 Rm
Portfolio analysis		
Amortised cost financial liabilities held in a fair value hedging relationship	**4 007**	5 507
Financial liabilities designated at fair value through profit or loss	**778**	771
Financial liabilities held at amortised cost	**13 122**	7 773
	17 907	14 051

25. Borrowed funds *(continued)*

i The 8,75% fixed rate notes were redeemed in full on 3 September 2012. Interest was paid semi-annually in arrear on 1 March and 1 September of each year.

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

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

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

v The 8,295% fixed rate notes may be redeemed in full at the option of the Company on 21 November 2018. Interest is paid semi-annually in arrear on 21 May and 21 November of each year. If the Company does not exercise the redemption option, there is no step-up in the coupon rate. The Company has an option to exercise the redemption on any interest payment date after 21 November 2018.

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

vii The three-month JIBAR plus 1,95% floating rate notes may be redeemed in full at the option of the Company on 21 November 2017. Interest is paid quarterly in arrear on 21 February, 21 May, 21 August and 21 November of each year. If the Company does not exercise the redemption option, there is no step-up in the coupon rate. The Company has an option to exercise the redemption on any interest payment date after the 21 November 2017.

viii The three-month JIBAR plus 2,05% floating rate notes may be redeemed in full at the option of the Company on 21 November 2018. Interest is paid quarterly on 21 February, 21 May, 21 August and 21 November of each year. If the Company does not exercise the redemption option, there is no step-up in the coupon rate. The Company has an option to exercise the redemption on any interest payment date after 21 November 2018.

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

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

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

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

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

	Bank 2012 Rm	Bank 2011 Rm
26. Share capital and premium		
26.1 Ordinary share capital		
Authorised		
320 000 000 (2011: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2011: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2011: 302 609 359) ordinary shares of R1,00 each	**303**	303
76 149 040 (2011: 71 502 632) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**12 465**	11 465
	12 768	11 768

Authorised shares

There were no changes to the authorised share capital during the current reporting period.

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 current reporting period

An additional 4 646 408 'A' ordinary shares were issued during the current reporting period.

Shares issued during the previous reporting period

There were no shares issued during the previous reporting period.

All shares in issue by the Company were paid in full.

	Bank 2012 Rm	Bank 2011 Rm
26.2 Preference share capital and premium		
Authorised		
30 000 000 (2011: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2011: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

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

27. Other reserves

27.1 Available-for-sale reserve

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

27.2 Cash flow hedging reserve

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

27.3 Foreign currency translation reserve

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

27.4 Capital reserve

The capital reserve arose on the amalgamation of the founding banks of the Company.

27.5 Share-based payment reserve

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

27.6 Associates' and joint ventures' reserve

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

	Bank	
	2012 Rm	2011[1] Rm
28. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	19	2
Fair value adjustments on hedging instruments	(185)	1 063
Investment securities	117	317
Loans and advances to banks	839	960
Other	745	805
Reverse repurchase agreements	94	155
Loans and advances to customers	41 290	41 508
Cheque accounts	2 677	2 572
Corporate overdrafts and specialised finance loans	484	664
Credit cards	2 660	2 089
Foreign currency loans	218	110
Instalment credit agreements	5 536	5 559
Interest on impaired financial assets (refer to note 10)	1 020	1 176
Loans to associates and joint ventures	494	417
Microloans	477	505
Mortgages	20 611	21 672
Other advances[2]	211	251
Overnight finance	814	584
Personal and term loans	3 228	3 260
Preference shares	485	619
Wholesale overdrafts	2 375	2 030
Other interest[3]	1 018	1 045
Statutory liquid asset portfolio	5 584	4 285
	48 682	49 180
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale financial assets held in a fair value hedging relationship (refer to note 55.2)	1 953	485
Loans and advances to customers	604	98
Statutory liquid asset portfolio	1 349	387
Fair value adjustments on hedging instruments	390	1 630
Cash flow hedges (refer to note 55.2)	1 990	2 112
Economic hedges	(9)	(14)
Fair value hedges (refer to note 55.2)	(1 591)	(468)
Interest on financial assets held at amortised cost and available-for-sale financial assets	46 227	46 001
Interest on financial assets designated at fair value through profit or loss	112	1 064
Hedging instruments	(574)	(567)
Investment securities	68	217
Loans and advances to customers	549	1 267
Statutory liquid asset portfolio	69	147
	48 682	49 180

Notes

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

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

[3]Includes items such as overnight interest on contracts for difference as well as inter-segment eliminations between 'Interest and similar income', 'Interest expense and similar charges', 'Gains and losses from banking and trading activities' and 'Gains and losses from investment activities'.

	Bank	
	2012 Rm	2011[1] Rm
29. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	1 352	1 350
Debt securities in issue	8 327	9 763
Deposits due to customers	17 789	16 306
Call deposits	2 863	3 072
Cheque account deposits	3 127	2 758
Credit card deposits	9	10
Fixed deposits	6 884	7 064
Foreign currency deposits	73	80
Notice deposits	2 469	776
Other	219	477
Savings and transmission deposits	2 145	2 069
Deposits from banks	1 227	1 273
Call deposits	677	744
Fixed deposits	517	504
Other	33	25
Fair value adjustments on hedging instruments	(998)	(778)
Interest incurred on finance leases	51	85
Other[2]	(1 061)	(929)
	26 687	27 070
Portfolio analysis		
Fair value adjustments on amortised cost instruments held in a fair value hedging relationship (refer to note 55.2)	446	179
Borrowed funds	44	39
Debt securities in issue	402	140
Fair value adjustments on hedging instruments	(652)	(482)
Cash flow hedges (refer to note 55.2)	(79)	(155)
Economic hedges	(185)	(174)
Fair value hedges (refer to note 55.2)	(388)	(153)
Interest on financial liabilities designated at fair value through profit or loss	724	841
Borrowed funds	70	—
Debt securities in issue	366	556
Deposits due to customers	634	581
Hedging instruments	(346)	(296)
Interest on financial liabilities held at amortised cost	26 169	26 532
	26 687	27 070

Notes

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

[2]Includes items such as inter-segment eliminations between 'Interest and similar income', 'Interest expense and similar charges', 'Gains and losses from banking and trading activities' and 'Gains and losses from investment activities'.

	Bank 2012 Rm	Bank 2011 Rm
30. Net fee and commission income		
Asset management and other related fees	62	78
Consulting and administration fees	136	110
Credit-related fees and commissions	12 021	11 822
Cheque accounts	3 539	3 292
Credit cards[1,2]	428	449
Electronic banking	4 068	4 086
Other[3]	1 516	1 620
Savings accounts	2 470	2 375
Insurance commission received	465	436
Investment management fees	252	203
Merchant income[2]	1 843	1 656
Other	81	97
Trust and other fiduciary service fees	30	19
Portfolio and other management fees	20	14
Trust and estate income	10	5
Fee and commission income	14 890	14 421
Fee and commission expense	(1 131)	(1 028)
Cheque processing fees	(161)	(171)
Other	(480)	(429)
Transaction-based legal fees	(310)	(227)
Trust and other fiduciary service fees	(56)	(64)
Valuation fees	(124)	(137)
	13 759	13 393

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

	Bank 2012 Rm	Bank 2011 Rm
30.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	3 539	3 292
Credit cards	428	449
Other	981	977
Savings accounts	2 470	2 375
Fee and commission income	7 418	7 093
Fee and commission expense	(906)	(796)
	6 512	6 297

Notes

[1]Includes acquiring and issuing fees.

[2]During the current reporting period, certain clearing fees were reclassified from 'Credit cards' to 'Merchant income' to more accurately present Card's non-interest income. This resulted in a reclassification of comparatives.

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

	Bank	
	2012 Rm	2011 Rm
31. Gains and losses from banking and trading activities		
Net gains on investments[1, 2]	192	432
Debt instruments designated at fair value through profit or loss	179	215
Equity instruments designated at fair value through profit or loss	23	237
Available-for-sale unwind from reserves	(10)	(20)
Net trading result[2]	3 429	2 060
Net trading income excluding the impact of hedge accounting	3 407	2 034
Ineffective portion of hedges	22	26
Cash flow hedges (refer to note 55.2)	45	33
Fair value hedges (refer to note 55.2)	(23)	(7)
Other (losses)/gains	(78)	12
	3 543	2 504
Net trading income excluding the impact of hedge accounting	3 407	2 034
Losses on financial instruments designated at fair value through profit or loss	(750)	(835)
Net gains on financial assets designated at fair value through profit or loss	1 292	594
Net losses on financial liabilities designated at fair value through profit or loss	(2 042)	(1 429)
Gains on financial instruments held for trading	4 157	2 869
Other (losses)/gains	(78)	12
(Losses)/gains on financial instruments designated at fair value through profit or loss	(141)	26
Gains/(losses) on financial instruments held for trading	63	(14)
32. Gains and losses from investment activities		
Available-for-sale unwind from reserves	2	1
Net gains on investments		
Other gains[3]	18	53
	20	54

Notes

[1]In order to provide for improved disclosure, revaluations between debt and equity instruments have been reclassified.

[2]Due to structure changes, certain revenue streams have been reclassified from 'Markets' to 'Corporate'. This also resulted in a reclassification from 'Net trading result' to 'Net gains on investments'.

[3]Includes gains and losses from instruments designated at fair value through profit or loss.

	Bank 2012 Rm	Bank 2011 Rm
33. Other operating income		
Foreign exchange differences	39	37
Income from investment properties	30	16
Change in fair value (refer to note 14)	—	0
Rentals	30	16
Income from maintenance contracts	25	15
Profit on disposal of property and equipment	80	27
Profit on disposal of repossessed properties	15	36
Gross sales	551	304
Cost of sales	(536)	(268)
Rental income	230	234
Sundry income[1]	129	198
	548	563
34. Operating expenses		
Amortisation of intangible assets (refer to note 16)	143	148
Auditors' remuneration	148	149
Audit fees – current reporting period	102	97
Audit fees – underprovision	9	5
Audit related fees[2]	31	37
Other services	6	10
Cash transportation	591	643
Depreciation (refer to note 15)	1 155	1 155
Equipment costs	177	173
Rentals	105	109
Maintenance	72	64
Information technology[3]	1 930	2 065
Investment properties charges – change in fair value (refer to note 14)	162	43
Marketing costs	958	928
Operating lease expenses on properties	916	880
Other property costs	249	220
Other[4]	865	508
Printing and stationery	185	216
Professional fees[3]	677	934
Property costs	1 186	1 042
Staff costs	11 109	11 722
Bonuses	824	1 098
Current service costs on post-retirement benefit fund (refer to note 44.8)	514	648
Other[5]	385	428
Salaries	8 772	8 897
Share-based payments (refer to note 50)	431	434
Training costs	183	217
Telephone and postage	637	659
	21 088	21 485
35. Other impairments		
Financial instruments at amortised cost	258	26
Other	86	47
Computer software development costs (refer to note 16)	68	—
Goodwill (refer to note 16)	18	28
Investments in associates and joint ventures (refer to note 13.1)	—	(2)
Repossessed properties	—	21
	344	73

The current and previous reporting period's impairment losses reported by segment are disclosed in note 54.

Notes

[1]Includes service fees levied on sundry non-core business activities.
[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 **R113 million** (2011: R101 million).
[4]Includes fraud losses, travel, entertainment costs and collection costs.
[5]Includes recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

	Bank 2012 Rm	Bank 2011 Rm
36. Indirect taxation		
Training levy	**90**	86
VAT net of input credits	**445**	818
	535	904
37. Taxation expense		
Current		
Foreign tax	**44**	38
South African current tax	**2 842**	3 669
South African current tax – previous reporting period	**(236)**	119
STC	**45**	171
	2 695	3 997
Deferred		
Deferred tax (refer to note 17.1)	**(26)**	(857)
Accelerated tax depreciation	**(38)**	(146)
Allowances for loan losses	**(19)**	(152)
Other provisions	**8**	(36)
Other temporary differences	**(9)**	(527)
Retirement benefit fund asset	**32**	4
	2 669	3 140
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	**10 220**	11 333
Share of post-tax results of associates and joint ventures (refer to note 13.1)	**(240)**	(47)
	9 980	11 286
Tax calculated at a tax rate of 28%	**2 794**	3 160
Effect of different tax rates in other countries	**(7)**	(36)
Expenses not deductible for tax purposes	**87**	118
Income not subject to tax	**(288)**	(325)
Other	**38**	52
STC	**45**	171
	2 669	3 140

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 withholding tax on shareholders (DWT). On 1 April 2012 DWT came into effect and the tax ceased to be levied at a company level, and is now levied on shareholders who receive the dividends.

Unutilised STC credits at the end of December 2011 were utilised against the STC payable on the final dividend declared in February 2012. Deferred tax assets relating to unutilised STC credits up to 31 March 2012 have been utilised.

	Bank 2012 Rm	Bank 2011 Rm
38. Earnings per share		
Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holder, 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 reporting period.		
Diluted earnings are determined by adjusting the profit or loss attributable to the ordinary equity holder and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares. There are currently no instruments in issue that would have a dilutive impact.		
Basic earnings attributable to the ordinary equity holder	**7 272**	7 901
Weighted average number of ordinary shares in issue (millions)	**375,3**	374,1
Issued shares at the beginning of the reporting period	**374,1**	374,1
Effect of shares issued during the reporting period (weighted)	**1,2**	—
Basic earnings per share (cents)	**1 937,6**	2 112,0

	Bank 2012 Gross Rm	Bank 2012 Net[1] Rm	Bank 2011 Gross Rm	Bank 2011 Net[1] Rm
39. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to the ordinary equity holder		**7 272**		7 901
Total headline earnings adjustment:		**153**		56
IFRS 3/IAS 36 – Goodwill impairment (refer to note 35)	**18**	**18**	28	28
IAS 16 – Profit on disposal of property and equipment (refer to note 33)	**(80)**	**(62)**	(27)	(22)
IAS 28 and 31 – Headline earnings component of share of post-tax results of associates and joint ventures	**(1)**	**(1)**	(0)	(0)
IAS 28 and 31 – Impairment reversal of investments in associates and joint ventures (refer to note 35)	**—**	**—**	(2)	(1)
IAS 36 – Impairment of intangible assets (refer to note 35)	**68**	**49**	—	—
IAS 39 – Release of available-for-sale reserves (refer to note 31)	**10**	**7**	20	14
IAS 40 – Change in fair value of investment properties (refer to notes 33 and 34)	**162**	**142**	43	37
Headline earnings/diluted headline earnings		**7 425**		7 957
Headline earnings per share/diluted headline earnings per share (cents)		**1 978,4**		2 127,0

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

	Bank 2012 Rm	Bank 2011 Rm
40. Retirement benefit fund obligations		
Surplus disclosed in 'Other assets'		
The Absa Group Limited defined benefit plan (refer to notes 6 and 40.1)	**466**	628
Statement of comprehensive income charge included in staff costs		
The Absa Group Limited defined benefit plan (refer to note 40.1)	**115**	12
Recognised in other comprehensive income		
Actuarial gains	**(109)**	(17)
Application of the asset ceiling adjustment	**388**	83
	279	66
40.1 The Absa Group Limited Pension Fund		
40.1.1 Defined benefit plan		
Funded obligation		
Present value of funded obligations	**(6 151)**	(5 538)
Fair value of plan assets	**7 450**	6 611
Net assets before statutory surpluses	**1 299**	1 073
Investment reserve account	**(328)**	—
Statutory surpluses as per the rules of the fund	**(505)**	(445)
Net surplus	**466**	628
Reconciliation of movement in obligation		
Balance at the beginning of the reporting period	**5 538**	5 126
Actuarial losses	**605**	396
Benefits paid	**(440)**	(429)
Current service costs	**1**	3
Interest expense	**447**	442
Balance at the end of the reporting period	**6 151**	5 538
Reconciliation of movement in plan assets		
Balance at the beginning of the reporting period	**6 611**	6 193
Actuarial gains	**714**	413
Benefits paid	**(440)**	(429)
Employer contributions	**2**	1
Expected return on plan assets	**563**	433
Balance at the end of the reporting period	**7 450**	6 611
Pension fund plan assets		
Debt instruments	**1 557**	2 361
Equity instruments	**4 418**	3 253
Other	**1 475**	997
	7 450	6 611

Pension fund assets include ordinary shares with a fair value of **R117 million** (2011: R142 million), other assets with a fair value of **R2 million** (2011: R2 million) and interest-bearing instruments issued by the Bank with a fair value of **R231 million** (2011: R95 million). Refer to note 44 for additional disclosure of related party transactions.

The Bank expects to contribute **R1 million** (2011: R1 million) to its defined benefit plan during the next reporting period.

There was a return on assets of **R559 million** (2011: R433 million).

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

	Bank 2012 Rm	Bank 2011 Rm
Total (income)/expenses comprises:		
Current service costs (included in staff costs)	**1**	3
Expected return on plan assets	**(563)**	(433)
Interest expense	**447**	442
	(115)	12
Recognised in other comprehensive income		
Actuarial gains	**(109)**	(17)
Application of the asset ceiling adjustment	**388**	83
	279	66
Cumulative actuarial losses recognised in other comprehensive income	**758**	867

	Bank				
	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm

40. Retirement benefit fund obligations *(continued)*

40.1 The Absa Group Limited Pension Fund *(continued)*

40.1.1 Defined benefit plan (continued)

Historical information as at the reporting date	**2012 Rm**	2011 Rm	2010 Rm	2009 Rm	2008 Rm
Present value of defined benefit obligation	**(6 151)**	(5 538)	(5 126)	(4 900)	(4 833)
Fair value of plan assets	**7 450**	6 611	6 193	5 853	5 659
Net assets before statutory surpluses and investment reserve account	**1 299**	1 073	1 067	953	826
Investment reserve account	**(328)**	—	—	—	—
Statutory surpluses as per the rules of the fund	**(505)**	(445)	(362)	(337)	(391)
Net surplus	**466**	628	705	616	435
Experience adjustments on plan assets	**714**	413	290	145	(163)
Experience adjustments on plan liabilities	**(605)**	(396)	(238)	95	358

	Bank	
	2012	2011
The principal actuarial assumptions used for the defined benefit plan were as follows:		
Discount rate (%)	**7,5**	8,4
Expected return on plan assets (%)	**9,9**	8,8
Future salary increases (%)	**6,5 + merit**	6,5 + 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**	20,8
Female	**25,7**	25,7

Expected rate of future pension increases

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

40.2 Post-retirement benefit funds

Of the employees belonging to the Absa Group Pension Fund (the fund), **35 286** (2011: 37 509) were members of the defined contribution structure, while **35** (2011: 36) were active members of the defined benefit structure. There are **8 228** (2011: 8 211) retired members of the defined benefit structure. The value of defined contribution assets at the reporting date amounted to **R12 333 million** (2011: R13 708 million). Current service costs on the defined contribution structure for the reporting period amounted to **R741 million** (2011: R712 million).

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

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

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of the fund be carried out at least every three years. The most recent statutory valuation of the fund was effected on 31 March 2012 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 Financial Services Board (FSB) during the current reporting period.

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

	Bank 2012 Rm	Bank 2011 Rm
41. Dividends per share		
Ordinary dividend paid[1]		
Interim dividend (27 July 2012: **695,5 cents**) (2 August 2011: 414,3 cents)	**2 602**	1 550
Special dividend paid (27 September 2012: **330,5 cents**) ('A' ordinary)	**1 000**	—
Final dividend (12 February 2013: **605,5 cents**) (10 February 2012: 620,1 cents)	**2 293**	2 320
	5 895	3 870
Preference dividend paid[1]		
Interim dividend (27 July 2012: **3 134,6575 cents**) (2 August 2011: 2 858,3014 cents)	**155**	141
Final dividend (12 February 2013: **2 950,5479 cents**) (10 February 2012: 2 827,2329 cents)	**146**	140
	301	281

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

42.1 Reverse repurchase agreements and cash collateral on securities borrowed

Where the Bank continues to recognise reverse repurchase agreements, these are accounted for as collateralised loans under loans and advances. The carrying amounts of the transferred assets and the associated liabilities are as follows:

	Bank 2012 Cash collateral on securities borrowed Rm	Bank 2012 Reverse repurchase agreements Rm	Bank 2011 Cash collateral on securities borrowed Rm	Bank 2011 Reverse repurchase agreements Rm
Assets				
Statutory liquid asset portfolio (refer to note 3)	**—**	**3**	—	3
Loans and advances to banks (refer to note 4)	**6 037**	**9 134**	3 411	6 739
Loans and advances to customers (refer to note 9)	**2 474**	**4 698**	1 888	1 613
	8 511	**13 835**	5 299	8 355

As part of the reverse repurchase agreements, the Bank has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **R13 832 million** (2011: R8 352 million) of which **Rnil** (2011: Rnil) have been sold or repledged.

Notes

[1]Included in the statement of changes in equity is the interim dividend paid during the current reporting period of **R2 602 million** (2011: R1 550 million), special dividend paid of **R1 000 million** (2011: Rnil) and the final dividend declared at the end of the previous reporting period of **R2 320 million** (2010: R1 350 million), attributed to the ordinary equity holder, as well as the interim dividend paid to preference shareholders during the current reporting period of **R155 million** (2011: R141 million) and the final preference dividend declared at the end of the previous reporting period of **R140 million** (2010: R143 million) paid to the preference equity holders.

42. Securities borrowed/lent and repurchase/reverse repurchase agreements *(continued)*

42.2 Repurchase agreements and cash collateral on securities lent

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

	Bank			
	2012		2011	
	Cash collateral on securities lent Rm	Repurchase agreements Rm	Cash collateral on securities lent Rm	Repurchase agreements Rm
Liabilities				
Deposits from banks (refer to note 18)	307	13 069	421	11 325
Deposits due to customers (refer to note 22)	371	1 503	466	8 734
	678	14 572	887	20 059

The assets transferred and not derecognised in the above repurchase agreements are valued at **R12 063 million** (2011: R20 059 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 592 million** (2011: R2 289 million), refer to note 3.

43. Transfer of financial assets

43.1 Assets recognised to extent of continuing involvement

The following assets are still recognised by the Bank due to its continuing involvement in these assets:

	Bank		
	2012		
	Carrying amount before transfer Rm	Carrying amount of assets Rm	Associated liabilities Rm
Loans and advances to customers			
Corporate overdrafts and specialised finance loans	220	170	—
	220	170	—

Details of the Bank's continuing involvement are described below:

Commissioner street No 3 Proprietary Limited (Commissioner Street 3)

The Bank sold certain exposures to Commissioner Street 3, a SPE established by the Company. Commissioner Street 3 issued various classes of notes to investors consisting of:

- class A1 secured floating rate notes;
- class A2 secured floating rate notes.

The Bank invested in 100% of the A2 notes and external investors invested in 100% of the A1 notes.

Due to the Bank not being exposed to the majority of risks and rewards of Commissioner Street 3, the Bank recognised only its continuing involvement in the loan.

The loans are included in the statement of financial position under 'Loans and advances to customers'.

43.2 Securities lending and repurchase agreements

The following assets have been transferred, but are still being recognised by the Bank:

	Bank			
	2012		2011	
	Carrying amounts of assets at the reporting date Rm	Associated liabilities at the reporting date Rm	Carrying amounts of assets at the reporting date Rm	Associated liabilities at the reporting date Rm
Trading portfolio assets				
Equity instruments	1 149	(1 405)	1 471	(1 850)
Debt instruments	14 572	(14 572)	20 085	(20 085)
	15 721	(15 977)	21 556	(21 935)

44. Related parties

The Bank's ultimate parent company is Barclays Bank PLC, which owns **55,5%** (2011: 55,5%) of the ordinary shares in Absa Group Limited. The remaining **44,5%** (2011: 44,5%) of the shares are widely held on the JSE.

The following are defined as related parties of the Bank:

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

For the remainder of this note, debit amounts are shown as positive, credit amounts are shown as negative.

44.1 Transactions with key management personnel

IAS 24 Related Party Disclosures (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. Entities controlled by key management personnel are also considered to be related parties.

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 the reporting date, and related expenses and income with related parties for the reporting period are as follows:

	Bank			
	2012		2011	
	Transactions with key management Rm	**Transactions with entities controlled by key management Rm**	Transactions with key management Rm	Transactions with entities controlled by key management Rm
Loans				
Balance at the beginning of the reporting period	**14**	**666**	16	742
Loans issued[1]	**42**	**84**	65	152
Loans repaid	**(25)**	**(319)**	(66)	(220)
Discontinuance of related party relationships and other[2]	**(4)**	**(3)**	(1)	(8)
Balance at the end of the reporting period	**27**	**428**	14	666
Interest income	**1**	**44**	1	55

Loans include mortgages, asset finance transactions, overdrafts and other credit facilities. Loans to key management personnel are provided on the same terms and conditions as loans to employees of the Bank, including interest rates and collateral requirements.

Loans to key management personnel of **Rnil** (2011: Rnil) were written off as irrecoverable. Loans to entities controlled by key management personnel of **R0 million** (2011: Rnil) were written off as irrecoverable.

	Bank			
	2012		2011	
	Transactions with key management Rm	**Transactions with entities controlled by key management Rm**	Transactions with key management Rm	Transactions with entities controlled by key management Rm
Deposits				
Balance at the beginning of the reporting period	**31**	**3**	23	3
Deposits received	**217**	**13**	202	33
Deposits repaid[3]	**(217)**	**(14)**	(195)	(33)
Inception/(discontinuance) of related party relationships and other[2]	**(19)**	**1**	1	(0)
Balance at the end of the reporting period	**12**	**3**	31	3
Interest expense	**1**	**0**	1	—
Guarantees issued by the Bank	**53**	**50**	50	29

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

Notes

[1]Includes interest earned on loans and advances to key management.

[2]Includes balances relating to key management personnel who resigned during the current reporting period.

[3]Includes interest paid on deposits held by key management.

	Bank			
	2012		2011	
	Transactions with key management Rm	**Transactions with entities controlled by key management Rm**	Transactions with key management Rm	Transactions with entities controlled by key management Rm
44. Related parties *(continued)*				
44.1 Transactions with key management personnel *(continued)*				
Other investments				
Balance at the beginning of the reporting period	**40**	**41**	26	41
Value of new investments/contributions	**40**	**0**	81	2
Value of withdrawals/disinvestments	**(46)**	**(23)**	(66)	(4)
Fees and charges	**(0)**	**(0)**	(1)	(0)
Investment return	**(1)**	**0**	3	2
Discontinuance of related party relationships and other[1]	**(11)**	**(0)**	(3)	—
Balance at the end of the reporting period	**22**	**18**	40	41

	Bank	
	2012 Rm	2011 Rm
44.2 Key management personnel compensation		
Directors		
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**30**	20
Share-based payments	**32**	27
Termination benefits	**12**	—
	75	48
Other key management personnel		
Post-employment benefit contributions	**2**	2
Salaries and other short-term benefits	**65**	42
Share-based payments	**49**	36
Termination benefits	**0**	3
	116	83
44.3 Balances and transactions with the ultimate parent company		
Balances		
Loans and advances to banks	**20 698**	41 065
Derivative assets	**14 310**	10 524
Nominal value of derivative assets	**1 399 103**	637 611
Other assets	**896**	338
Investment securities	**584**	499
Deposits from banks	**(8 963)**	(5 784)
Derivative liabilities	**(13 842)**	(10 488)
Nominal value of derivative liabilities	**(1 213 065)**	(462 870)
Other liabilities	**(59)**	(1 167)
Transactions		
Interest and similar income	**(204)**	(111)
Interest expense and similar charges	**106**	67
Net fee and commission income	**(18)**	(17)
Gains and losses from banking and trading activities	**(158)**	(136)
Other operating income	**(36)**	(152)
Operating expenditure/recovered expenses	**(12)**	(115)

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

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

Note

[1]Includes balances relating to key management personnel who resigned during the reporting period.

44. Related parties *(continued)*

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

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

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

	Bank	
	2012 Rm	2011 Rm
Balances		
Loans and advances to banks	**221**	188
Derivative assets	**37**	—
Nominal value of derivative assets	**947**	608
Other assets	**74**	1
Deposits from banks	**(1 016)**	(559)
Derivative liabilities	**5**	(72)
Nominal value of derivative liabilities	**(521)**	(1 441)
Other liabilities	**(61)**	(52)
Transactions		
Interest and similar income	**0**	(2)
Net fee and commission income	**(7)**	(12)
Other operating income	**(3)**	—
Operating expenditure	**100**	152

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

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

44.5 Balances and transactions with the parent company

	2012 Rm	2011 Rm
Balances		
Other assets	**64**	—
Deposits from banks	**(708)**	(220)
Transactions		
Interest expense and similar charges	**0**	8
Dividends paid	**5 921**	3 184

44.6 Balances and transactions with fellow subsidiaries

	2012 Rm	2011 Rm
Balances		
Trading and hedging portfolio assets	**1 213**	(4)
Loans to Absa Group companies	**10 777**	7 164
Deposits from banks	**(3 455)**	(3 520)
Debt securities in issue	**(242)**	(1 625)
Loans from Group companies	**—**	(1 438)
Transactions		
Interest and similar income	**(476)**	(563)
Interest expense and similar charges	**615**	777
Net fee and commission income	**(474)**	(512)
Gains and losses from banking and trading activities	**1 905**	1 624
Other operating income	**(32)**	(26)
Operating expenditure	**(412)**	(442)

44. Related parties *(continued)*

44.7 Subsidiaries[1]

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

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

Name	Nature of business	Country of incorporation	Bank 2012 % holding	Bank 2011 % 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 and clients.	South Africa	**100**	100
Absa Capital Representative Office Nigeria Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	**100**	100
Absa Rewards Company Proprietary Limited	Structures, implements and maintains loyalty programmes for the Bank.	South Africa	**100**	100
Absa Technology Finance Solutions Proprietary Limited	Financial broker/executive finance company.	South Africa	**100**	100
Absa Vehicle Management Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	**100**	100
Absan Proprietary Limited	Offers residential property related ownership solutions to individuals.	South Africa	**100**	100
Barrie Island Investments Proprietary Limited	Property investment.	South Africa	**70**	70
NewFunds Proprietary Limited[2]	Administrator of listed exchange-traded funds.	South Africa	**100**	50
Ngwenya River Estate Proprietary Limited	Residential property development.	South Africa	**100**	100
Overlook at Sugarloaf Incorporated	Real estate services.	United States of America	**100**	100
The Ballito Junction Development Proprietary Limited	Retail property development company.	South Africa	**100**	100
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	**100**	100
Special purpose entities				
Absa Benefit Fund	Cell captive.	South Africa	**n/a**	n/a
Absa Foundation Trust	Provides funding for community upliftment. Receives a percentage of the Bank's dividends, which it distributes to identified community-related projects.	South Africa	**n/a**	n/a
Absa General Fund[5]	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
Commissioner Street No 1 Proprietary Limited	SPE for CIBW, with asset backed securities.	South Africa	**n/a**	n/a
Commissioner Street No 4 Proprietary Limited	SPE for CIBW, with asset backed securities.	South Africa	**n/a**	n/a

Notes
[1]A full list of subsidiaries is available, on request, at the registered address of the Bank.
[2]The Bank acquired the remaining 50% shareholding in NewFunds from Vunani Capital Proprietary Limited, refer to note 51.

Name	Nature of business	Country of incorporation	Bank 2012 % holding	Bank 2011 % holding
44. Related parties *(continued)*				
44.7 Subsidiaries[1]				
Special purpose entities *(continued)*				
eRafi SA Financial 15[2]	Exchange-traded fund based on eRafi financial products.	South Africa	**92**	92
eRafi SA Industrial[2]	Exchange-traded fund based on eRafi industrial products.	South Africa	**91**	91
eRafi SA Resources 20[2]	Exchange-traded fund based on eRafi resource products.	South Africa	**91**	91
Home Obligors Mortgage Enhanced Securities Proprietary Limited	Securitisation vehicle for Absa Home Loans division.	South Africa	**n/a**	n/a
MAN Financial Services – Life Cell[2]	Commercial vehicle short-term insurance products.	South Africa	**n/a**	n/a
Maravadi Financial Services – Life Cell[2]	Credit life insurance.	South Africa	**n/a**	n/a
NewFunds MAPPS Growth ETF Portfolio[3]	Exchange-traded fund.	South Africa	**69**	n/a
NewFunds MAPPS Protect ETF Portfolio[3]	Exchange-traded fund.	South Africa	**90**	n/a

	2012 Rm	2011 Rm
Subsidiaries' aggregate profits and losses after taxation[4]	**(138)**	(255)

44.8 Associates, joint ventures and retirement benefit fund[5]

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

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

	Bank 2012 Associates and joint ventures Rm	Bank 2012 Retirement benefit fund Rm	Bank 2012 Total Rm
Value of Absa Group Pension Fund investments managed by the Bank	—	7 682	7 682
Value of Absa Group Limited shares held by the Absa Group Pension Fund	—	141	141
Value of other Absa Bank Limited securities held by the Absa Group Pension Fund	—	1 688	1 688
Statement of financial position			
Other assets	0	—	0
Loans and advances to customers (refer to note 9)	10 094	—	10 094
Other liabilities	(0)	—	(0)
Deposits due to customers	—	(130)	(130)
Statement of comprehensive income			
Interest and similar income	(607)	—	(607)
Interest expense and similar charges	0	1	1
Fee and commission income	(79)	(18)	(97)
Fee and commission expense	160	—	160
Current service costs (refer to note 34)	—	514	514

Notes

[1]A full list of subsidiaries is available, on request, at the registered address of the Bank.
[2]These entities were not assessed to be material in the previous reporting period, accordingly no comparatives are provided.
[3]SPE consolidated as a result of the acquisition of NewFunds.
[4]Profit attributable to ordinary equity holders, excluding share of post-tax results of associates and joint ventures.
[5]A full list of associates and joint ventures is available, on request, at the registered address of the Bank.

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

Pledges and securities

The associates and joint ventures of the Bank have not entered into pledges or security arrangements during the current or previous reporting periods.

Note

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

44. Related parties *(continued)*

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

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

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

Name	Nature of business	Country of incorporation	2012 Ownership %	2011 Ownership %
Equity-accounted associates				
SBV Services Proprietary Limited[4]	Cash transportation services.	South Africa and Nigeria	**25**	—
The Document Exchange Association	The body facilitates the electronic exchange of documents between banks.	South Africa	**33**	—
The South African Bankers Services Company Proprietary Limited[4,5]	Automatic clearing house.	South Africa	**23**	—
Equity-accounted joint ventures				
FFS Finance South Africa Proprietary Limited[5]	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[3]	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[3]	Property development.	South Africa	**50**	50
Associates and joint ventures designated at fair value through profit or loss	Various.	South Africa	**Various**	Various

Name
Equity-accounted associates
Sekunjalo Investments Limited[3]
Equity-accounted joint ventures
FFS Finance South Africa Proprietary Limited
Integrated Processing Solutions Proprietary Limited
Kilkishen Investments Proprietary Limited[3]
MAN Financial Services (S.A.) Proprietary Limited
Meadowood Investments 8 Proprietary Limited
Stand 1135 Houghton Proprietary Limited[3]
Associates and joint ventures designated at fair value through profit or loss

Notes

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

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

[3]Transferred to non-current assets held for sale during the current reporting period.

[4]These entities were included in 'Investment securities' in the previous reporting period, accordingly no comparatives are provided.

[5]The equity accounted earnings includes dividends received.

Bank

2012						
Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity-accounted earnings Rm	Loans to entities Rm	Revenue Rm	Profit/(loss) after tax Rm
79	956	(638)	54	4	1 656	68
2	7	(1)	—	—	—	—
111	605	(119)	116	—	302	42
318	8 867	(8 230)	68	7 705	841	136
32	118	(33)	7	—	261	13
29	95	(49)	(6)	—	2	1
19	1 891	(1 852)	2	1 758	166	3
0	0	(0)	—	—	—	—
7	23	(10)	(1)	—	1	(0)
n/a	2 036	(1 553)	n/a	627	66	11

2011						
Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity-accounted earnings Rm	Loans to entities Rm	Revenue Rm	Profit/(loss) after tax Rm
—	—	—	1	—	—	—
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	(4 666)	n/a	572	200	(21)

	Bank	
	2012 Rm	2011 Rm
45. Assets under management and administration		
Alternative asset management and exchange-traded funds	**20 665**	16 615
Portfolio management	**5 942**	5 136
Private equity	**—**	728
Unit trusts	**551**	262
	27 158	22 741
46. Financial guarantee contracts[1]		
Financial guarantee contracts	**176**	356

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

47. Commitments

	2012 Rm	2011 Rm
Authorised capital expenditure		
Contracted but not provided for	**208**	119

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

	2012 Rm	2011 Rm
Operating lease payments due		
No later than one year	**893**	1 073
Later than one year and no later than five years	**1 816**	2 062
Later than five years	**303**	488
	3 012	3 623

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

	2012 Rm	2011 Rm
Sponsorship payments due		
No later than one year	**289**	209
Later than one year and no later than five years	**884**	299
	1 173	508

The Bank has sponsorship commitments in respect of sports, arts and culture sponsorships. Certain sponsorship agreements expire in 2013 and are under review by management for renewal in the foreseeable future.

48. Contingencies

	2012 Rm	2011 Rm
Guarantees	**15 540**	12 509
Irrevocable debt facilities	**46 191**	45 637
Irrevocable equity facilities	**543**	494
Letters of credit	**5 894**	4 560
Other	**6**	10
	68 174	63 210

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

Guarantees include performance and payment guarantee contracts.

Legal proceedings

The Bank has been party to proceedings against it during the reporting period, 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 Company, as the clearing bank for Cortex, was obligated to underwrite Cortex's obligations to the JSE, which it duly did, in return for the underlying shares. The Company had to make payment of an amount of R732 million as a result of the default and is claiming damages against Ukwanda for this amount. Ukwanda has counterclaimed in the amount of R1 064 million. The Company is opposing the counterclaim and a trial date has been allocated for the hearing thereof during August 2013.
- Pinnacle Point Holdings Proprietary Limited (PPG): New Port Finance Company and the trustees of the Winifred Trust (the plaintiffs) allege a local bank conducted itself unlawfully, and that the Company was privy to such conduct. They have instituted proceedings against the Company for damages in an amount of R1 387 million. The Company has entered an appearance to defend the claim. The matter has not progressed from the previous reporting period.

Note

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

48. Contingencies *(continued)*

Legal proceedings *(continued)*

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

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

Regulatory matters

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

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

	Bank	
	2012 Rm	2011 Rm
49. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**8 094**	7 226
Loans and advances to banks	**692**	572
	8 786	7 798

50. Share-based payments

During the reporting period, **R17 million** (2011: R44 million) and **R414 million** (2011: R390 million) were charged to the statement of comprehensive income in respect of equity-settled and cash-settled share-based payment transactions, respectively.

Staff costs

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

	Bank 2012 Rm	Bank 2011 Rm
Equity-settled arrangements:		
Absa Group Limited Executive Share Award Scheme (ESAS) (refer to note 50.1)	**11**	38
Absa Group Limited Performance Share Plan (PSP) (refer to note 50.2)	**—**	4
Absa Group Limited Share Incentive Scheme (refer to note 50.3)	**6**	2
Cash-settled arrangements:		
Absa Group Limited Deferred Award Plan (DAP)(refer to note 50.4)	**348**	305
Absa Group Limited Key Leaders Retention Plan (KLR) (refer to note 50.5)	**18**	26
Absa Group Limited Long Term Incentive Plan (LTIP) (refer to note 50.6)	**7**	—
Absa Group Limited Phantom Executive Share Award Scheme (Phantom ESAS) (refer to note 50.7)	**2**	2
Absa Group Limited Phantom Joiners Share Award Plan (JSAP) (refer to note 50.8)	**39**	57
	431	434
Total carrying amount of liabilities for cash-settled arrangements (refer to note 20)	**610**	483

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** (2011: Rnil).

50. Share-based payments *(continued)*

50.1 Absa Group Limited Executive Share Award Scheme

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

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

	Bank Number of options	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**1 286**	2 009
Exercised during the reporting period	**(928)**	(697)
Forfeited during the reporting period	**(10)**	(21)
Transfer from/(to) Group subsidiaries	**35**	(5)
Outstanding at the end of the reporting period	**383**	1 286

The options outstanding at the reporting date have no exercise price and a weighted average contractual life of **0,9 years** (2011: 2,1 years). The weighted average share price of options exercised during the reporting period is **R152,50** (2011: R130,75).

50.2 Absa Group Limited Performance Share Plan

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

	Bank Number of options	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**1 172**	2 968
Exercised during the reporting period	**—**	(310)
Forfeited during the reporting period	**(1 172)**	(1 486)
Outstanding at the end of the reporting period	**—**	1 172

The options outstanding at the previous reporting date had no exercise price and a weighted average contractual life of 0,2 years. None of these options were exercisable at the previous reporting date.

The weighted average share price of options exercised during the previous reporting period was R131,00.

50. Share-based payments *(continued)*

50.3 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 optionholder over the vesting period. The options expire after a period of 10 years from the issuing date. Options issued since August 2005 (issue 193) have performance criteria linked to them, which require headline earnings per share to exceed an agreed benchmark over a three-year period from the grant date for the options to vest. Participants need to be employed by the Bank at the vesting date in order to be entitled to the options.

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

	Bank	
	2012	
	Number of options '000	Weighted average exercise price R
Outstanding at the beginning of the reporting period	**1 118**	**75,71**
Exercised during the reporting period	**(386)**	**59,76**
Forfeited during the reporting period	**(21)**	**76,12**
Transfers to Group subsidiaries	**(23)**	**—**
Outstanding at the end of the reporting period	**688**	**69,49**
Of which are exercisable	**688**	**69,49**

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

50. Share-based payments *(continued)*

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

Options exercised during the reporting period resulted in **386 054** (2011: 1 414 863) shares being allocated at an average exercise price of **R59,76** (2011: R75,11) each. The related weighted average share price at the time of exercise was **R151,18** (2011: R137,15).

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

	Bank			
	2012			
	Average option exercise price R	Weighted average contractual remaining life Years	Weighted average fair value R	Number of options outstanding
Exercise price ranges				
31,99 – 35,01	**35,01**	**0,43**	**11,97**	**61 124**
44,36 – 68,93	**49,90**	**1,52**	**40,22**	**260 298**
72,36 – 94,63	**89,48**	**2,60**	**29,39**	**367 067**
	2011			
	Average option exercise price R	Weighted average contractual remaining life Years	Weighted average fair value R	Number of options outstanding
Exercise price ranges				
25,16 – 35,97	33,67	0,43	11,32	80 705
31,99 – 35,01	35,01	1,43	11,98	130 866
44,36 – 68,93	49,59	2,49	36,33	355 138
72,36 – 94,63	90,16	3,61	28,68	525 099
100,30 – 113,75	103,85	4,03	39,01	26 668

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

	Bank	
	2012	
	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	**(0,1)**	**(802)**
Balance of shares and options available	**9,9**	**71 019**
	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

50.4 Absa Group Limited Deferred Award Plan

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 conditions. The amount that is paid to the participants is equal to the 20-day volume weighted average price (VWAP) of a number of Absa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. If Absa Group Limited fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total.

50. Share-based payments *(continued)*

50.4 Absa Group Limited Deferred Award Plan *(continued)*

	Bank Number of awards	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**3 993**	2 337
Exercised during the reporting period	**(1 537)**	(735)
Forfeited during the reporting period	**(356)**	(219)
Granted during the reporting period	**1 945**	2 610
Transfer to Group subsidiaries	**(77)**	—
Outstanding at the end of the reporting period	**3 968**	3 993

The phantom awards outstanding have no exercise price and a weighted average contractual life of **0,8 years** (2011: 1,5 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 awards granted during the current and previous reporting periods

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

- between the share price at grant date and the 20-day VWAP at valuation date; and
- between actual and expected forfeited awards.

50.5 Absa Group Limited Key Leaders Retention Plan

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 20-day VWAP of a number of Absa Group Limited ordinary shares, as determined after a three-year vesting period.

	Bank Number of awards	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**523**	543
Granted during the reporting period	**—**	32
Forfeited during the reporting period	**(126)**	(52)
Transfer to Group subsidiaries	**(11)**	—
Outstanding at the end of the reporting period	**386**	523

The phantom awards outstanding have no exercise price and a weighted average contractual life of **0,2 years** (2011: 1,2 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 awards granted during the previous reporting period

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

- between the share price at grant date and the 20-day VWAP at valuation date; and
- between actual and expected forfeited awards.

50.6 Absa Group Limited Long Term Incentive plan

The LTIP is a cash-settled share-based payment arrangement. Qualifying participants will be entitled to Absa Group Limited ordinary shares either by way of share award or a cash award that must be used to purchase Absa Group Limited shares. The award will be issued by the employing entity or subsidiary within the Bank. In order for the participant to be entitled to these awards, the participant needs to render three years of service and meet requisite performance conditions in order to qualify.

	Bank Number of awards	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**—**	—
Granted during the reporting period	**765**	—
Forfeited during the reporting period	**—**	—
Outstanding at the end of the reporting period	**765**	—

The awards outstanding have no exercise price and a weighted average contractual life of **2,0 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 awards during the current reporting period

The fair value of the LTIP awards are based on the Absa Group Limited share price at grant date. The grant date fair value is remeasured over the vesting period based on changes in the 20-day VWAP.

50. Share-based payments *(continued)*

50.7 Absa Group Limited Phantom Executive Share Award Scheme

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

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

	Bank Number of awards	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**80**	147
Exercised during the reporting period	**(43)**	(65)
Forfeited during the reporting period	**—**	(2)
Outstanding at the end of the reporting period	**37**	80
Of which are exercisable	**—**	43

The phantom awards outstanding at the reporting date have no exercise price and a weighted average contractual life of **1,3 years** (2011: 3,0 years).

50.8 Absa Group Limited Phantom Joiners Share Award Plan

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

	Bank Number of awards	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**878**	1 139
Exercised during the reporting period	**(294)**	(513)
Forfeited during the reporting period	**(179)**	(168)
Granted during the reporting period	**269**	420
Transfer to Group subsidiaries	**(5)**	—
Outstanding at the end of the reporting period	**669**	878

The awards outstanding at the reporting date have no exercise price and a weighted average contractual life of **1,6 years** (2011: 2,3 years).

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

50. Share-based payments *(continued)*

50.8 Absa Group Limited Phantom Joiners Share Award Plan *(continued)*

Fair value assumptions of phantom awards granted during the current and previous periods

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

- between the share price at grant date and the 20-day VWAP at valuation date; and
- between actual and expected forfeited awards.

51. Acquisitions and disposals of businesses

A summary of the total net cash outflow and cash and cash equivalents related to acquisitions and disposals of businesses is included below:

	Bank	
	2012 Rm	2011 Rm
Summary of net cash outflow due to acquisitions	**(1)**	(211)
Summary of total cash and cash equivalents acquired	**—**	0
Summary of net cash inflow due to disposals	**240**	—
Summary of cash and cash equivalents disposed	**18**	—

51.1 Acquisitions of businesses during the current reporting period

51.1.1 During April 2012, the Bank acquired the remaining 50% shareholding in NewFunds from Vunani Capital Proprietary Limited. Following the acquistion, the Bank owns 100% of the shares in NewFunds. At the acquisition date, the investment was recognised at R2 million. No gain/(loss) was recognised in the statement of comprehensive income. NewFunds is a collective investment scheme manager that provides various management services to the collective investment schemes.

	Bank
	2012 Fair value recognised on acquisition Rm
Details of the net assets acquired are as follows:	
Investment securities	2
Other liabilities	(2)
Net assets acquired	**0**
Satisfied by:	
Cash outflow on acquisition	1
Fair value of net assets acquired	—
Goodwill	**1**
Net cash outflow due to acquisition	1
Total cash and cash equivalents acquired	—

Since its acquisition, NewFunds contributed revenue of Rnil (internal revenue generated of R2,8 million) and a net loss before tax of R0 million to the Bank for the period 1 May 2012 to 31 December 2012. If the acquisition occurred on 1 January 2012, the Bank's revenue would have been Rnil higher and the net profit before tax for the reporting period would have been Rnil higher.

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

51.2 Acquisitions of businesses during the previous reporting period *(continued)*

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

	Bank 2011 Fair value recognised on acquisition Rm
Details of the net assets acquired were as follows:	
Cash, cash balances and balances with central banks	0
Other assets	1
Investment securities	277
Other liabilities	0
Non-controlling interest	(67)
Net assets acquired	211
Satisfied by:	
Cash outflow on acquisition	211
Fair value of net assets acquired	(211)
Goodwill	—
Net cash outflow due to acquisition	211
Total cash and cash equivalents acquired	0

Since its acquisition, the APEF contributed revenue of R10 million and a net profit before tax of R13 million to the Bank for the period 1 April 2011 to 31 December 2011. If the acquisition occurred on 1 January 2011, the Bank's revenue would have been R17 million higher and the net profit before tax for the previous reporting period would have been R18 million higher.

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

51.2 Acquisitions of businesses during the previous reporting period

51.2.2 The Bank, together with two other parties, had a shareholding in Barrie Island Investment Proprietary Limited (Barrie Island). During January 2011, the Bank entered into an agreement to purchase an additional 30% of the shares in Barrie Island from another shareholder who wished to exit the arrangement. Following this purchase, the Bank owns 70% of the shares of Barrie Island. 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 was impaired as Barrie Island had been consistently making losses and was not expected to be profitable in the near future.

	Bank 2011 Fair value recognised on acquisition Rm
Details of the net assets acquired were as follows:	
Cash, cash balances and balances with central banks	0
Investment properties	40
Defered tax asset	1
Other liabilities	(50)
Fair value of existing interest	3
Non-controllling interests	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 Bank for the period to 31 December 2011.

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

51.3 Disposal of businesses during the current reporting period

51.3.1 Absa Bank Limited, through its Commercial Property Finance (CPF) division, sold all of its Class C units (effectively 64, 08%) in the Absa Property Equity Fund (APEF) to Absa Financial Services Proprietary Limited (AFS) on 28 June 2012. No profit or loss was recognised in the Absa Bank consolidated results due to the underlying investments being measured at fair value.

Prior to the disposal on 28 June 2012, the net equity position varied based on the purchase and disposal of units held by other unit holders. Purchases and disposals by other unit holders resulted in a reduction in the percentage shareholding of the fund from 72,8% to 64,08% and a corresponding increase in non-controlling interest of R35 million.

APEF operates as a special purpose entity (SPE) and was consolidated in terms of SIC-12 as the Group held the majority of the units in issue and was thereby exposed to the majority of the risks and rewards of the fund.

An overview of the assets and liabilities disposed of is included below.

	Bank
	2012 Amounts derecognised on disposal Rm
Details of the net assets disposed of were as follows:	
Cash, cash balances and balances with central banks	18
Investment securities	369
Other assets	5
Creditors	(5)
Net assets disposed of	387
Satisfied by:	
Non-controlling interest	(129)
Net assets disposed of	387
Cash inflow on disposal	258
Total cash and cash equivalents disposed	(18)
Net cash inflow on disposal	240

51.4 Disposal of businesses during the previous reporting period

There were no disposals during the previous reporting period.

52. Consolidated statement of financial position summary – IAS 39 classification

	Bank			
	2012		2011[1]	
	Assets Rm	Liabilities and equity Rm	Assets Rm	Liabilities and equity Rm
Fair value through profit or loss	114 229	89 602	109 765	89 760
Designated at fair value	27 002	37 858	26 106	38 072
Statutory liquid asset portfolio	800	—	804	—
Loans and advances to banks	9 729	—	7 886	—
Other assets	16	—	16	—
Loans and advances to customers	11 937	—	10 187	—
Investment securities	4 520	—	7 213	—
Deposits from banks	—	14 976	—	13 414
Deposits due to customers	—	18 663	—	20 500
Debt securities in issue	—	3 441	—	3 387
Borrowed funds	—	778	—	771
Held for trading	81 788	47 889	79 360	49 232
Trading portfolio assets	81 788	—	79 360	—
Trading portfolio liabilities	—	47 889	—	49 232
Hedging instruments	5 439	3 855	4 299	2 456
Hedging portfolio assets	5 439	—	4 299	—
Hedging portfolio liabilities	—	3 855	—	2 456
Available-for-sale	64 063	—	57 787	—
Designated as available-for-sale	36 890	—	34 445	—
Statutory liquid asset portfolio	35 047	—	33 327	—
Investment securities	1 843	—	1 118	—
Hedged items				
Statutory liquid asset portfolio	27 173	—	23 342	—
Amortised cost	573 231	608 875	562 300	590 838
Designated at amortised cost	566 421	594 981	556 954	574 557
Cash, cash balances and balances with central banks	20 435	—	19 505	—
Loans and advances to banks	32 676	—	47 984	—
Loans to Group companies	10 777		7 164	—
Other assets	10 101	—	9 502	—
Loans and advances to customers	492 432	—	472 799	—
Deposits from banks	—	27 960	—	31 288
Other liabilities	—	12 384	—	8 906
Deposits due to customers	—	448 655	—	411 262
Debt securities in issue	—	92 860	—	113 890
Loans from Group companies	—	—	—	1 438
Borrowed funds	—	13 122	—	7 773
Hedged items	6 810	13 894	5 346	16 281
Loans and advances to customers	6 810	—	5 346	—
Debt securities in issue	—	9 887	—	10 774
Borrowed funds	—	4 007	—	5 507
Non-financial assets and liabilities	12 968	5 088	12 584	4 446
Total equity	—	60 926	—	57 392
	764 491	764 491	742 436	742 436

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

53. Fair value of financial instruments

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

	Bank			
	2012		2011[1,2]	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the SARB	12 338	12 338	12 279	12 279
Coins and bank notes	8 094	8 094	7 226	7 226
Money market assets	3	3	—	—
Cash, cash balances and balances with central banks (refer to note 2)	20 435	20 435	19 505	19 505
Loans and advances to banks (refer to note 4)	32 676	32 676	47 984	47 984
Other assets (refer to note 6)	10 101	10 101	9 502	9 502
Retail Markets	315 774	323 415	306 263	306 807
Cheque accounts	1 589	1 589	2 261	2 261
Credit cards	25 987	25 987	14 733	14 733
Instalment credit agreements	41 178	42 554	37 542	37 814
Loans to associates and joint ventures	6 634	6 634	4 836	4 836
Microloans	1 525	1 965	1 368	1 470
Mortgages	226 749	232 574	233 026	233 196
Other	0	0	4	4
Personal and term loans	12 112	12 112	12 493	12 493
Business Markets	86 184	88 872	88 710	89 158
Cheque accounts	16 390	16 390	12 622	12 622
Commercial asset finance	18 559	19 220	17 975	18 004
Commercial property finance	36 596	38 623	40 253	40 672
Term loans	14 639	14 639	17 860	17 860
CIBW	90 364	90 364	77 684	77 684
Head office, inter-segment eliminations and Other	110	110	141	141
Loans and advances to customers – net of impairment losses (refer to note 9)	492 432	502 761	472 798	473 790
Loans to Group companies (refer to note 11)	10 777	10 777	7 164	7 164
Total	566 421	576 750	556 953	557 945
Financial liabilities				
Deposits from banks (refer to note 18)	27 960	27 962	31 288	31 296
Other liabilities (refer to note 20)	12 384	12 384	8 906	8 906
Call deposits	56 648	56 648	55 528	55 528
Cheque account deposits	139 795	139 795	130 948	130 948
Credit card deposits	1 938	1 938	1 884	1 884
Fixed deposits	107 733	108 174	112 580	112 705
Foreign currency deposits	9 723	9 723	6 898	6 898
Notice deposits	55 729	55 935	28 500	28 506
Other deposits	1 557	1 557	2 695	2 694
Savings and transmission deposits	75 532	75 532	72 229	72 229
Deposits due to customers (refer to note 22)	448 655	449 302	411 262	411 392
Debt securities in issue (refer to note 23)	92 860	92 860	113 890	113 890
Loans from Group companies (refer to note 24)	—		1 438	1 438
Borrowed funds (refer to note 25)	13 122	14 407	7 773	8 497
Total	594 981	596 915	574 557	575 419

Notes

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

[2]Comparatives have been reclassified for structure changes made during the current reporting period, refer to note 54.

54. Segment report

54.1 Summary of segments

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

The following summary describes the operations in each of the Bank's reportable segments:

- RBB
  - Business Markets: provides a comprehensive range of commercial banking products and services to large, medium and small businesses.
  - Retail Markets: 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 and the Edcon portfolio.
    - 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.
  - CIBW: 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, government clients and high net worth individuals.
  - Other: consists of various non-banking activities and includes investment income earned by the Bank, as well as income earned by the London branch, Absa Manx Holdings and Corporate Real Estate Services (CRES).

Segment comparatives have been reclassified during the current reporting period for the following structure changes:

- As part of the One Absa strategy, the segments of Retail Markets (previously known as Retail Banking) and Business Markets (previously known as Absa Corporate and Business Bank) were merged into the RBB segment.
- Absa Cash Solutions Group Processing Centre and Integrated Processing Services were moved from Head office, inter-segment eliminations and Other to RBB.
- The Bank's corporate customers and products were transferred from Business Markets to CIBW following an initiative to optimise product delivery to its corporate customers.
- Foreign exchange operations and Group Payments were moved from Head office, inter-segment eliminations and Other to CIBW.

These changes have no effect on the profit and loss of the Bank.

	Bank			
	2012			
	South Africa Rm	Rest of Africa Rm	Other foreign countries Rm	Total Rm
54.2 Segment report per geographical segment				
Net interest income – external	**22 006**	**—**	**128**	**22 134**
Non-interest income – external	**19 291**	**0**	**35**	**19 325**
Total assets	**756 877**	**7**	**7 607**	**764 491**

	2011			
	South Africa Rm	Rest of Africa Rm	Other foreign countries Rm	Total Rm
Segment report per geographical segment				
Net interest income – external	22 219	—	113	22 332
Non-interest income – external	17 635	—	24	17 659
Total assets	736 714	1	5 721	742 436

54. Segment report *(continued)*

54.3 Segment report per market segment

Statement of comprehensive income

	RBB		RBB Retail Markets		RBB Business Markets	
	2012 Rm	2011[2] Rm	**2012 Rm**	2011[2] Rm	**2012 Rm**	2011[2] Rm
Net interest income	**18 522**	18 062	**12 786**	12 248	**5 736**	5 814
Net interest income – external	**29 259**	30 190	**23 381**	23 643	**5 878**	6 547
Net interest income – internal	**(10 737)**	(12 128)	**(10 595)**	(11 395)	**(142)**	(733)
Impairment losses on loans and advances	**(7 800)**	(4 665)	**(5 912)**	(3 793)	**(1 888)**	(872)
Non-interest income	**12 813**	12 710	**9 971**	9 794	**2 842**	2 916
Non-interest income – external	**12 054**	11 989	**9 217**	9 075	**2 837**	2 914
Non-interest income – internal	**759**	721	**754**	719	**5**	2
Operating expenses	**(17 138)**	(17 054)	**(11 876)**	(12 030)	**(5 262)**	(5 024)
Depreciation and amortisation	**(447)**	(399)	**(429)**	(382)	**(18)**	(17)
Other operating expenses	**(16 691)**	(16 655)	**(11 447)**	(11 648)	**(5 244)**	(5 007)
Other	**(588)**	(411)	**(272)**	(298)	**(316)**	(113)
Other impairments	**(277)**	(70)	**1**	(20)	**(277)**	(50)
Indirect taxation	**(380)**	(382)	**(347)**	(347)	**(33)**	(35)
Share of post-tax results of associates and joint ventures	**69**	41	**75**	69	**(6)**	(28)
Operating profit before income tax	**5 809**	8 642	**4 697**	5 921	**1 112**	2 721
Taxation expense	**(1 649)**	(2 746)	**(1 301)**	(1 826)	**(348)**	(920)
Profit for the reporting period	**4 160**	5 896	**3 396**	4 095	**764**	1 801
Profit attributable to:						
Ordinary equity holder	**4 177**	5 889	**3 396**	4 095	**781**	1 794
Preference equity holders	**(17)**	7	**—**	—	**(17)**	7
Non-controlling interest	**—**	—	**—**	—	**—**	—
	4 160	5 896	**3 396**	4 095	**764**	1 801
Headline earnings	**4 318**	5 947	**3 386**	4 096	**932**	1 851

Notes

[1]Head office and inter-segment eliminations do not represent a reportable segment, but the reconciliation to the Bank results in terms of IFRS 8 Operating Segments (IFRS 8).
[2]Comparatives have been reclassified for structure changes made during the reporting period, refer to notes 1.23 and 54.1 for additional information.
[3]Comparatives have been reclassified, refer to note 1.23.

	CIBW		Other		Head office and inter-segment eliminations[1]		Bank	
	2012 Rm	2011[2] Rm	2012 Rm	2011 Rm	2012 Rm	2011[2] Rm	2012 Rm	2011[3] Rm
	2 805	3 337	(121)	(51)	789	762	21 995	22 110
	(10 483)	(11 146)	2 145	3 064	1 213	224	22 134	22 332
	13 288	14 483	(2 266)	(3 115)	(424)	538	(139)	(222)
	(118)	(40)	—	(2)	—	(169)	(7 918)	(4 876)
	5 337	4 066	228	115	(508)	(377)	17 870	16 514
	9 939	7 518	309	166	(2 977)	(2 014)	19 325	17 659
	(4 602)	(3 452)	(81)	(51)	2 469	1 637	(1 455)	(1 145)
	(4 477)	(4 448)	(69)	(250)	596	267	(21 088)	(21 485)
	(44)	(147)	(175)	(154)	(632)	(603)	(1 298)	(1 303)
	(4 433)	(4 301)	106	(96)	1 228	870	(19 790)	(20 182)
	26	(99)	(97)	(100)	20	(320)	(639)	(930)
	—	9	—	(2)	(67)	(10)	(344)	(73)
	(90)	(102)	(97)	(98)	32	(322)	(535)	(904)
	116	(6)	—	—	55	12	240	47
	3 573	2 816	(59)	(288)	897	163	10 220	11 333
	(986)	(801)	13	86	(47)	321	(2 669)	(3 140)
	2 587	2 015	(46)	(202)	850	484	7 551	8 193
	2587	2 015	(46)	(202)	554	199	7 272	7 901
	—	—	—	—	1	1	(16)	8
	—	—	—	—	295	284	295	284
	2 587	2 015	(46)	(202)	850	484	7 551	8 193
	2 587	2 014	(71)	(214)	591	210	7 425	7 957

54. Segment report *(continued)*
54.3 Segment report per market segment *(continued)*

	RBB		RBB Retail Markets		RBB Business Markets	
	2012 Rm	2011[2] Rm	**2012 Rm**	2011[2] Rm	**2012 Rm**	2011[2] Rm
Operating performance (%)						
Net interest margin on average interest-bearing assets[4]	**3,59**	3,59	**3,03**	2,96	**6,16**	6,57
Impairment losses on loans and advances as a percentage of average loans and advances to customers[4]	**1,97**	1,17	**1,92**	1,23	**2,15**	0,97
Non-interest income as a percentage of total operating income[5]	**40,9**	41,3	**43,8**	44,4	**33,1**	33,4
Revenue growth[5]	**2**	(4)	**3**	5	**(2)**	(21)
Cost growth[5]	**(1)**	5	**1**	(0)	**(5)**	15
Cost-to-income ratio[5]	**54,7**	55,4	**52,2**	54,6	**61,3**	57,5
Cost-to-assets ratio[4]	**3,0**	3,2	**2,6**	2,7	**5,0**	5,1
Statement of financial position						
Loans and advances to customers	**402 906**	396 119	**315 774**	306 263	**87 132**	89 856
Investment securities	**1 036**	1 640	**—**	—	**1 036**	1 640
Other assets	**185 962**	159 260	**167 940**	145 759	**18 022**	13 501
Total assets	**589 904**	557 019	**483 714**	452 022	**106 190**	104 997
Deposits due to customers	**205 992**	198 285	**126 866**	121 159	**79 126**	77 126
Debt securities in issue	**—**	—	**—**	—	**—**	—
Other liabilities	**379 055**	354 734	**353 213**	328 206	**25 842**	26 528
Total liabilities	**585 047**	553 019	**480 079**	449 365	**104 968**	103 654
Financial performance (%)						
Return on average economic capital[4,5]	**16,2**	20,4	**20,5**	24,8	**9,2**	54,4
Return on average risk-weighted assets[4]	**1,5**	2,07	**1,80**	2,87	**0,97**	1,28
Return on average assets[4]	**0,76**	1,10	**0,74**	0,93	**0,88**	1,87
Other						
Banking customer base by segment (millions)[4,6]	**10,17**	11,22	**9,8**	10,8	**0,37**	0,42
Attributable income from the rest of Africa[4]	**6**	94	**0**	53	**6**	41

Notes

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

[2]Comparatives have been reclassified, refer to notes 1.23 and 54.1 for additional information.

[3]Comparatives have been reclassified, refer to notes 1.23.

[4]These ratios and numbers are unaudited.

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

[6]Includes African operations.

CIBW		Other		Head office and inter-segment eliminations[1]		Bank	
2012 Rm	2011[2] Rm	2012 Rm	2011 Rm	2012 Rm	2011[2] Rm	2012 Rm	2011[3] Rm
0,73	1,00	n/a	n/a	n/a	n/a	3,62	3,80
0,12	0,04	n/a	n/a	n/a	n/a	1,57	1,00
65,5	54,9	n/a	n/a	n/a	n/a	44,8	42,8
10	45	n/a	n/a	n/a	n/a	3	7
(1)	(53)	n/a	n/a	n/a	n/a	2	(5)
55,0	60,1	n/a	n/a	n/a	n/a	52,9	55,6
0,8	1,0	n/a	n/a	n/a	n/a	2,6	3,1
107 898	91 872	266	524	109	(183)	511 179	488 332
5 134	6 421	55	42	138	228	6 363	8 331
350 062	357 962	33 383	29 992	(322 458)	(301 441)	246 949	245 773
463 094	456 255	33 704	30 558	(322 211)	(301 396)	764 491	742 436
261 325	233 477	—	—	1	—	467 318	431 762
84 252	107 795	21 935	20 255	1	1	106 188	128 051
114 562	113 010	7 047	7 403	(370 605)	(349 916)	130 059	125 231
460 139	454 282	28 982	27 658	(370 603)	(349 915)	703 565	685 044
23,1	17,8	n/a	n/a	n/a	n/a	18,3	18,8
1,87	2,28	n/a	n/a	n/a	n/a	1,72	2,07
0,48	0,45	n/a	n/a	n/a	n/a	0,97	1,13
	0,1		0,1				—
0	10	0	10	0	3	6	107

54. Segment report *(continued)*

54.4 Retail Markets segment

	Retail Markets	
	2012 Rm	2011[1] Rm
Statement of comprehensive income		
Net interest income	**12 786**	12 248
Net interest income – external	**23 381**	23 643
Net interest income – internal	**(10 595)**	(11 395)
Impairment losses on loans and advances	**(5 912)**	(3 793)
Non-interest income	**9 971**	9 794
Non-interest income – external	**9 217**	9 075
Non-interest income – internal	**754**	719
Operating expenses	**(11 876)**	(12 030)
Depreciation and amortisation	**(429)**	(382)
Other operating expenses	**(11 447)**	(11 648)
Other	**(272)**	(298)
Other impairments	**—**	(20)
Indirect taxation	**(347)**	(347)
Share of post-tax results of associates and joint ventures	**75**	69
Operating income before income tax	**4 697**	5 921
Taxation expense	**(1 301)**	(1 826)
Profit for the reporting period	**3 396**	4 095
Profit attributable to:		
Ordinary equity holder	**3 396**	4 095
Headline earnings	**3 386**	4 096
Statement of financial position		
Loans and advances to customers	**315 774**	306 263
Other assets	**167 940**	145 759
Total assets	**483 714**	452 022
Deposits due to customers	**126 866**	121 159
Other liabilities	**353 213**	328 206
Total liabilities	**480 079**	449 365

Notes

[1]Comparatives have been reclassified for structure changes made during the reporting period, refer to note 1.23 and 53.1 for additional information.

Retail Markets				Total Card			
Retail Banking		Total Card		Card		Edcon	
2012 Rm	2011[1] Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm
10 746	10 606	2 040	1 642	1 735	1 642	305	—
20 788	21 582	2 593	2 061	2 247	2 061	346	—
(10 042)	(10 976)	(553)	(419)	(512)	(419)	(41)	—
(5 644)	(3 670)	(268)	(123)	(196)	(123)	(72)	—
7 641	7 679	2 330	2 115	2 346	2 115	(16)	—
7 036	7 076	2 181	1 999	2 197	1 999	(16)	—
605	603	149	116	149	116	—	—
(10 464)	(10 795)	(1 412)	(1 235)	(1 393)	(1 235)	(19)	—
(375)	(334)	(54)	(48)	(54)	(48)	—	—
(10 089)	(10 461)	(1 358)	(1 187)	(1 339)	(1 187)	(19)	—
(267)	(275)	(5)	(23)	(3)	(23)	(2)	—
—	(20)	—	—	—	—	—	—
(342)	(324)	(5)	(23)	(3)	(23)	(2)	—
75	69	—	—	—	—	—	—
2 012	3 545	2 685	2 376	2 489	2 376	196	
(549)	(1 096)	(752)	(730)	(697)	(730)	(55)	—
1 463	2 449	1 933	1 646	1 792	1 646	141	—
1 463	2 449	1 933	1 646	1 792	1 646	141	—
1 453	2 450	1 933	1 646	1 792	1 646	141	—
290 023	291 530	25 751	14 733	16 393	14 733	9 358	—
156 777	137 140	11 163	8 619	10 496	8 619	667	—
446 800	428 670	36 914	23 352	26 889	23 352	10 025	—
124 931	119 276	1 936	1 883	1 936	1 883	—	—
320 167	307 733	33 045	20 473	23 161	20 473	9 884	—
445 098	427 009	34 981	22 356	25 097	22 356	9 884	—

55. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Bank's accounting policies.

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

55.1 Derivatives held for trading

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

55.2 Derivatives held for hedging

As part of the Bank's hedging activities, it enters into derivative transactions which are designated as either fair value or cash flow hedges for recognised assets or liabilities or forecasted transactions.

55.2.1 Derivatives designated as fair value hedges

Fair value hedges are used by the Bank to protect against changes in fair value of financial instruments due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Bank's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

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

	Bank	
	2012 Rm	2011 Rm
Gains on hedged items (assets) (refer to note 28)	**1 953**	485
Losses on hedging instruments (assets) (refer to note 28)	**(1 591)**	(468)
Losses on hedged items (liabilities) (refer to note 29)	**(446)**	(179)
Gains on hedging instruments (liabilities) (refer to note 29)	**388**	153

Hedge effectiveness is measured using a statistical method and results would have to be within the 80% to 125% range in order for hedge accounting to be applied.

The amount of movement in fair value that was recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Bank	
	2012 Rm	2011 Rm
Ineffectiveness (outside range) (refer to note 31)	**(23)**	(7)
Ineffectiveness (inside range)	**(21)**	(72)

55.2.2 Derivatives designated as cash flow hedges

The objective of cash flow hedges is to protect against changes in future interest cash flows resulting from the impact of changes in market interest rate risk and reinvestment or reborrowing of current balances.

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

The Bank is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Bank designates interest rate swaps as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows due to changes in interest rates.

55. Derivatives *(continued)*

55.2 Derivatives held for hedging *(continued)*

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

The following schedule indicates the periods when the cash flows from the hedged item are expected to occur and when they are expected to affect the profit and loss component of the statement of comprehensive income as at the reporting date. The cash flows presented below are on an undiscounted basis (before taxation).

	Bank						
	2012						
	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	1 947	1 324	634	198	20	—	4 123
Forecast payable cash flow	(11)	—	—	(1)	(2)	(26)	(40)
Net cash flow before taxation	**1 936**	**1 324**	**634**	**197**	**18**	**(26)**	**4 083**

	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	1 889	1 129	383	36	—	—	3 437
Forecast payable cash flow	(5)	—	(7)	(14)	(84)	(24)	(134)
Net cash flow before taxation	1 884	1 129	376	22	(84)	(24)	3 303

The following net gains/(losses) on cash flow hedges were recycled from other comprehensive income to the profit and loss component of the statement of comprehensive income:

	Bank	
	2012 Rm	2011 Rm
Interest and similar income (refer to note 28)	1 990	2 112
Interest expense and similar charges (refer to note 29)[1]	79	155
Gains and losses from banking and trading activities (refer to note 31)	45	33
	2 114	2 300

The amount of movement in fair value that has been recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Bank	
	2012 Rm	2011 Rm
Ineffectiveness (outside range) (refer to note 31)	45	33
Ineffectiveness (inside range)	202	66

Note
[1]These balances are shown before taxation.

55. Derivatives *(continued)*

55.3 Detailed breakdown of derivatives

The Bank uses the following derivative instruments for both hedging and non-hedging purposes:

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (i.e. fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument, at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer.

	Bank					
	2012				2011	
	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	50 086	(393)	450	(843)	57 159	(516)
Currency swaps	534 508	437	4 960	(4 523)	500 798	(818)
Over-the-counter (OTC) foreign exchange options	35 237	160	401	(241)	26 844	131
OTC foreign exchange options purchased	18 820	401	401	—	15 602	617
OTC foreign exchange options written	16 417	(241)	—	(241)	11 242	(486)
Other OTC foreign exchange derivatives	247	(1)	2	(3)	—	—
Exchange-traded derivatives	97 174	1	1	—	248 545	0
Eurodollar futures	96 533	—	—	—	247 388	—
Exchange-traded options purchased	496	1	1	—	—	—
Exchange-traded options written	—	—	—	—	38	0
Exchange-traded futures	145	—	—	—	1 119	0
Embedded derivatives	—	—	—	—	40	1
Total foreign exchange derivatives	**717 252**	**204**	**5 814**	**(5 610)**	833 386	(1 202)
Interest rate derivatives						
Forward rate agreements (FRAs)	1 281 461	(131)	716	(847)	1 693 452	(111)
Currency interest rate swaps	174 075	(827)	4 134	(4 961)	158 563	(991)
Swaps	62 362	(102)	1 158	(1 260)	2 611	(7)
Interest rate swaps	1 122 885	1 729	32 067	(30 338)	1 253 696	1 857
OTC options on FRAs and swaps	109 669	(142)	455	(597)	208 010	59
OTC options on FRAs and swaps purchased	71 196	455	455	—	111 025	737
OTC options on FRAs and swaps written	38 473	(597)	—	(597)	96 985	(678)
OTC bond option contracts	—	—	—	—	2 042	(37)
OTC bond options purchased	—	—	—	—	619	28
Other bond options written	—	—	—	—	1 423	(65)
Other OTC interest rate derivatives	12 319	4	47	(43)	2 159	(15)
Exchange-traded derivatives	7 647	4	4	—	4 681	0
Exchange-traded options on FRAs and swaps purchased	7 647	4	4	—	4 681	0
Embedded derivatives	11 791	(436)	533	(969)	9 378	(151)
Total interest rate derivatives	**2 782 209**	**99**	**39 114**	**(39 015)**	3 334 592	604
Balance carried forward	**3 499 461**	**303**	**44 928**	**(44 625)**	4 167 978	(598)

	Bank					
	2012				2011	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
55. Derivatives *(continued)*						
55.3 Detailed breakdown of derivatives *(continued)*						
Trading *(continued)*						
Balance brought forward	3 499 461	303	44 928	(44 625)	4 167 978	(598)
Equity derivatives						
OTC options purchased	7 991	512	672	(160)	8 907	685
OTC options written	8 331	(544)	—	(544)	11 210	(1 948)
Equity futures	1 989	(6)	—	(6)	17 195	33
Other OTC equity derivatives	30 505	(659)	292	(951)	22 807	(873)
OTC equity derivatives	48 816	(697)	964	(1 661)	60 119	(2 103)
Exchange-traded derivatives	3 361	5	5	—	1 419	(12)
Exchange-traded options purchased	544	5	5	—	176	1
Exchange-traded options written	14	—	—	—	1 191	(13)
Exchange-traded futures	2 803	—	—	—	52	0
Embedded derivatives	1 028	(121)	—	(121)	5 898	(199)
Total equity derivatives	53 205	(813)	969	(1 782)	67 436	(2 314)
Commodity derivatives						
Agricultural forwards	361	(32)	—	(32)	332	24
OTC agricultural options	132	(9)	7	(16)	295	(8)
OTC agricultural options purchased	54	(1)	6	(7)	150	0
OTC agricultural options written	78	(8)	1	(9)	145	(8)
OTC options on gold	28	—	—	—	12	—
OTC gold options purchased	28	—	—	—	12	—
Other OTC commodity derivatives	4 768	502	596	(94)	5 767	127
OTC commodity derivatives	5 289	461	603	(142)	6 406	143
Exchange-traded agricultural derivatives	2 218	2	2	—	2 481	1
Exchange-traded agricultural futures	2 218	2	2	—	2 481	1
Embedded derivatives	296	(32)	—	(32)	—	—
Total commodity derivatives	7 803	431	605	(174)	8 887	144
Credit derivatives						
Credit derivatives purchased (swaps)	4 327	(48)	4	(52)	6 236	33
Credit derivatives written (swaps)	11 865	18	96	(78)	9 743	(519)
Embedded derivatives	11 201	43	95	(52)	10 590	25
Total credit derivatives	27 393	13	195	(182)	26 569	(461)
Total trading	3 587 862	(66)	46 697	(46 763)	4 270 870	(3 229)
Balance carried forward	3 587 862	(66)	46 697	(46 763)	4 270 870	(3 229)

	Bank					
	2012				2011	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
55. Derivatives *(continued)*						
55.3 Detailed breakdown of derivatives *(continued)*						
Balance brought forward	**3 587 862**	**(66)**	**46 697**	**(46 763)**	4 270 870	(3 229)
Hedging						
Cash flow hedges						
Interest rate swaps	**149 992**	**3 845**	**3 859**	**(14)**	148 899	3 142
Total cash flow hedges	**149 992**	**3 845**	**3 859**	**(14)**	148 899	3 142
Fair value hedges						
Currency swaps	**—**	**—**	**—**	**—**	11 071	(360)
Interest rate swaps	**137 150**	**(2 261)**	**1 580**	**(3 841)**	141 901	(939)
Total fair value hedges	**137 150**	**(2 261)**	**1 580**	**(3 841)**	152 972	(1 299)
Total hedges	**287 142**	**1 584**	**5 439**	**(3 855)**	301 871	1 843
Total derivative instruments	**3 875 004**	**1 518**	**52 136**	**(50 618)**	4 572 741	(1 386)

Derivative assets and liabilities subject to counterparty netting agreements amounted to **R43 652 million** (2011: R41 778 million). Additionally, the Bank held **R7 786 million** (2011: R3 908 million) of collateral against the net derivative asset exposure. OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association (ISDA) Master Agreement is used by the Bank. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Bank's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates on hand. The extent to which instruments are favourable or unfavourable and therefore the aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

Fair value

The amounts disclosed represent the fair value as at the reporting date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

56. Fair value hierarchy disclosures

56.1 Valuation methodology

The table below shows the Bank's financial instruments that are recognised and subsequently measured at fair value and are analysed by valuation techniques. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out in the table below:

	Bank			
	2012			
	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	36 851	—	39	36 890
Statutory liquid asset portfolio (refer to note 3)	35 047	—	—	35 047
Investment securities (refer to note 12)	1 804	—	39	1 843
Available-for-sale financial assets in fair value hedging relationship				
Statutory liquid asset portfolio (refer to note 3)	27 173	—	—	27 173
Financial assets designated at fair value through profit or loss	1 368	15 255	10 379	27 002
Statutory liquid asset portfolio (refer to note 3)	797	3	—	800
Loans and advances to banks (refer to note 4)	—	9 729	—	9 729
Other assets (refer to note 6)	—	—	16	16
Loans and advances to customers (refer to note 9)	0	5 523	6 414	11 937
Investment securities (refer to note 12)	571	0	3 949	4 520
Financial assets held for trading	25 329	60 946	952	87 227
Derivative assets (refer to note 5)	1	46 617	79	46 697
Trading assets (refer to note 5)	25 328	8 890	873	35 091
Hedging assets (refer to note 5)	—	5 439	—	5 439
Total financial assets	90 721	76 201	11 370	178 292
Financial liabilities designated at fair value through profit or loss	778	29 221	7 859	37 858
Deposits from banks (refer to note 18)	—	14 976	—	14 976
Deposits due to customers (refer to note 22)	—	10 991	7 672	18 663
Debt securities in issue (refer to note 23)	—	3 254	187	3 441
Borrowed funds (refer to note 25)	778	—	—	778
Financial liabilities held for trading	1 131	50 539	74	51 744
Derivative liabilities (refer to note 19)	5	46 684	74	46 763
Trading liabilities (refer to note 19)	1 126	—	—	1 126
Hedging liabilities (refer to note 19)	—	3 855	—	3 855
Total financial liabilities	1 909	79 760	7 933	89 602

Notes

[1]The nature of the valuation techniques is summarised in note 56.2.

[2]The nature of the valuation techniques is summarised in note 56.3.

	Bank			
	2011[1]			
	Valuations with reference to observable prices Level 1[2] Rm	Valuations based on observable inputs Level 2[2] Rm	Valuations based on un-observable inputs Level 3[3] Rm	Total Rm
56. Fair value hierarchy disclosures *(continued)*				
56.1 Valuation methodology *(continued)*				
Available-for-sale financial assets	34 341	—	104	34 445
Statutory liquid asset portfolio (refer to note 3)	33 327	—	—	33 327
Investment securities (refer to note 12)	1 014	—	104	1 118
Available-for-sale financial assets in a fair value hedging relationship				
Statutory liquid assets (refer to note 3)	23 342	—	—	23 342
Financial assets designated at fair value through profit or loss	1 844	11 345	12 917	26 106
Statutory liquid asset portfolio (refer to note 3)	801	3	—	804
Loans and advances to banks (refer to note 4)	—	7 886	—	7 886
Other assets (refer to note 6)	—	—	16	16
Loans and advances to customers (refer to note 9)	—	3 366	6 821	10 187
Investment securities (refer to note 12)	1 043	90	6 080	7 213
Financial assets held for trading	26 064	56 439	1 156	83 659
Derivative assets (refer to note 5)	34	45 231	209	45 474
Trading assets (refer to note 5)	26 030	6 909	947	33 886
Hedging assets (refer to note 6)	—	4 299	—	4 299
Total financial assets	85 591	67 784	14 177	167 552
Financial liabilities designated at fair value through profit or loss	771	29 480	7 821	38 072
Deposits from banks (refer to note 18)	—	13 414	—	13 414
Deposits due to customers (refer to note 22)	—	12 888	7 612	20 500
Debt securities in issue (refer to note 23)	—	3 178	209	3 387
Borrowed funds (refer to note 25)	771	—	—	771
Financial liabilities held for trading	529	50 976	183	51 688
Derivative liabilities (refer to note 19)	—	48 520	183	48 703
Trading liabilities (refer to note 19)	529	—	—	529
Hedging liabilities (refer to note 19)	—	2 456	—	2 456
Total financial liabilities	1 300	80 456	8 004	89 760

56.2 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.

Notes

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

[2]The nature of the valuation techniques is summarised in note 56.2.

[3]The nature of the valuation techniques is summarised in note 56.3.

56. Fair value hierarchy disclosures *(continued)*

56.2 Valuations based on observable inputs *(continued)*

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.

56.3 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.

Judgemental inputs on valuation of principal instruments

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Debt securities and treasury as well as 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.

56. Fair value hierarchy disclosures *(continued)*

56.4 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 for all movements on Level 3 financial instruments is set out below:

Bank

2012

	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 at the beginning of the reporting period	**104**	**16**	**6 821**	**6 080**	**947**
Net interest income	—	—	11	32	—
Gains and losses from banking and trading activities	—	—	741	175	68
Gains and losses from investment activities	(1)	—	—	(215)	—
Purchases	—	—	630	114	—
Sales	—	—	(869)	(2 082)	(40)
Issues	—	—	154	—	—
Settlements	—	—	(1 074)	(108)	(102)
Transferred to/(from) assets/liabilities	(64)	—	—	(47)	—
Movement in/(out) of Level 3[1]	—	—	—	—	—
Closing balance at the end of the reporting period	**39**	**16**	**6 414**	**3 949**	**873**

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 at the beginning of the reporting period	95	—	5 762	5 150	966
Net interest income	—	—	16	20	—
Gains and losses from banking and trading activities	—	—	597	215	62
Other comprehensive income	5	—	—	—	—
Purchases	—	16	1 386	583	41
Sales	—	—	(646)	(858)	—
Issues	—	—	720	(6)	—
Settlements	4	—	(972)	(464)	(122)
Transferred to/(from) assets/liabilities	—	—	—	55	—
Movement in/(out) of Level 3[1]	—	—	(42)	1 385	—
Closing balance at the end of the reporting period	104	16	6 821	6 080	947

Note

[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.

Bank

2012

Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss: Deposits due to customers Rm	Financial liabilities designated at fair value through profit or loss: Debt securities in issue Rm	Financial liabilities held for trading: Net derivatives Rm	Total financial liabilities including net derivatives Rm
13 968	7 612	209	(26)	7 795
43	—	—	—	—
984	735	7	16	758
(216)	—	—	—	—
744	—	—	(4)	(4)
(2 991)	—	—	—	—
154	920	—	(34)	886
(1 284)	(1 595)	(29)	0	(1 624)
(111)	—	—	16	16
—	—	—	27	27
11 291	7 672	187	(5)	7 854

2011

Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss: Deposits due to customers Rm	Financial liabilities designated at fair value through profit or loss: Debt securities in issue Rm	Financial liabilities held for trading: Net derivatives Rm	Total financial liabilities including net derivatives Rm
11 973	8 499	73	493	9 065
36	—	—	4	4
874	772	(14)	(94)	664
5	—	—	—	—
2 026	—	—	(43)	(43)
(1 504)	—	—	(8)	(8)
714	67	195	9	271
(1 554)	(1 071)	(1)	(388)	(1 460)
55	—	—	—	—
1 343	(655)	(44)	1	(698)
13 968	7 612	209	(26)	7 795

56. Fair value hierarchy disclosures *(continued)*

56.5 Unrealised gains and losses on Level 3 positions

The total unrealised gains and losses for the reporting period on Level 3 positions held at the reporting date are set out below:

Bank

2012

	Financial assets designated at fair value through profit or loss		Financial assets held for trading	
	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm	Total financial assets excluding derivatives Rm
Net interest income	29	7	—	36
Gains and losses from banking and trading activities	437	316	24	777
Gains and losses from investment activities	—	(215)	—	(215)
	466	108	24	598

2011

	Financial assets designated at fair value through profit or loss		Financial assets held for trading	
	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm	Total financial assets excluding derivatives Rm
Net interest income	44	—	—	44
Gains and losses from banking and trading activities	586	57	62	705
	630	57	62	749

Bank

2012

	Financial liabilities designated at fair value through profit or loss		Financial liabilities held for trading	
	Deposits due to customers Rm	**Debt securities in issue Rm**	**Net derivatives Rm**	**Total financial liabilities including net derivatives Rm**
	—	**—**	**—**	**—**
	(735)	**(0)**	**4**	**(731)**
	—	**—**	**—**	**—**
	(735)	**(0)**	**4**	**(731)**

2011

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

56. Fair value hierarchy disclosures *(continued)*

56.6 Sensitivity analysis of valuations using unobservable inputs

As part of the Bank's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

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

Bank

		2012			
		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	**i, iii, iv, v, vi, vii**	**264**	**326**	**—**	**—**
Net derivatives	**i, iii**	**150**	**136**	**—**	**—**
Private equity	**i, v, vi, vii**	**1 527**	**1 735**	**5**	**4**
Structured notes and deposits	**iv**	**181**	**181**	**—**	**—**
Trading assets	**iii, iv**	**27**	**28**	**—**	**—**
Other	**v, vi**	**2**	**2**	**—**	**—**
		2 151	**2 408**	**5**	**4**

		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	i, iii, iv, v, vi, vii	257	304	—	—
Net derivatives	i, iii	78	96	—	—
Private equity	iii, v, vi, vii	799	926	5	43
Structured notes and deposits	iv	57	57	—	—
Trading assets	i	29	27	—	—
		1 220	1 410	5	43

Note

[1]Refer to note 56.3.

56. Fair value hierarchy disclosures *(continued)*

56.6 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/(negative) variance in parameters
Credit derivatives	Credit spreads	100/(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/(100) bps
Loans and advances designated at fair value through profit or loss	Credit spreads	100/(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/(100) bps

57. Unrecognised gains/(losses) as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in the statement of comprehensive income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	Bank	
	2012 Rm	2011 Rm
Opening balance at the beginning of the reporting period	**(51)**	73
New transactions	**38**	(46)
Amounts recognised in the profit and loss component of the statement of comprehensive income during the current reporting period	**(80)**	(78)
Closing balance at the end of the reporting period	**(93)**	(51)

58. Risk management

58.1 Introduction

Financial risks are inherent within the Bank's activities and disclosures as required by IFRS 7. Responsibility for the management of these risks resides at all levels in the Bank, from the board and executive level committees down to each business unit manager and their risk specialists. The delegation of risk management responsibilities is structured to ensure risk-reward decisions are enacted at the most appropriate level in line with business objectives, subject to robust and effective review as well as challenge processes.

The principal risks policy (PRP)

The board-approved PRP sets out the scope of the risks facing the Bank and creates clear ownership and accountability for risks. The policy was updated during the current reporting period and covers the four principal risks of credit, market, operational and funding risk as well as the 22 key risks (as detailed in the table to follow).

The Chief Risk Officer (CRO) appoints a Group Principal Risk Owner (PRO) for each principal risk. Within each principal risk there are individual key risks for which the CRO appoints a Group Key Risk Owner (KRO). Group PROs are responsible for ensuring that appropriate risk control frameworks exist for each key risk and for ensuring the appropriate reporting of those risks.

Group KROs are responsible for designing, recording and communicating their risk control frameworks. They further monitor the management of the key risk exposures throughout the Bank in accordance with the framework using the five step process to identify, assess, control, report and challenge key risks. Key risks Group Exco risk committees meet on a regular basis to assess and monitor the key risks.

Principal risk	Key risks	Group Exco risk committees
Credit risk (refer to note 58.2)	➜ Retail credit risk ➜ Wholesale credit risk[1]	➜ Retail Credit Risk Committee (RCRC) ➜ Wholesale Credit Risk Management Committee (WCRMC)
Market risk (refer to note 58.3)	➜ Traded risk ➜ Interest rate risk in the banking book[2] ➜ Pension risk[2] ➜ Insurance risk	➜ Market Risk Committee (MRC)
Operational risk (refer to note 58.4)	➜ External supplier risk ➜ Financial reporting risk ➜ Fraud risk ➜ Information risk ➜ Legal risk ➜ Product risk ➜ Payment process risk ➜ People risk ➜ Premises and security risk ➜ Regulatory risk ➜ Tax risk ➜ Technology risk ➜ Transaction operations risk	➜ Operational Risk Committee (ORC) (except for tax risk, via the Tax Risk Oversight Committee (TROC))
Funding risk	➜ Liquidity risk (refer to note 58.5) ➜ Capital management (refer to note 58.6) ➜ Structural risk	➜ Africa Treasury Committee (ATC)

Notes

[1]Equity investment risk is reported under wholesale credit risk.

[2]This is reported together with foreign exchange risk and asset management structural market risk as 'non-traded market risk'.

58. Risk management *(continued)*

58.1 Introduction *(continued)*

The Bank's risk appetite

The Bank's risk appetite is defined as the level of risk the Bank is willing to accept in planning and achieving its business objectives. The Bank's risk appetite framework is embedded within key decision-making processes and supports the implementation of the Bank's strategy. The Bank uses this to maximise returns without exposing it to levels of risk above its appetite. In particular, the risk appetite framework assists in protecting the Bank's financial performance, improves management responsiveness and debate regarding the Bank's risk profile, assists executive management in improving the control and co-ordination of risk-taking across business units and identifies unused risk capacity in pursuit of profitable opportunities.

The Bank's risk appetite framework is developed using a formal quantitative method and is set by the board. Risk appetite outcomes are subjected to stress testing, (i.e. validated, by estimating the Bank's sensitivity to adverse changes in the business environment). This framework then forms the basis for setting business unit targets and risk-taking limits across the Bank.

The Bank's risk appetite can be categorised into four broad areas namely:

- earnings volatility in comparison to targets;
- capacity to absorb unexpected losses;
- capital ratio targets; and
- capacity to grow.

Stress testing

Stress testing is embedded in the risk management of the Bank and is a key focus area in strategic planning processes. Through stress testing and scenario analysis, the Bank is able to assess the performance of its portfolios under potentially adverse economic conditions.

Stress tests simulate the effects on business units' financial position across the Bank by analysing the impact on profits and the ability to maintain appropriate capital ratios and liquidity levels. Insights gained are integrated into the management process covering the medium to long term. Stress testing also forms an integral part of evaluating the Bank's risk appetite for reasonableness under specifically designed scenarios. Stress tests are regularly discussed with the regulators.

Risk appetite key indicators and triggers

The Bank aims to manage its risk profile in a proactive way. To support this, key indicators and triggers have been developed to act as early signals in the event that one of the scenarios or stress situations may materialise. The forward-looking indicators include *inter alia* economic indices directly correlated with risk measures and financials. The indicators and triggers are monitored routinely and considered by the Group Risk and Capital Management Committee (GRCMC).

58.2 Credit risk

Introduction

Credit risk is the risk of loss to the Bank arising from the failure of a customer or counterparty to fulfil its payment obligations. Credit risk arises mainly from lending and related banking activities, including underwriting, dealing in traded products such as derivative contracts, securities borrowing, and lending products. It may also arise when fair values of the Bank's exposure to financial instruments decline.

Credit risk is a core component of lending quality and impacts on the risk versus reward model. Credit risk received increased focus due to the current economic conditions and subdued growth, as well as increased regulatory requirements under Basel II.5.

Strategy

The Bank's credit risk objectives are:

- supporting the achievement of sustainable asset and revenue growth in line with the Bank's risk appetite;
- simplifying risk management processes;
- investing in skills and experience;
- operating sound credit granting processes;
- monitoring credit diligently;
- using appropriate models to assist decision-making;
- improving forecasting and reducing variability;
- continually improving collections and recovery; and
- optimising the control environment.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Governance

Credit risk is managed in terms of the Bank's credit risk control framework. This framework, which provides structures within which credit risk is managed and defines the responsibilities of stakeholders in the credit risk management process, is set by the PRO for credit risk, and is approved by the GRCMC. During the reporting period, the PRO revised the credit risk control framework. The board approves the credit risk appetite, on the recommendation of the GRCMC. The PRO also sets a credit risk limit framework within the context of the approved credit risk appetite.

All credit risks are reported to the GRCMC on a quarterly basis. The RCRC and WCRMC meet every quarter to review, approve and make recommendations relating to the credit risk profile. Regular reporting also takes place to governance and control committees to ensure appropriate management of controls and risk trends.

2012 in review

Retail credit risk

Conditions remained challenging during the course of the reporting period as signs of the expected economic recovery were less evident than at the end of the previous reporting period. Growth proved difficult and the total portfolio experienced marginal growth.

Impairment losses on loans and advances for the majority of portfolios were in line with expectations, but impairment losses on mortgage advances increased significantly during the reporting period due to the higher coverage required on the legal portfolio. A number of factors contributed to the significant increase. These included high inflows into the legal portfolio towards the end of the reporting period, which resulted in high non-performing loans (NPLs), high concentrations of vintage accounts reaching the write-off stage (particularly insolvencies, which changed the loss composition of the portfolio) and operational issues pertaining to collections, which affected portfolio performance. Deteriorating under-recovery rates on distressed property sales and high property management costs compounded the impact and resulted in an increased LGD.

In this challenging environment, the Bank acted appropriately by raising additional impairment losses on loans and advances and the current coverage is at an appropriate level.

Emphasis was placed on the workout of the legal inventory. Measures taken included new workout strategies and raised impairment losses on loans and advances to provide more appropriate coverage. The Bank optimised its secured collections strategy by focusing on improved voluntary sales strategies to ensure higher recovery rates for customers who, despite the Bank's best efforts to make payment arrangements, were unable to recover financially. After workout of the legal inventory, the portfolio stabilised and the quality of new portfolio inflows is good. This resulted in a reduction in NPL stock and flow as well as early cycle delinquencies.

Due to the materiality of impact on the mortgage loan portfolio, a review of collections was undertaken. This resulted in the optimisation of the operating model for collections. Key actions in this regard included enhancing the Bank's operational risk indicators on key LGD performance drivers, optimising key process and systems, implementing a new LDG model for Home Loans, reviewing impairment forecasting models, and enhancing end-to-end controls to incorporate lessons learnt during the reporting period.

A sustained focus on performance and responsible lending resulted in early delinquencies continuing to improve in all portfolios.

The Bank is confident that it understands the extent of the issues in the mortgage loan portfolio. The Bank has taken appropriate measures to address these. Constant attention was and will continue to be placed on portfolio performance across all products. The Bank has reviewed all affordability rules to ensure that they are appropriate in the current environment. In addition, the Bank continued to perform stress testing over its portfolio to ensure that returns are sustainable.

The Bank acquired the Edcon portfolio during the reporting period for R9,6 billion (gross receivable). The book was successfully migrated to Absa in November 2012.

Wholesale credit risk

The disappointing supply-side growth momentum observed in the second half of the previous reporting period continued into the current reporting period. Headline consumer price inflation remained stable though this was not sufficient to positively sway corporate confidence, which remained flat. Although corporate credit extension increased compared with the previous reporting period, this has largely been restricted to working capital facilities rather than asset backed finance, suggesting a lack of corporate appetite for long-term capital investment. This was confirmed by an increase in corporate savings to 7% of gross domestic product, well above the long-term average of 4%.

Internationally, European sovereign debt fears continued to affect market confidence, particularly against a backdrop of a slowing and volatile global economy. While the Bank's direct exposure to European banks is modest and largely collateralised, concerns persist regarding the impact of continued European volatility on international economic growth prospects. This combination of local and international uncertainty has manifested in volatility in local equity markets during the reporting period, which in turn has led to a marginal degrading of credit quality across sectors in the wholesale portfolio. Notwithstanding this, the performance of the Bank's wholesale book during the reporting period was reasonably steady. The value of exposures on the early warning list (EWL) remained flat and the impairment losses ratio increased to 1,17%.

The increase in impairment losses on loans and advances in Business Markets relates primarily to the CPF portfolio. The Commercial and Commercial Asset Finance portfolios also experienced higher impairment losses on loans and advances. The increase resulted due to improved rigour and revised valuation assumptions applied to accounts on the EWL rather than the degradation of the underlying risk profile of the portfolio.

Exposure on the EWL demonstrated no material change compared with the previous reporting period. However, a noticeable migration in risk categories was observed from low- to higher-risk buckets. Concomitant negative trending on the impairment losses ratio became apparent later in the reporting period.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Approach to credit modelling/internal ratings

The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Bank is exposed from the level of individual facilities up to the total portfolio. Integral to this is the calculation of internal ratings that is used in numerous aspects of credit risk management and in the calculation of regulatory capital (RC) and economic capital (EC). The key building blocks of this process are:

- probability of default (PD);
- exposure at default (EAD);
- LGD; and
- maturity.

These parameters are used in a variety of applications that measure credit risk across the entire portfolio and can be calculated to represent different aspects of the credit cycle:

- PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months.
- EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under actual conditions.

These parameters can be used in different combinations for a wide range of credit risk measurement and management. Internal ratings are used for the following purposes:

- Credit approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and certain retail Home Loans portfolios, PD models are used to direct applications to an appropriate credit sanctioning level.
- Credit grading: to provide a common measure of risk across the Bank, wholesale credit grading employs a 26 point scale of default probabilities.
- Risk-reward and pricing: PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.
- Risk appetite: measures of expected loss and the potential volatility of loss are used in the Bank's risk appetite framework.
- Impairment calculation: under IAS39, many of the collective impairment estimates incorporate the use of the Bank's PD and LGD models, adjusted as necessary.
- Collections and recoveries: model outputs are used to identify segments of the portfolio where collection and recovery efforts should be prioritised.
- EC calculations: most EC calculations use the same PD and EAD inputs as the RC process. The EC process also uses the same underlying LGD model outputs as the RC calculations, but does not incorporate the same economic downturn adjustment used in RC calculations.
- Risk management information: Group Risk and the business units generate risk reports to inform senior management on issues such as business performance, risk appetite and consumption of EC. Model outputs are used as key indicators in these reports.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Retail portfolio

Ratings assigned across each retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application, updated monthly thereafter and used in decisions concerning underwriting, 'pay/no pay' and assignment of accounts to risk grades used to calculate RC. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- Internal risk estimates of PD, EAD and LGD are grounded in historical experience, incorporating all relevant material and available data, information and methods. Both the historical observation periods and default definitions used are consistent with regulatory requirements.
- For each product, PDs are assigned at account level by calibrating the raw behavioural model scores/ratings to the observed long-run average default rate for each pool.
- For each product, EADs are assigned to each account based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.
- LGDs are estimated for each product and assigned at account level based on the LGD pool to which the account has been assigned. Calibration data on historically defaulted accounts includes observed EADs, recovery streams, cure and write-off rates. The models also make use of suitable risk drivers such as loan-to-value (LTV), which are updated monthly.

The mortgage loan PD model was recalibrated. The recalibrated model will be implemented in the first quarter of 2013. The remaining PD models have been recalibrated and are pending approval. Other models recalibrated and implemented during the current reporting period were:

- EAD models for vehicle and asset financing, credit cards, personal loans and Platinum 1; and
- LGD models for cheques and overdrafts, Platinum 1 and mortgages.

To ensure the effectiveness of the validation process, an independent review is performed annually. Models are approved by the RCRC and the most material models require approval by the Model Committee (MC).

Models are independently reviewed on an annual basis and when new models have been developed or changes occur to models. In addition, a process is in place to perform post model adjustments as needed or when management applies its discretion.

Retail Markets has, in the past two years, redeveloped its Basel models based on international best practice standards. Methodology and documentation across its retail portfolios have been standardised resulting in improved transparency in the capital allocation process. More specifically they have developed the following:

- new bespoke scorecards, incorporating international input, replaced the generic scorecards that had been in place since implementation of the Basel Accord;
- amended PD methodology based on the variable scaler approach that is used to determine TTC PD estimates; and
- amended LGD methodologies specifically for the Bank's retail secured and unsecured portfolios.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Wholesale portfolio

The rating process relies both on internally developed PD rating models and vendor provided solutions. While the rating and decision-making process in the retail portfolio is largely automated, this process in the wholesale portfolio relies on quantitative and qualitative assessments on a transactional level. Information used in the calculation of customer ratings includes:

- financial statements;
- projected cash flows;
- equity price information;
- external rating agency grades; and
- behavioural scorecards.

Internal LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process, while the EAD models aim to replicate the expected utilisation of a customer's facility should a default occur. Following approval by the SARB, an EAD and LGD model for the wholesale portfolio has been implemented with effect from 1 January 2012.

PD measures based on behavioural scores and equity prices are updated monthly for credit risk management and capital calculation purposes. Other PD models that rely on more static information are updated at least quarterly in a conventional environment or as and when extraordinary circumstances warrant a review of a customer's credit standing.

To ensure the effectiveness of the validation process, an independent review is performed annually. Models are approved at the WCRMC, and the most material models require approval by the MC.

Models are independently reviewed on an annual basis and when new models have been developed or changes to models occur. In addition, a process is in place to perform post model adjustments as needed or when management applies its discretion.

Assessment of credit risk

The assessment of credit risk relies heavily on quantitative models and tools which, to a large degree, have been developed internally and are supplemented by vendor solutions. The following sections provide an overview of the aforesaid concepts and their use in the assessment of credit risk across the Bank's portfolios.

Probability of default

PD measures the likelihood of a customer defaulting on its obligations within the next 12 months and is a primary component of the internal risk rating calculated for all customers. The Bank uses two types of PDs, namely:

- TTC PD, which reflects the Bank's assessment of the borrower's long-run average propensity to default in the next year; and
- PIT PD, which reflects current economic, industry and borrower circumstances.

Both types of PDs are used extensively in the Bank's decision-making processes and several types of rating approaches are employed across the Bank.

For communication and comparison purposes, the Bank maps its 21 default grades (DG), which is the Bank's internal master rating scale, to the SARB 26 grade PD scale, used for regulatory reporting purposes.

The Bank's DG grading represents a TTC view of the distribution of the book at a specific point-in-time.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Maximum exposure to credit risk

For financial assets recognised in the statement of financial position, the exposure to credit risk equals the carrying amount.

For the purposes of the Bank's disclosures regarding credit quality, the maximum exposure to credit risk of financial assets at the reporting date has been analysed as follows:

	Bank				
	2012				
		Neither past due nor impaired			
	Maximum exposure Rm	DG1-11 Rm	DG12-19 Rm	DG20-21 Rm	Total Rm
Balances with the SARB	12 338	12 338	—	—	12 338
Money market assets	3	—	—	3	3
Cash, cash balances and balances with central banks (refer to note 2)	12 341	12 338	—	3	12 341
RSA government bonds	51 853	51 853	—	—	51 853
Reverse repurchase agreements	3	3	—	—	3
Treasury bills	11 164	11 164	—	—	11 164
Statutory liquid asset portfolio (refer to note 3)	63 020	63 020	—	—	63 020
Collateralised loans	1 274	1 274	—	—	1 274
Other	31 997	28 513	3 484	—	31 997
Reverse repurchase agreements	9 134	9 134	—	—	9 134
Loans and advances to banks (refer to note 4)	42 405	38 921	3 484	—	42 405
Debt instruments	24 614	24 282	332	—	24 614
Derivative assets	46 697	45 031	1 665	1	46 697
Money market assets	9 974	8 354	1 620	—	9 974
Trading portfolio assets (refer to note 5)	81 285	77 667	3 617	1	81 285
Derivatives designated as cash flow hedging instruments	3 859	3 825	34	—	3 859
Derivatives designated as fair value hedging instruments	1 580	1 575	5	—	1 580
Hedging portfolio assets (refer to note 5)	5 439	5 400	39	—	5 439
Accounts receivable	6 524	5 724	65	—	5 789
Settlement accounts	3 593	3 292	300	—	3 592
Other assets (refer to note 6)	10 117	9 016	365	—	9 381
Retail Markets	315 773	84 643	194 817	5 983	285 443
Cheque accounts	1 875	364	1 453	4	1 821
Credit cards[1]	25 760	3 408	20 417	785	24 610
Instalment credit agreements	41 343	5 426	32 232	947	38 605
Loans to associates and joint ventures	6 634	932	5 539	163	6 634
Microloans	1 551	146	888	203	1 237
Mortgages	226 258	72 071	126 278	2 733	201 082
Other advances	4	4	—	—	4
Personal and term loans	12 348	2 292	8 010	1 148	11 450
Business Markets	87 132	31 273	47 758	1 589	80 620
Cheque accounts	16 411	6 795	8 256	269	15 320
Commercial asset finance	17 922	5 780	11 548	206	17 534
Commercial property finance	38 153	12 336	21 194	1 009	34 539
Term loans	14 646	6 362	6 760	105	13 227
CIBW	107 898	75 675	30 777	1 119	107 571
Other and intergroup eliminations	376	450	51	—	501
Loans and advances to customers (refer to note 9)	511 179	192 041	273 403	8 691	474 135
Loans to Group companies (refer to note 11)	10 777	10 777	—	—	10 777
Debt instruments	3 146	2 622	524	—	3 146
Investment securities (refer to note 12)	3 146	2 622	524	—	3 146
Total assets subject to credit risk	739 709	411 802	281 432	8 695	701 929
Assets not subject to credit risk	24 782				
Total assets per the statement of financial position	764 491				

Note

[1]The newly acquired Edcon portfolio is included in the DG 12 – 19 neither past due nor impaired bucket.

Bank										
2012										
Past due not impaired						Impaired				
Past due up to 1 month Rm	Past due 1-2 months Rm	Past due 2-3 months Rm	Past due 3-4 months Rm	Past due older than 4 months Rm	Total Rm	Original carrying amount Rm	Identified individual impairment Rm	Identified collective impairment Rm	Total Rm	Unidentified impairment Rm
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
258	—	—	—	—	258	497	(20)	—	477	—
—	—	—	—	—	—	1	—	—	1	—
258	—	—	—	—	258	498	(20)	—	478	—
—	—	—	—	—	—	39 634	—	(8 707)	30 927	(597)
—	—	—	—	—	—	143	—	(85)	58	(4)
—	—	—	—	—	—	2 210	—	(962)	1 248	(98)
—	—	—	—	—	—	3 717	—	(893)	2 824	(86)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	609	—	(277)	332	(18)
—	—	—	—	—	—	31 338	—	(5 778)	25 560	(384)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	1 617	—	(712)	905	(7)
941	219	267	168	513	2 108	7 323	(2 743)	—	4 580	(176)
94	37	23	57	133	344	1 179	(385)	—	794	(47)
33	5	1	2	—	41	908	(524)	—	384	(37)
588	134	213	62	199	1 196	3 987	(1 510)	—	2 477	(59)
226	43	30	47	181	527	1 249	(324)	—	925	(33)
—	—	—	—	14	14	963	(514)	—	449	(136)
—	—	—	—	—	—	—	(125)	—	(125)	—
941	219	267	168	527	2 122	47 920	(3 382)	(8 707)	35 831	(909)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
1 199	219	267	168	527	2 380	48 418	(3 402)	(8 707)	36 309	(909)

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Maximum exposure to credit risk *(continued)*

	Bank 2011[1]				
		Neither past due nor impaired			
	Maximum exposure Rm	DG1-11 Rm	DG12-19 Rm	DG20-21 Rm	Total Rm
Balances with the SARB	12 279	12 279	—	—	12 279
Cash, cash balances and balances with central banks (refer to note 2)	12 279	12 279	—	—	12 279
RSA government bonds	44 222	44 222	—	—	44 222
Reverse repurchase agreements	3	3	—	—	3
SARB debentures	200	200	—	—	200
Treasury bills	13 048	13 048	—	—	13 048
Statutory liquid asset portfolio (refer to note 3)	57 473	57 473	—	—	57 473
Collateralised loans	3 478	3 478	—	—	3 478
Other	45 653	45 641	12	—	45 653
Reverse repurchase agreements	6 739	6 739	—	—	6 739
Loans and advances to banks (refer to note 4)	55 870	55 858	12	—	55 870
Debt instruments	27 114	26 058	1 056	—	27 114
Derivative assets	45 474	44 266	1 201	7	45 474
Money market assets	6 741	6 741	—	—	6 741
Trading portfolio assets (refer to note 5)	79 329	77 065	2 257	7	79 329
Derivatives designated as cash flow hedging instruments	3 168	2 772	396	—	3 168
Derivatives designated as fair value hedging instruments	1 131	1 059	72	—	1 131
Hedging portfolio assets (refer to note 5)	4 299	3 831	468	—	4 299
Accounts receivable	4 040	3 549	111	31	3 691
Settlement accounts	5 478	5 477	1	—	5 478
Other assets (refer to note 6)	9 518	9 026	112	31	9 169
Retail Markets	306 263	84 496	177 944	5 648	268 088
Cheque accounts	2 261	495	1 702	2	2 199
Credit cards	14 733	3 283	9 654	624	13 561
Instalment credit agreements	37 542	5 238	27 972	956	34 166
Loans to associates and joint ventures	4 836	742	3 959	135	4 836
Microloans	1 368	163	830	184	1 177
Mortgages	233 026	72 269	125 804	2 623	200 696
Other advances	4	4	—	—	4
Personal and term loans	12 493	2 302	8 023	1 124	11 449
Business Markets	89 858	28 126	52 387	3 275	83 788
Cheque accounts	12 475	3 233	8 130	355	11 718
Commercial asset finance	17 975	4 469	12 169	1 092	17 730
Commercial property finance	41 827	13 841	22 471	1 253	37 565
Term loans	17 581	6 583	9 617	575	16 775
CIBW[1]	91 871	58 827	31 890	874	91 591
Other and intergroup eliminations	341	341	—	—	341
Loans and advances to customers (refer to note 9)	488 333	171 790	262 221	9 797	443 808
Loans to Group companies (refer to note 11)	7 164	7 164	—	—	7 164
Debt instruments	2 866	1 947	919	—	2 866
Investment securities (refer to note 12)	2 866	1 947	919	—	2 866
Total assets subject to credit risk	717 131	396 433	265 989	9 835	672 257
Assets not subject to credit risk	25 306				
Total assets per the statement of financial position	742 436				

Note

[1]Comparatives have been reclassified, refer to note 1.27 of the Bank financial statements.

Bank 2011[1]										
Past due not impaired						Impaired				
Past due up to 1 month Rm	Past due 1-2 months Rm	Past due 2-3 months Rm	Past due 3-4 months Rm	Past due older than 4 months Rm	Total Rm	Original carrying amount Rm	Identified individual impairment Rm	Identified collective impairment Rm	Total Rm	Unidentified impairment Rm
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
1	—	—	1	4	6	364	(21)	—	343	—
—	—	—	—	—	—	—	—	—	—	—
1	—	—	1	4	6	364	(21)	—	343	—
—	—	—	—	—	—	46 557	—	(7 973)	38 584	(409)
—	—	—	—	—	—	186	—	(119)	67	(5)
—	—	—	—	—	—	2 302	—	(1 113)	1 189	(17)
—	—	—	—	—	—	4 776	—	(1 340)	3 436	(60)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	513	—	(298)	215	(24)
—	—	—	—	—	—	37 042	—	(4 411)	32 631	(301)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	1 738	—	(692)	1 046	(2)
1 340	246	283	142	386	2 397	5 986	(2 077)	—	3 909	(236)
51	41	39	13	125	269	883	(357)	—	526	(38)
69	6	6	11	—	92	916	(706)	—	210	(57)
1 094	172	222	68	204	1 760	3 420	(823)	—	2 597	(95)
126	27	16	50	57	276	767	(191)	—	576	(46)
—	—	—	—	20	20	828	(442)	—	386	(126)
—	—	—	—	—	—	125	(125)	—	—	—
1 340	246	283	142	406	2 417	53 496	(2 644)	(7 973)	42 879	(771)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—		—	—
—	—	—	—	—	—	—	—		—	—
1 341	246	283	143	410	2 423	53 860	(2 665)	(7 973)	43 222	(771)

Note
[1]Comparatives have been reclassified, refer to note 1.27 of the Bank's financial statements.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Maximum exposure to credit risk *(continued)*

For financial guarantees, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

Credit exposures relating to off-statement of financial position items

	Bank	
	2012 **Rm**	2011 Rm
Financial guarantee contracts (refer to note 46)	**176**	356
Guarantees (refer to note 48)	**15 540**	12 509
Irrevocable debt facilities (refer to note 48)	**46 191**	45 637
Letters of credit (refer to note 48)	**5 894**	4 560
Other contingencies (refer to note 48)	**5**	10
	67 806	63 072

Financial instruments designated at fair value through profit or loss

The following table represents financial instruments designated at fair value through profit or loss at the reporting date before taking into account collateral held or other credit enhancements.

	Bank	
	2012 **Rm**	2011 Rm
Assets		
Statutory liquid asset portfolio (refer to note 3)	**800**	804
Loans and advances to banks (refer to note 4)	**9 729**	7 886
Other assets (refer to note 6)	**16**	16
Loans and advances to customers (refer to note 9, 10)	**11 937**	10 187
Investment securities (refer to note 12)	**1 438**	1 950
	23 920	20 843
Liabilities		
Deposits from banks (refer to note18)	**14 976**	13 414
Deposits due to customers (refer to note 22)	**18 663**	20 500
Debt securities in issue (refer to note 23)	**3 441**	3 387
Borrowed funds (refer to note 25)	**778**	771
	37 858	38 072

The Bank did not use credit derivatives as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss during the current reporting period.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Financial instruments designated at fair value through profit or loss

The following table represents the carrying value of financial liabilities designated at fair value through profit or loss and the amount that the Bank is contractually required to pay to the holder of the obligation at maturity.

Contractual obligation at maturity of financial liabilities designated at fair value through profit or loss

	Bank			
	2012		2011	
	Carrying value Rm	**Contractual obligation Rm**	Carrying value Rm	Contractual obligation Rm
Liabilities				
Deposits from banks (refer to note 18)	**14 976**	**11 205**	13 414	9 470
Deposits due to customers (refer to note 22)	**18 663**	**25 143**	20 500	23 066
Debt securities in issue (refer to note 23)	**3 441**	**3 614**	3 387	3 758
Borrowed funds (refer to note 25)	**778**	**768**	771	772
	37 858	**40 730**	38 072	37 066

Decrease in fair value attributable to changes in credit risk during the reporting period

	Bank	
	2012 Rm	2011 Rm
Assets		
Loans and advances to customers	**1**	—
Liabilities		
Deposits from banks	**21**	—

Cumulative increase in fair value attributable to changes in credit risk

	Bank	
	2012 Rm	2011 Rm
Assets		
Loans and advances to customers	**5**	4
Liabilities		
Deposits from banks	**33**	12

The following approaches are used in determining changes in fair value due to changes in credit risk for loans and advances designated at fair value through profit or loss:

- Internal risk grading approach: the cumulative change in fair value due to changes in credit risk is calculated by assigning each customer an internal risk grading based on the customer's PD. The risk grading determines the credit spread incorporated in the valuation curve. Changes in the risk grading will result in a change in fair value of the loan due to changes in credit risk. The change in fair value is calculated by removing the trading margin from the fixed rate instruments to determine the split between interest and credit movement.
- Constant credit spread approach: the cumulative changes in fair value due to changes in credit risk are calculated by assigning each customer a credit spread based on the contractual credit spread of the loan at the time of origination. The assigned credit spread is incorporated in the valuation curve. Changes are made to the credit spread used only if a change in credit spread for the counterparty is observed externally.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements

IFRS disclosures in terms of credit mitigation

The financial effect and forms of collateral and credit enhancements for each class of financial instrument giving rise to credit risk are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset balance is described further in note 1.7.7 of the Bank's financial statements.

The Bank offsets asset and liability amounts in the statement of financial position when it has the ability and intention to net settle. Amounts disclosed in the maximum category are stated net of these.

The percentage collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying value of the related credit exposure where a loan is possibly over-collateralised, and dividing this value by the maximum exposure, as reported. The percentage reported is calculated independently of other forms of collateral and the assessment of impairment losses on loans and advances.

The Bank may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies from period to period depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount (fair value or nominal value) of this collateral and the value of this collateral is not reported.

Guarantees, credit insurance and credit derivatives

The Bank in some cases holds guarantees and/or letters of credit from third parties that enables it to claim a settlement from them. This form of enhancement is typically held for lending to groups of companies but may be obtained in other limited circumstances for other forms of lending.

The Bank makes use of credit default swaps and credit insurance to manage its overall credit risk with major counterparties. These enable the Bank to claim in the event of a deterioration in the credit quality of borrowers and counterparties.

Notional value of the guarantees held by the Bank, as issued by corporate and financial institutional counterparties, are disclosed in this report. In addition, the Bank takes guarantees from personal customers in respect of personal loans and smaller business loans. These are not quantified in the aforesaid table.

Physical collateral

The Bank has the ability to call on collateral in the event of default of the borrower or other counterparty. This collateral takes a number of forms:

- mortgages: a fixed charge over domestic property in the form of houses, flats and other dwellings;
- wholesale and corporate lending: a fixed charge over commercial property in various forms;
- reverse repurchase agreements and securities borrowing transactions: typically the highly liquid securities that have been legally transferred to the Bank subject to an agreement to return them for a fixed price;
- finance lease receivables: typically the Bank retains legal ownership of the leased asset and has the right to repossess the asset on the default of the borrower; and
- for finance lease receivables, the collateral value is dependent on the state of the vehicle at inception of the lease. For new vehicles, the collateral value is the cost of the new vehicle, while for used vehicles it is the retail value.

Where the required thresholds for property sales are not achieved, the Bank has a property buy-in strategy. There is a clearly defined policy around collateral not easily convertible to cash and strategies are designed to achieve specific benchmark recovery rates on the portfolio. The Bank has been reducing the stock of its repossessed properties portfolio over the current reporting period with differentiated strategies to manage the inflows and back-book. Although the main objective is to break even in the portfolio, sales have exceeded sales targets against valuations and buy-in amounts. This is due to an optimised strategy and business processes.

It must further be noted that 78% of the current inventory is sold pending registration, which means that the current inventory available for sale is less than R100 million. New inflows have stabilised to around R15 million per month.

Cash collateral

The Bank may hold cash as security against loans granted, or for derivative trades entered into with certain counterparties. This collateral type includes deposits from customers and ring-fenced bank accounts.

Other

This includes master netting agreements and when derivatives are capable of being net settled, reducing the Bank's exposure to counterparties on derivative asset positions. The reduction in risk is the amount of the liability held.

This category includes any put options from holding companies or cession of loan accounts.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

Collateral held against maximum exposure

	Bank					
	2012					
	Maximum exposure Rm	Guarantees, credit insurance and credit derivatives %	Physical collateral %	Cash collateral %	Other %	Unsecured %
Balances with the SARB	12 338	—	—	—	—	100
Money market assets	3					100
Cash, cash balances and balances with central banks (refer to note 2)	**12 341**					
RSA government bonds	51 853	—	—	—	—	100
Reverse repurchase agreements	3	—	—	—	—	100
Treasury bills	11 164	—	—	—	—	100
Statutory liquid asset portfolio (refer to note 3)	**63 020**					
Collateralised loans	1 274	—	—	—	—	100
Other	31 997	—	—	—	7	93
Reverse repurchase agreements	9 134	—	—	—	71	29
Loans and advances to banks (refer to note 4)	**42 405**					
Debt instruments	24 614	—	—	—	1	99
Derivative assets	46 697	—	—	7	84	9
Money market assets	9 974	—	—	—	—	100
Trading portfolio assets (refer to note 5)	**81 285**					
Derivatives designated as cash flow hedging instruments	3 859	—	—	—	—	100
Derivatives designated as fair value hedging instruments	1 580	—	—	—	—	100
Hedging portfolio assets (refer to note 5)	**5 439**	—	—	—	—	—
Accounts receivable	6 524	—	—	—	—	100
Settlement accounts	3 593	—	—	—	—	100
Other assets (refer to note 6)	**10 117**					
Retail Markets	315 773					
Cheque accounts	1 875	—	—	—	—	100
Credit cards	25 760	—	—	—	—	100
Instalment credit agreements	41 343	—	92	—	—	8
Loans to associates and joint ventures	6 634	—	—	—	—	100
Microloans	1 551	—	—	—	—	100
Mortgages	226 258	—	90	—	—	10
Other advances	4	—	—	—	—	100
Personal loans	12 348	—	—	—	—	100
Business Markets	87 132					
Cheque accounts	16 411	1	49	9	—	41
Commercial asset finance	17 922	—	72	—	—	28
Commercial property finance	38 153	—	94	—	—	6
Term loans	14 646	—	49	2	—	49
CIBW	107 898	2	16	1	—	81
Other and intergroup eliminations	376	—	—	—	—	100
Loans and advances to customers (refer to note 9, 10)	**511 179**					
Loans to Absa Group companies (refer to note 11)	**10 777**	—	—	—	—	100
Debt instruments	3 146	—	—	—	—	100
Investment securities (refer to note 12)	**3 146**					
Total	**739 709**					

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

Collateral held against maximum exposure (continued)

	Bank 2011[1]					
	Maximum exposure Rm	Guarantees, credit insurance and credit derivatives %	Physical collateral %	Cash collateral %	Other %	Unsecured %
Balances with the SARB	12 279	—	—	—	—	100
Cash, cash balances and balances with central banks (refer to note 2)	12 279					
RSA government bonds	44 222	—	—	—	—	100
Reverse repurchase agreements	3	—	—	—	—	100
SARB debentures	200	—	—	—	—	100
Treasury bills	13 048	—	—	—	—	100
Statutory liquid asset portfolio (refer to note 3)	57 473					
Collateralised loans	3 478	—	—	—	—	100
Other	45 653	—	—	—	7	93
Reverse repurchase agreements	6 739	—	—	—	57	43
Loans and advances to banks (refer to note 4)	55 870					
Debt instruments	27 114	—	—	—	—	100
Derivative assets	45 474	1	—	9	90	—
Money market assets	6 741	—	—	—	—	100
Trading portfolio assets (refer to note 5)	79 329					
Derivatives designated as cash flow hedging instruments	3 168	—	—	—	—	100
Derivatives designated as fair value hedging instruments	1 131	—	—	—	—	100
Hedging portfolio assets (refer to note 5)	4 299					
Accounts receivable	4 040	—	—	—	—	100
Settlement accounts	5 478	—	—	—	—	100
Other assets (refer to note 6)	9 518					
Retail Markets	306 263					
Cheque accounts	2 261	—	—	—	—	100
Credit cards	14 733	—	—	—	—	100
Instalment credit agreements	37 542	—	84	—	—	16
Loans to associates and joint ventures	4 836	—	—	—	—	100
Microloans	1 368	—	—	—	—	100
Mortgages	233 026	—	88	—	—	12
Other advances	4	—	—	—	—	100
Personal loans	12 493	—	—	—	—	100
Business Markets	89 858					
Cheque accounts	12 475	2	62	12	—	24
Commercial asset finance	17 975	—	69	—	—	31
Commercial property finance	41 827	—	100	—	—	—
Term loans	17 581	—	42	2	—	56
CIBW	91 871	5	8	10	—	77
Other and intergroup eliminations	341	—	40	—	—	60
Loans and advances to customers (refer to note 9, 10)	488 333					
Loans to Absa Group companies (refer to note 11)	7 164	—	—	—	—	100
Debt instruments	2 866	—	—	—	—	100
Investment securities (refer to note 12)	2 866					
Total	717 131					

Note

[1]Comparatives have been reclassified, refer to note 1.27 of the Bank's financial statements. In certain instances the underlying collateral data was recalibrated.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

Enforcement of collateral

The following table represents the carrying value of assets held by the Bank at the reporting date as a result of the enforcement of collateral:

	Bank	
Residential properties	**2012 Rm**	2011 Rm
Balance at the beginning of the reporting period	**731**	449
Acquisitions	**143**	617
Disposals	**(532)**	(335)
Balance at the end of the reporting period	**342**	731

Impairments: relevant accounting impairment policy versus expected loss regulatory policy

IFRS govern reporting practices of banks and, in part, overlap with the requirements of regulation 43 of the Banks Act (commonly known as Pillar 3). IFRS 7 prescribes disclosure requirements pertaining to financial instruments for accounting purposes and, as such, is based on a similar set of data used for Pillar 3 reporting purposes. Regulation 43 requires banks to disclose certain accounting definitions and information, in particular, with respect to impairments, past due loans and advances and charge-offs. The Bank regularly reconciles the data used for both financial (IFRS) and regulatory (Pillar 3) disclosures.

Impairment methods of assessment and use of allowance accounts

The Bank establishes, through charges against profit, an impairment allowance for the incurred loss inherent in the lending book. Under IFRS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition of the asset, and where these events had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. To determine if a loss event has occurred, historical economic information similar to the current economic climate, overall customer risk profile, payment record and the realisable value of any collateral, are taken into consideration.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank, which 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 and/or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider, such as restructuring;
- it becomes probable that the borrower will enter insolvency or other financial reorganisation proceedings;
- the disappearance of an active market for a financial asset, as a result of financial difficulties;
- observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets following the initial recognition of those assets, although the decrease cannot yet be identified with 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.

Impairments in respect of assets that are individually significant or have been flagged as being in default are measured individually. Where a portfolio comprises homogeneous assets and appropriate statistical techniques are available, it is measured collectively. The amount of loss is measured as the difference between the asset 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. Two key aspects in the cash flow calculation are the valuation of all security and the timing of all asset realisations, after allowing for all collection and recovery costs.

For the purpose of a collective evaluation of impairment, financial assets are allocated to groups, based on similar risk characteristics, asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for such groups of assets, being indicative of the counterparty's ability to pay amounts due under the contractual terms of the assets.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Impairments: relevant accounting impairment policy versus expected loss regulatory policy *(continued)*

Impairment methods of assessment and use of allowance accounts *(continued)*

Unidentified impairment allowances are raised when observable data indicates a measurable decrease in the estimated future cash flows from a group of financial assets since their original recognition, even though the decrease cannot yet be linked to individual assets in the group. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition that has already occurred, but will only be identifiable at a borrower level at a future date.

An 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 (unidentified impairment) and the impairment being identified at an individual account level (identified impairment). The emergence periods, based on actual experience, vary across businesses and are reviewed annually. The PD for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This PD is then applied to all exposures in respect of which no identified impairments have been recognised. Where total expected loss (EL) of all credit risk assets exceeds total impairments, the difference is deducted from eligible capital. In the instance that total impairments exceed total EL, the difference is added to eligible capital, subject to a maximum of 0,6% of total risk-weighted assets (RWA).

The impairment allowance also takes into account the expected severity of loss at default, or the LGD, which is the amount outstanding that is written off and is therefore not recoverable.

Recovery varies by product and depends, for example, on the level of security held in relation to each loan as well as the Bank's position relative to other claimants. LGD estimates are based on historical loss experience. Historical loss experience data is adjusted to add current economic conditions into the data set, which conditions did not exist at the time of loss experience and/or to remove the effects of conditions in the historical period that do not currently exist.

The replacement of IAS 39 with IFRS 9 will have a significant impact on banks' financial statements, the biggest impact being the calculation of impairments. IFRS 9 will replace the current incurred loss model with the requirement to calculate expected losses. Final agreement has not been reached on the exact approach to be followed and another exposure draft is expected within the next few months. It is expected that the new rules will be mandatory from January 2015, with comparative numbers for 2014 to be published at the same time.

Identified impairments on financial assets

According to the Bank's credit policy, the following are key indicators of default:

- the borrower is unlikely to pay its credit obligation in full, without recourse by the Bank to actions such as realising security held; and/or
- the borrower is overdue.

A retail identified impairment is triggered when a contractual payment is missed. The impairment calculation is based on a roll-rate approach, where the percentage of assets moving from the initial delinquency state to default is derived from statistical probabilities, based on experience. The PD is calculated within a certain outcome period. The outcome period is defined as the timeframe within which assets default. Recovery amounts and contractual interest rates are calculated using a weighted average for the relevant portfolio.

Future cash flows for a group of financial assets, which are collectively evaluated for impairment purposes, are estimated based on the contractual cash flows of the assets in the group and the historical loss experienced for assets with similar credit risk characteristics to those in the group.

In the retail portfolio, the identified impairment is calculated on a collective basis. For accounting purposes, these accounts are considered to be identified collective impairments.

In the wholesale portfolio, the identified impairment is calculated on accounts reflected on management EWLs (category 3), and accounts currently going through the legal process. An identified impairment is raised on an individual basis and is the difference between the outstanding capital and the present value of future cashflows.

Write-offs

Once an advance has been identified as impaired and an impairment allowance has been raised, circumstances may change and indicate that the prospect of further recovery does not exist. Write-offs will occur when, and to the extent that, the debt is considered irrecoverable.

A write-off policy, based on an age-driven concept, drives the timing and extent of write-offs. A write-off can also be triggered by a specific event, such as the conclusion of insolvency proceedings or other formal recovery actions making it possible to quantify the extent of the advance that is beyond a realistic prospect of recovery. Nonetheless, impaired loans and advances are reviewed at least quarterly, ensuring that irrecoverable loans and advances are written off in a timely and systematic way and in compliance with local regulations.

Assets are only written off once all necessary procedures have been completed and the amount of loss has been determined. Recoveries of amounts previously written off are reversed and accordingly decrease the amount of the reported impairment charge in the statement of comprehensive income.

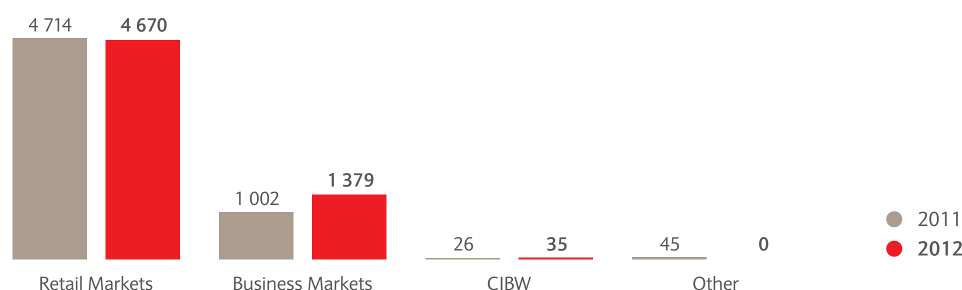
58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Impairments: relevant accounting impairment policy versus expected loss regulatory policy *(continued)*

Write-offs *(continued)*

Write-offs per cluster (amounts written off) (Rm)



Net present value unwind on the non-performing book

The impairment allowance contains a net present value adjustment that represents the time value of money of expected cash flows. Such time value of money reduces as the point of cash flow is approached. The time-based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets.

Reconciliation of total impairment losses on loans and advances to customers (identified and unidentified)

	Bank						
	2012						
	Opening balance Rm	Net present value unwind on non-performing book Rm	Exchange differences Rm	Amounts written off Rm	Identified impairments raised Rm	Unidentified impairments raised/ (released) Rm	Closing balance Rm
Retail Markets	8 382	(932)	—	(4 670)	6 334	190	9 304
Business Markets	2 313	(83)	—	(1 379)	2 119	(53)	2 917
CIBW	568	(5)	3	(35)	107	14	652
Other	125	—	—	—	—	—	125
	11 388	(1 020)	3	(6 084)	8 560	151	12 998

	Bank						
	2011						
	Opening balance Rm	Net present value unwind on non-performing book Rm	Exchange differences Rm	Amounts written off Rm	Identified impairments raised Rm	Unidentified impairments raised/ (released) Rm	Closing balance Rm
Retail Markets	9 838	(1 046)	—	(4 714)	4 300	4	8 382
Business Markets[1]	2 515	(125)	—	(1 002)	1 041	(116)	2 313
CIBW[1]	471	(5)	1	(26)	131	(4)	568
Other	—	—	—	(45)	170	—	125
	12 824	(1 176)	1	(5 787)	5 642	(116)	11 388

Note

[1]Comparatives have been reclassified to align with segment changes in the current reporting period, refer to note 59.1 of the Bank financial statements.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Concentrations of credit risk

IFRS disclosures in terms of credit concentration

Geographical concentration of risk

	Bank				
	2012				
	Asia, Americas and Australia Rm	Europe[1] Rm	Rest of Africa Rm	South Africa Rm	Total Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	3	—	—	12 338	12 341
Statutory liquid asset portfolio	—	—	—	63 020	63 020
Loans and advances to banks	3 459	23 021	226	15 699	42 405
Trading portfolio assets	637	25 800	694	54 154	81 285
Hedging portfolio assets	147	2 752	—	2 540	5 439
Other assets	11	2 289	9	7 808	10 117
Loans and advances to customers	641	3 783	3 119	503 636	511 179
Loans to Group companies	—	—	—	10 777	10 777
Investment securities	—	—	—	3 146	3 146
Subject to credit risk	4 898	57 645	4 048	673 118	739 709
Off-statement of financial position exposures					
Financial guarantee contracts	—	37	—	139	176
Guarantees	425	—	295	14 820	15 540
Irrevocable debt facilities	—	3 761	21	42 409	46 191
Letters of credit	—	—	85	5 809	5 894
Other contingencies	—	—	—	5	5
Subject to credit risk	425	3 798	401	63 182	67 806

	2011[2]				
	Asia, Americas and Australia Rm	Europe[1] Rm	Rest of Africa Rm	South Africa Rm	Total Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	—	—	9	12 270	12 279
Statutory liquid asset portfolio	—	—	22	57 451	57 473
Loans and advances to banks	1 629	48 249	168	5 824	55 870
Trading portfolio assets	3 095	21 980	274	53 980	79 329
Hedging portfolio assets	75	2 152	—	2 072	4 299
Other assets	1	614	8	8 896	9 519
Loans and advances to customers	675	1 808	2 930	482 919	488 332
Loans to Group companies	—	—	—	7 164	7 164
Investment securities	—	—	—	2 866	2 866
Subject to credit risk	5 475	74 803	3 411	633 442	717 131
Off-statement of financial position exposures					
Financial guarantee contracts	—	46	231	79	356
Guarantees	—	—	301	12 208	12 509
Irrevocable debt facilities	545	2 024	399	42 669	45 637
Letters of credit	—	—	—	4 560	4 560
Other contingencies	—	—	—	10	10
Subject to credit risk	545	2 070	931	59 526	63 072

Notes

[1]The majority of exposures for Europe relate to Barclays Bank PLC.

[2]Comparatives have been reclassified, refer to note 1.27 of the Bank financial statements.

58. Risk management *(continued)*

58.2 Equity investment risk[1]

Introduction

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer term investments held in the banking book for non-trading purposes.

Strategy

The Bank's equity investment risk objective is to balance the portfolio composition in line with its risk appetite, with selective exits as appropriate.

Approach

The Bank's governance of equity investments is based on the following key fundamental principles:

- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Bank's equity investments are held in CIBW and Business Markets.

The CPF equities portfolio decreased during the current reporting period due to fair value revaluations and planned sell-downs in line with the Bank's equity investment strategy.

Relevant accounting policies

IAS 39 requires all equity investments to be fair valued. Accounting policies relating to subsidiaries and investments in associates and joint ventures are discussed separately in note 1.3.1 and 1.3.2 of the Bank's financial statements.

The fair value of equity investments is determined using appropriate valuation methodologies which, depending on the nature of the investment, include discounted cash flow analyses, enterprise value comparisons with similar companies and price-earnings comparisons.

Listed and unlisted investments are either designated at fair value through profit or loss or as available-for-sale. Investments in entities that form part of the venture capital and similar activities of the Bank have been designated at fair value through profit or loss. The designation has been made in accordance with IAS 39, based on the scope exclusion that is provided in IAS 28 and IAS 31. The relevant accounting policies for equity investments are discussed in note 1.7 of the Bank's financial statements.

Risk measurement

Equity investment risk is monitored monthly in terms of regulatory capital (RC) and economic capital (RC) requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is undertaken in accordance with a risk appetite, mandate and scale limits framework.

The Bank has adopted the market-based simple risk weight approach to calculate RWA and RC for equity risk in the banking book. According to this approach, RWA are calculated using weightings of 300% and 400% for listed and unlisted equity investments respectively. Amended Basel regulations, effective January 2012, prescribe a scaling factor of 1,06. Consequently, RWA are calculated using weightings of 318% and 424% for listed and unlisted equity investments respectively. RC requirements in respect of investments in associates and joint ventures, defined as financial companies in the regulations relating to banks, are calculated with reference to either the pro rata consolidation methodology or the deduction approach.

EC for equity investment risk in the banking book is based on investment type and portfolio risk modelling and varies from 35,2% to 100%.

58. Risk management *(continued)*

58.2 Equity investment risk *(continued)*

Analysis of equity investment risk in the banking book

Equity sensitivity analysis – impact on pre-tax profit and loss and equity after the effect of hedges

	Bank									
	2012					2011				
	Impact of a 5% reduction in fair value			Impact of a 5% increase in fair value		Impact of a 5% reduction in fair value			Impact of a 5% increase in fair value	
	Profit and loss Rm	Equity Rm	Fair value Rm	Profit and loss Rm	Equity Rm	Profit and loss Rm	Equity Rm	Fair value Rm	Profit and loss Rm	Equity Rm
Listed equity investments[2]	(20)	(3)	443	20	3	(23)	(3)	505	23	3
Unlisted equity investments[2]	(134)	(4)	2 774	134	4	(241)	(7)	4 960	241	7
	(154)	(7)	3 217	154	7	(264)	(10)	5 465	264	10

58.3 Market risk

Introduction

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. The main sources of risk are traded market risk and non-traded interest rate risk. Traded market risk arises in CIBW to support customer trading activity, whereas non-traded interest rate risk arises in the banking book to support customer products.

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

The Trading Risk Committee (ATC) and ATC subcommittees provide oversight of specific market risks.

Strategy

The Bank's market risk management objectives are:

- ensuring traded market risk resides solely in CIBW;
- facilitating business growth;
- minimising non-traded market risk; and
- ensuring a higher degree of net interest margin stability over an interest rate cycle in the banking book.

Traded market risk

Approach

Traded market risk results primarily from the facilitation of customer trades in the wholesale market including market making, the provision of hedge solutions, pre-hedging and providing assistance to customers with the execution of large trades. Not all customer trades are hedged immediately or completely, giving rise to traded market risk. The Bank's policy is to concentrate its traded market risk exposure within CIBW.

Market risk is prevalent within both the trading book and the banking book, as defined for regulatory purposes. Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as its trading book, but the associated sensitivities are reported as part of the interest rate risk in the banking book section.

Risk appetite

The risk appetite for market risk is based on:

- proposed business strategy and growth;
- targeted growth in risk;
- budgeted revenue growth;
- historical risk usage;
- statistical modelling measures; and
- risk equated to capital projection under stress.

Notes

[1]Equity investment risk was reported under market risk in the previous reporting period. It is now reported under credit risk due to the review of the PRP.

[2]Excludes debt instruments.

58. Risk management *(continued)*

58.3 Market risk *(continued)*

Traded market risk (continued)

Risk measurement

A number of techniques are used to measure and control traded market risk on a daily basis, including:

- value at risk (VaR) based measures (incorporating tail risk metrics) including both VaR and stressed value at risk (sVaR);
- tail metrics;
- position and sensitivity reporting of non-value at risk (Non-VaR);
- stress testing; and
- standardised specific risk.

Daily value at risk

Daily value at risk (DVaR) is an estimate of the potential loss that may arise from unfavourable market movements if current positions were to be held unchanged for one business day.

The Bank uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 95%.

The historical simulation methodology can be split into three parts.

- Calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves.
- Sum all hypothetical profits or losses for day one across all positions, giving one total profit or loss. Repeat for all other days in the two-year history.
- DVaR is the 95th percentile loss selected from the resultant two-year historical simulated strip of daily hypothetical net profit or loss. Daily losses in excess of the DVaR are likely to occur, on average, up to 26 times over the observation period.

This internal model is also used for measuring value at risk over both a one-day and a 10-day holding period at a 99% confidence level for regulatory backtesting and RC calculation purposes respectively. The VaR internal model has been approved by the SARB to calculate RC for certain trading book portfolios. The approval covers general position risk across all interest rate, foreign exchange, commodity, equity and traded credit products. Issuer specific risk is currently reported in accordance with the regulatory standardised approach. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach.

DVaR is an important market risk measurement and control tool. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. The regulatory standard for backtesting is to measure daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily. For the trading book, there were no breaches during the current reporting period.

VaR estimates have a number of limitations:

- historical simulation assumes that the past is a good representation of the future, which may not always be the case;
- the assumed time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon;
- VaR does not indicate the potential loss beyond the selected percentile;
- VaR is based on positions at the close of business. Consequently, intra-day risk (the risk from a position bought and sold on the same day), is not captured; and
- prudent valuation practices are used in the VaR calculation when there is difficulty in obtaining rate/price information.

Tail risk metrics, stress testing and other sensitivity measures are used to complement VaR.

Backtesting

The Bank conducts backtesting of the VaR risk measurement model against:

- the theoretical profit and loss representing the change in the value of the portfolio as computed by the risk system under the assumption that the portfolio holdings remained constant for the holding period; and
- the actual profit and loss representing the actual daily trading outcome.

Tail metrics

Tail risk metrics highlight the risk beyond the percentile selected for DVaR. The two tail risk metrics chosen for daily monitoring, using the current portfolio and two years of price and rate history, are:

- the average of the worst three hypothetical losses from the historical simulation; and
- expected shortfall (also referred to as expected tail loss), which is the average of all hypothetical losses from the historical simulation beyond the 95th percentile used for DVaR.

Non-value at risk

Non-VaR reporting covers non-statistical measures of measuring and monitoring risk sensitivities and exposures as well as gross or notional limits where appropriate. All asset classes and product types have Non-VaR reporting and limit monitoring, as required. These limits are aligned to DVaR limits, but do not bear a direct linear relationship.

58. Risk management *(continued)*

58.3 Market risk *(continued)*

Traded market risk *(continued)*

Risk measurement *(continued)*

Stressed value at risk

The Bank implemented its new regulatory sVaR model to comply with Basel II.5 revisions to the traded market risk capital as per the amended Basel regulations, which became effective on 1 January 2012.

sVaR is an estimate of the potential loss arising from a 12-month period of significant financial stress. The Bank's sVaR model and period selection methodology was approved by the SARB. The SARB has also assigned an sVaR model multiplier to be used for RC calculations. sVaR uses DVaR methodology based on inputs calibrated to historical data from a continuous 12-month period to replicate a period of significant stress. A regular process is applied to assess the stress period in terms of the approved methodology, which means that the stress period is subject to change.

The RC requirement based on sVaR is calculated daily and is disclosed for the period under review. sVaR was reported internally for management purposes throughout the previous reporting period and comparative disclosure has been included in the current reporting period.

Stress testing

Stress testing provides an indication of the potential size of losses that could occur in extreme conditions. Stress testing assists in identifying risk concentrations across business lines and assists senior management in making capital planning decisions. The Bank performs two main types of stress/scenario testing. First, risk factor stress testing is carried out, where extended historical stress moves are applied to each of the main risk categories including interest rate, equity, foreign exchange, commodity and credit spread risk. Secondly, the trading book is subjected to multi-factor scenarios that simulate past periods of significant market disturbance and hypothetical extreme yet plausible events. Scenarios are reviewed at least annually.

Stress testing results are monitored against approved limits and triggers. A full revaluation approach is applied to undertake stress testing.

Standardised specific risk

Idiosyncratic risks are capitalised through the Basel/regulatory framework using standardised rules.

Risk control

Risk limits are set and reviewed at least annually to control the trading activities in line with the defined risk appetite of the Bank. The criteria for setting risk limits include relevant market analysis, market liquidity and business strategy.

This limit structure comprises the following types of market risk limits:

- VaR limits (VaR and sVaR);
- position and sensitivity (Non-VaR) limits;
- stress testing limits; and
- management action triggers: reporting of actual losses based on pre-determined tolerance levels.

Valuation control, independent price testing and bid-offer testing are conducted by the product control group of CIBW and the results are reviewed monthly by the Valuation Governance and Control Committee of CIBW.

The Model Validation function is responsible for validating all valuation models used for accounting and risk. The validation reviews the theoretical approach and its applicability to the product. Focus is on ensuring the implementation of the model is correct, identifying the primary risks, model limitations or uncertainties and recommending provisions to account for such uncertainties.

Risk reporting

The market risk team produces a number of detailed and summary market risk reports daily and monthly. These reports summarise the positions, risks and top stresses covering interest rate, foreign exchange, equity, commodity and credit spread risks. A risk summary is also presented at the AMRC and other governance committees as required.

Analysis of risk exposure

The following table reflects the DVaR and expected shortfall statistics for CIBW's trading book activities as measured by the Bank's internal models approach for general trading position risk. CIBW's traded market risk exposures as measured by average total DVaR, decreased to R18,87 million for the current reporting period, which is down 3% compared to the six months ended 30 June 2012 (R19,44 million) and down 20% compared to the previous reporting period (R23,73 million). This was principally due to the decrease in average foreign exchange and commodity exposure combined with low procyclical volatility. The business model of CIBW is orientated around customer flow and the risk profile is maintained so that it is aligned with the near-term demands of the Bank's customers. The model showed resilience in tough trading conditions. Trading revenues showed strong growth and a favourable risk-adjusted return was sustained for the current reporting period.

58. Risk management *(continued)*

58.3 Market risk *(continued)*

Traded market risk *(continued)*

Analysis of risk exposure *(continued)*

Trading book DVaR summary

	Bank							
	2012				2011			
	Average Rm	High[1] Rm	Low[1] Rm	As at the reporting date Rm	Average Rm	High[1] Rm	Low[1] Rm	As at the reporting date Rm
Interest rate risk[2]	16,99	30,71	8,84	11,87	19,09	36,69	10,67	14,12
Foreign exchange risk	7,30	21,34	2,13	8,23	8,13	25,68	1,89	5,07
Equity risk	5,12	16,72	1,13	1,88	4,76	10,83	2,38	5,18
Commodity risk	0,85	2,92	0,17	1,29	1,87	6,55	0,32	1,30
Inflation risk[2]	7,06	17,95	2,63	8,80	n/a	n/a	n/a	n/a
Credit spread risk[2]	4,05	5,76	1,95	3,69	n/a	n/a	n/a	n/a
Diversification effect[2]	(22,50)	n/a	n/a	(18,21)	(10,12)	n/a	n/a	(7,35)
Total DVaR[3]	18,87	34,38	12,66	17,55	23,73	44,77	15,22	18,32
Expected shortfall	27,46	49,65	17,58	23,84	34,88	60,12	21,57	26,73
Regulatory VaR[3]	32,38	53,67	20,11	31,91	39,64	74,98	24,52	29,30
Regulatory sVaR[4]	44,42	93,58	27,19	40,88	56,21	116,80	25,15	46,90

Interest rate risk in the banking book

Approach

Interest rate risk is the risk that the Bank's financial position may be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, as well as from certain structural exposures in the statement of financial position, mainly due to repricing timing differences between assets, liabilities and equity. These risks impact the Bank's earnings and economic value.

The Bank's objective for managing interest rate risk in the banking book is to ensure a higher degree of net interest margin stability over an interest rate cycle. This is achieved by transferring the interest rate risk from the business unit to Group Treasury, which in turn hedges material net exposures with the external market. As a result of timing considerations, interest rate risk may arise when some of the net position remains with Group Treasury. A limits framework is in place to ensure that retained risk remains within the approved risk appetite.

Risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Bank's interest rate risk exposure within limits.

Where possible, hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules, as detailed in the Bank's accounting policies, are followed.

Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Bank's equity, and is managed by Group Treasury.

Embedded customer optionality risk may also give rise to interest rate risk in the banking book. This risk arises from a customer's right to buy, sell or in some manner alter the cash flow of a financial contract. Embedded customer optionality is distinct from direct optionality, which arises through the underlying product structure (e.g. capped rate loan products). The Bank's policy requires such direct option risk to be hedged explicitly.

Embedded customer optionality risk was not material during the current reporting period.

Notes

[1]The high and low DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted.

[2]Up to the latter part of the previous reporting period, inflation and credit spread risk were reported together with interest rate risk.

[3]Regulatory VaR is reported with a one-day holding period at a 99% confidence level. Consequently, these figures are not directly comparable to the 95% risk metrics reported in the rest of the table.

[4]sVaR is reported with a one-day holding period at a 99% confidence level. The sVaR for the previous reporting period is an indicative internally-reported comparative. The high and low sVaR figures reported for each category did not necessarily occur on the same day as the higher and lower total sVaR. The sVaR period as required from 1 January 2012 is 1 April 2008 to 31 March 2009. This period is subject to ongoing review for appropriateness.

58. Risk management *(continued)*

58.3 Market risk *(continued)*

Interest rate risk in the banking book *(continued)*

Approach *(continued)*

Prepayment risk arises in relation to transactions where an early settlement option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the Bank is unable to collect full market related compensation. The risk is controlled through book and term limits, funding (hedging) new loans according to the expected behavioural repayment profile and tracking deviations of actual customer behaviour from the expected profile. The risk is monitored monthly.

Recruitment risk arises when the Bank commits to providing a product at a predetermined price for a period into the future. Customers have the option to take up this offer. Controls include campaign rules, pre-funding of anticipated take-up and the management of the resultant residual risk.

Risk measurement

The techniques used to measure and control interest rate risk in the banking book include repricing profiles, annual earnings at risk (AEaR), DVaR, tail metrics, economic value of equity (EVE) sensitivity and stress testing.

Repricing profiles

With the repricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments that have no explicit contractual repricing or maturity dates are placed in time buckets based on the most likely repricing behaviour. Currently, the contractual profiles of assets are not adjusted for customer prepayment features.

Annual earnings at risk

AEaR measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. The AEaR calculation takes the assumed behavioural profile of relevant structural product balances into account. Currently, the contractual profiles of assets are not adjusted for customer prepayment features.

Daily value at risk

The Bank uses a sensitivity-based approach to calculate DVaR at a 95% confidence level for measuring interest rate risk in the banking book. The DVaR is monitored against approved internal limits, and is used as a complementary tool to AEaR. DVaR is also supplemented by tail metrics.

Economic value of equity

EVE sensitivity measures the sensitivity of the present value of the banking book at a specific point in time to a specified shock to the yield curve. Like DVaR, EVE is a present value sensitivity, and is complementary to income sensitivity measures such as AEaR.

Stress testing

Stress testing is carried out by Group Treasury to supplement DVaR and AEaR metrics. Stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books.

Risk control

Market risk is controlled through the use of DVaR and AEaR limits and supported by monthly monitoring of the risk profiles, EVE sensitivity and stress results. Limits are set at the business level and then cascaded down. The business level limits for DVaR and AEaR are agreed at the AMRC. Compliance with limits is monitored by the respective business market risk team with oversight provided by Group Market Risk.

Risk reporting

DVaR in respect of Group Treasury is reported daily. The repricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for Group Treasury.

58. Risk management *(continued)*

58.3 Market risk *(continued)*

Interest rate risk in the banking book *(continued)*

Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Bank's banking book are set out in the tables that follow, namely, the repricing profile of the book, the potential effect of changes in market interest rates on annual earnings and equity reserves.

Repricing profile

The repricing profile of the Bank's consolidated banking book indicates that the book remains asset sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates. However, asset sensitivity, as represented by the cumulative 12-month interest rate gap, increased from the previous to the current reporting period.

Expected repricing profile

	Bank			
	2012			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	126 839	(18 329)	(30 019)	(37 694)
Derivatives[2]	(93 476)	10 633	17 189	65 654
Net interest rate sensitivity gap	33 363	(7 696)	(12 830)	27 960
Cumulative interest rate gap	33 363	25 667	12 837	40 797
Cumulative gap as a percentage of the Bank's total assets (%)	4,4	3,4	1,7	5,3

	2011			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	120 325	(25 540)	(27 532)	(31 985)
Derivatives[2]	(82 439)	11 087	16 484	54 868
Net interest rate sensitivity gap	37 886	(14 453)	(11 048)	22 883
Cumulative interest rate gap	37 886	23 433	12 385	35 268
Cumulative gap as a percentage of the Bank's total assets (%)	5,1	3,2	1,7	4,8

Impact on earnings

The following table shows the AEaR from impacts to net interest income for 100 and 200 bps up and down movements in market interest rates for the Bank's banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of R1,57 billion (2011: R411 million). A similar increase would result in an increase in projected 12-month net interest income of R1,57 billion. AEaR increased to over 7% of the Bank's net interest income, mainly due to the decrease in the hedging offset in the total banking book. A sensitivity analysis by major currency market interest rates indicates that earnings sensitivity to South African Rand (ZAR) market interest rates constitutes 96% of the total earnings at the reporting date (2011: 86%), therefore indicating that the Bank remains primarily exposed to South African market interest rates.

Notes

[1]Includes exposures held in the banking book.

[2]Derivatives for interest rate risk management purposes (net nominal value).

58. Risk management *(continued)*

58.3 Market risk *(continued)*

Interest rate risk in the banking book *(continued)*

Interest rate sensitivity analyses *(continued)*

Impact on earnings (continued)

AEaR for 100 and 200 bps changes in market interest rates

	Bank			
	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
As at the current reporting date				
Change in projected net interest income[1] (Rm)	**(1 568)**	**(769)**	**776**	**1 574**
Percentage of the Bank's net interest income (%)	**(7,1)**	**(3,5)**	**3,5**	**7,2**
Percentage of the Bank's equity (%)	**(2,6)**	**(1,3)**	**1,3**	**2,6**
As at the previous reporting date				
Change in projected net interest income[1] (Rm)	(411)	(208)	191	400
Percentage of the Bank's net interest income (%)	(1,9)	(0,9)	0,9	1,8
Percentage of the Bank's equity (%)	(0,7)	(0,4)	0.3	0,7

Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:

- higher or lower profit after tax resulting from higher or lower net interest income;
- higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments; and
- higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the tax rate for the current reporting period. The equity reserve sensitivities that follow are illustrative, based on simplified scenarios, and consider the impact on the cash flow hedges and available-for-sale portfolios that are mark-to-market (MTM) through reserves. The impact on equity is calculated by revaluing the fixed rate available-for-sale financial assets, including the effect of any associated hedges and derivatives designated as cash flow hedges, for an assumed change in market interest rates. The increase in sensitivity of reserves is due to the increased duration as a result of the low interest rate environment.

Sensitivity of reserves to market interest rate movements

	Bank					
	2012			2011		
	As at the reporting date Impact on equity Rm	Maximum impact[2] Rm	Minimum impact[2] Rm	As at the reporting date Impact on equity Rm	Maximum impact[2] Rm	Minimum impact[2] Rm
+ 100 bps parallel move in all yield curves						
Available-for-sale reserve	**(1 099)**	**(1 119)**	**(955)**	(1 005)	(1 012)	(793)
Cash flow hedging reserve	**(1 746)**	**(1 799)**	**(1 671)**	(1 664)	(1 758)	(1 652)
	(2 845)	**(2 892)**	**(2 663)**	(2 669)	(2 705)	(2 464)
As a percentage of Bank equity (%)	**(4,7)**	**(4,7)**	**(4,4)**	(4,7)	(4,7)	(4,3)
– 100 bps parallel move in all yield curves						
Available-for-sale reserve	**1 099**	**1 119**	**955**	1 005	1 012	793
Cash flow hedging reserve	**1 746**	**1 799**	**1 671**	1 664	1 758	1 652
	2 845	**2 892**	**2 663**	2 669	2 705	2 464
As a percentage of Bank equity (%)	**4,7**	**4,7**	**4,4**	4,7	4,7	4,3

Notes

[1]Includes exposures held in the banking book.

[2]The maximum and minimum impacts reported for each reserve category did not necessarily occur for the same month as the maximum and minimum impact is reported for the total.

58. Risk management *(continued)*

58.3 Market risk *(continued)*

Foreign exchange risk

Approach

The Bank is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Bank's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Bank's policy, there were no significant net open currency positions outside the trading book at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

The Bank's investments in foreign currency subsidiaries and branches create capital resources denominated in foreign currencies. Changes in the ZAR value of the investments resulting from foreign currency movements are captured in the currency translation reserve, which are currently excluded from qualifying capital under the SARB's rules.

The following table depicts the carrying value of foreign currency net investments and the pre-tax impact on equity of a 5% change in the exchange rate between the ZAR and the relevant functional currency.

Foreign currency translation sensitivity analysis

	Bank
	Sterling Rm
December 2012	
Foreign currency net investments	**1 618**
Impact on equity from a 5% currency translation shock	**81**
December 2011	
Foreign currency net investments	1 350
Impact on equity from a 5% currency translation shock	68

58.4 Operational risk

Approach

Operational risk is a principal risk managed through an associated operational risk framework (ORF), which is underpinned by a taxonomy of key risks. These key risks constitute the risk environment for operational risk and are all owned by relevant senior management with the appropriate expertise. The people key risk is owned by the Group Human Resources Executive, and the technology key risk is owned by the Chief Information Officer. The ORF comprises a number of elements that allow us to manage and measure the Bank's operational risk profile and to calculate the amount of operational risk capital that needs to be held to absorb potential losses. The minimum mandatory requirements for each of these elements are set out in the operational risk policies. These policies are implemented across the Bank: vertically, through the organisational structure with all businesses required to implement and operate the ORF that meets, as a minimum, the requirements detailed in these operational risk policies; and horizontally, with the key risk owners required to monitor information relevant to their key risk from each ORF element.

58. Risk management *(continued)*

58.5 Liquidity risk

Introduction

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn. The consequences of this may be the failure to meet obligations to repay depositors and to fulfil commitments to lend. Liquidity risk, more generally, is the risk that the Bank will be unable to continue operating as a going concern due to a lack of funding.

Liquidity risk is inherent in all banking operations. Confidence in the organisation, and hence liquidity, can be affected by a range of institution specific and market-wide events including, but not limited to, market rumours, credit events, payment system disruptions, systemic shocks, terrorist attacks and even natural disasters.

The appropriate and efficient management of liquidity risk by banks is of utmost importance in maintaining confidence in the financial markets and in ensuring that banks pursue sustainable business models.

Strategy

The Bank's liquidity risk management objectives are:

- growing and diversifying the funding base to support asset growth and other strategic initiatives;
- lengthening the Bank's funding profile in order to improve key liquidity metrics, thereby reducing the Bank's liquidity risk exposure;
- maintaining adequate levels of surplus liquid asset holdings in view of the Basel III liquidity requirements; and
- managing the weighted average cost of funding.

Approach

The Bank's liquidity risk position is managed in line with the board-approved liquidity risk appetite. Group Treasury is responsible for implementing the liquidity risk framework and policy and for ensuring that liquidity risk is adequately managed across the Bank. Group Treasury also monitors and manages the Bank's liquidity position to ensure full regulatory compliance in respect of liquidity risk management and reporting. As part of this process, Group Treasury takes the contractual and business-as-usual liquidity positions, as well as the stress tested liquidity position into consideration.

Business-as-usual liquidity management

Business-as-usual liquidity risk management refers to the management of the cash inflows and outflows of the bank in the ordinary course of business. The business-as-usual environment tends to display fairly high probability, low severity liquidity events and involves balancing the Bank's day-to-day cash needs. Group Treasury's approach to managing business-as-usual liquidity focuses on the following key areas:

- managing net anticipated cash flows (between assets and liabilities) within approved cash outflow limits;
- active daily management of the funding and liquidity profile, taking the board-approved liquidity risk metrics into consideration. These metrics were designed to ensure compliance with the Bank's business-as-usual liquidity risk tolerance and to position the Bank to deal with stressed liquidity events;
- maintaining a portfolio of highly liquid assets as a buffer against any unforeseen interruption to cash flow;
- participating in local money and capital markets to support the day-to-day funding requirements such as refinancing maturities, meeting customer withdrawals and supporting growth in advances;
- monitoring and managing liquidity costs; and
- conducting an ongoing assessment of the various funding sources in order to grow and diversify the Bank's funding base and achieve an optimal funding profile.

58. Risk management *(continued)*

58.4 Liquidity risk *(continued)*

Approach *(continued)*

Business-as-usual liquidity management *(continued)*

Key risk metrics used in business-as-usual liquidity management

Risk metric	Purpose of metric
Short-, medium- and long-term funding ratios	Provides a measure of the contractual term of the funding used. For example, the long-term funding ratio shows the proportion of total funding that has a remaining contractual term in excess of six months.
Interbank funding ratio	Provides an indication of the extent to which reliance is placed on funding from other banks.
Short-term maturity cash flow mismatches (at a contractual and behavioural level)	Provides a measure of the extent to which cash flow mismatches occur in the short term (i.e. less than one month).
Cash outflow limits	Measures expected cash outflows against predetermined limits.
Concentration of deposits	Provides a measure of the extent to which reliance is placed on funding from certain customers or market sectors.

Stress liquidity risk management

Stress liquidity risk management refers to the management of liquidity risk during times of unexpected outflows arising from Bank specific or systemic stress events. Group Treasury regularly performs liquidity scenario analyses and stress tests to assess the adequacy of the Bank's stress funding sources, liquidity buffers and contingency funding strategies in the event of such a stressed scenario. Scenario analysis and stress testing encompasses a range of realistic adverse events which, while remote, could have a material impact on the liquidity of the Bank's operations.

Through scenario analysis and stress testing, the Bank aims to manage and mitigate liquidity risk by:

- determining, evaluating and testing the impact of adverse liquidity scenarios;
- identifying appropriate rapid and effective responses to a crisis; and
- setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk.

The Bank's overall objective is to ensure that during a liquidity stress event, the Bank's stress funding sources and liquidity buffers exceed the estimated stress funding requirements for a period of at least 30 days. Stress testing and scenario analysis are used to evaluate the efficiency of identified sources of stress funding along a continuum of risk scenarios and to formulate and test contingency plans.

A detailed contingent funding and liquidity plan has been designed to protect depositors, creditors and shareholders during adverse liquidity conditions. The plan includes early warning indicators and sets out the crisis response strategy addressing sources of stress funding, strategies for crisis avoidance/minimisation and the internal and external communication strategy. Liquidity simulation exercises are conducted regularly to test the robustness of the plan and to ensure that key stakeholders remain up to date on liquidity matters.

58. Risk management *(continued)*

58.5 Liquidity risk *(continued)*

Contractual and behavioural liquidity mismatch positions

A detailed breakdown of the contractual mismatch position, net of impairment, is provided in the table that follow:

Liquidity risk measurement – discounted

	Bank				
	2012				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	20 435	—	—	—	20 435
Statutory liquid asset portfolio	—	22 487	13 818	26 715	63 020
Loans and advances to banks	13 883	22 261	2 544	3 717	42 405
Trading portfolio assets	81 788	—	—	—	81 788
Derivative assets	46 697	—	—	—	46 697
Non-derivative assets	35 091	—	—	—	35 091
Hedging portfolio assets	—	375	3 961	1 103	5 439
Other financial assets	130	3 273	163	6 551	10 117
Loans and advances to customers	97 401	57 633	142 558	213 587	511 179
Loans to Absa Group Companies	—	—	—	10 777	10 777
Investment securities	179	404	2 562	3 218	6 363
Financial assets	213 816	106 433	165 606	265 668	751 523
Non-financial assets					12 968
Total assets	—				764 491
Liabilities					
Deposits from banks	18 232	21 357	1 368	1 979	42 936
Trading portfolio liabilities	47 889	—	—	—	47 889
Derivative liabilities	46 763	—	—	—	46 763
Non-derivative liabilities	1 126	—	—	—	1 126
Hedging portfolio liabilities	—	39	1 320	2 496	3 855
Other financial liabilities	8 716	3 224	210	234	12 384
Deposits due to customers	275 267	148 171	28 982	14 898	467 318
Debt securities in issue	162	44 770	46 375	14 881	106 188
Borrowed funds	1 318	1 877	10 866	3 846	17 907
Financial liabilities	351 584	219 438	89 121	38 334	698 477
Non-financial liabilities					5 088
Total liabilities					703 565
Equity					60 926
Total equity and liabilities					764 491
Net liquidity position of financial instruments	(137 768)	(113 005)	76 485	227 334	53 046

58. Risk management *(continued)*

58.5 Liquidity risk *(continued)*

Contractual and behavioural liquidity mismatch positions *(continued)*

Liquidity risk measurement – discounted *(continued)*

	Bank 2011				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	19 505	—	—	—	19 505
Statutory liquid asset portfolio	6	27 986	6 228	23 253	57 473
Loans and advances to banks	40 434	11 218	401	3 817	55 870
Trading portfolio assets	79 360	—	—	—	79 360
Derivative assets	45 474	—	—	—	45 474
Non-derivative assets	33 886	—	—	—	33 886
Hedging portfolio assets	—	80	3 417	802	4 299
Other financial assets	1 142	3 161	948	4 266	9 517
Loans and advances to customers	79 212	56 166	128 997	223 957	488 332
Loans to Absa Group Companies	4 329	—	835	2 000	7 164
Investment securities	9	1 435	1 220	5 667	8 331
Financial assets	223 997	100 046	142 046	263 762	729 851
Non-financial assets					12 585
Total assets					742 436
Liabilities					
Deposits from banks	27 125	13 804	3 115	658	44 702
Trading portfolio liabilities	49 232	—	—	—	49 232
Derivative liabilities	48 703	—	—	—	48 703
Non-derivative liabilities	529	—	—	—	529
Hedging portfolio liabilities	—	39	638	1 779	2 456
Other financial liabilities	6 160	1 646	1 059	41	8 906
Deposits due to customers	268 873	125 058	22 895	14 936	431 762
Debt securities in issue	—	79 775	38 512	9 764	128 051
Loans from Absa Group Companies	1 013	36	389	—	1 438
Borrowed funds	—	1 270	—	12 781	14 051
Financial liabilities	352 403	221 628	66 608	39 959	680 598
Non-financial liabilities					4 446
Total liabilities					685 044
Equity					57 392
Total equity and liabilities					742 436
Net liquidity position of financial instruments	(128 406)	(121 582)	75 438	223 803	49 253

58. Risk management *(continued)*

58.5 Liquidity risk *(continued)*

Contractual and behavioural liquidity mismatch positions *(continued)*

Liquidity risk measurement – undiscounted (statement of financial position value with impact of future interest)

Bank

	2012					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	18 234	21 567	1 839	4 749	(3 453)	42 936
Trading portfolio liabilities	47 889	—	—	—	—	47 889
Derivative liabilities	46 763	—	—	—	—	46 763
Non-derivative liabilities	1 126	—	—	—	—	1 126
Hedging portfolio liabilities	—	845	2 694	1 772	(1 456)	3 855
Other financial liabilities	8 716	3 224	210	234	—	12 384
Deposits due to customers	276 541	156 867	38 642	36 194	(40 926)	467 318
Debt securities in issue	162	46 417	54 729	20 101	(15 221)	106 188
Loans from Absa Group Companies	—	—	—	—	—	—
Borrowed funds	—	3 460	13 595	7 693	(6 841)	17 907
Total liabilities	351 542	232 380	111 709	70 742	(67 897)	698 477
Off-statement of financial position						
Financial guarantee contracts	88	—	—	88	—	176
Loan commitments[1]	37 611	5 352	3 629	141	—	46 734

	2011[2]					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	27 128	13 853	3 900	1 210	(1 389)	44 702
Trading portfolio liabilities	49 232	—	—	—	—	49 232
Derivative liabilities	48 703	—	—	—	—	48 703
Non-derivative liabilities	529	—	—	—	—	529
Hedging portfolio liabilities	—	1 152	1 353	1 298	(1 347)	2 456
Other financial liabilities	6 160	1 646	1 059	41	—	8 906
Deposits due to customers	268 923	128 385	30 915	27 753	(24 214)	431 762
Debt securities in issue	—	82 987	45 563	15 351	(15 850)	128 051
Loans from Absa Group Companies	1 013	36	389	—	—	1 438
Borrowed funds	—	1 669	3 227	14 240	(5 085)	14 051
Total liabilities	352 456	229 728	86 406	59 893	(47 885)	680 598
Off-statement of financial position						
Financial guarantee contracts	310	—	46	—	—	356
Loan commitments[1]	43 374	378	1 834	545	—	46 131

The Bank manages its behavioural (business-as-usual) mismatches within board-approved limits. The behavioural mismatch position over one year improved during the current reporting period, despite the challenging economic environment.

Notes

[1]Includes both irrecoverable debt and equity facilities granted.

[2]Comparatives have been reclassified.

58. Risk management *(continued)*

58.6 Capital management

Approach

The Bank plans and manages its capital to ensure it has sufficient and appropriate capital structures to support its risk appetite, business activities, credit ratings and regulatory requirements.

The capital management framework adopted by the Bank provides the basis for effective capital planning and structuring, capital issuance, Basel alignment, EC utilisation and economic profit. It provides end-to-end integration of the Bank's strategy, risk management and financial processes. The purpose of the framework is to ensure capital consumption in the business units has an impact on performance, which in turn translates into management performance assessment, product pricing and the achievement of the Bank's strategy.

Priorities for 2013

The Bank's strategy focus for 2013 is to maintain a strong level, high quality and optimal mix of capital, while continuing to generate sufficient capital to support economically profitable asset growth and the active management of the business portfolio. In addition, the Bank intends to further optimise the use of capital without jeopardising its ability to comply with the expected Basel III regulatory changes. As in the current reporting period, RWA optimisation remains a key focus area.

Capital adequacy

The Bank sets target capital ranges/levels for regulated entities to ensure that the objectives of capital management are met. Appropriate capital management actions are taken if these target ranges/levels are at risk of being breached.

The Bank monitors capital adequacy and the use of RC by employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision (BCBS) and implemented by the SARB and other host regulators for supervisory purposes. These techniques include the capital adequacy ratio calculation, which the SARB and other host regulators regard as a key supervisory tool.

Target capital ratios of the Bank for the year under review were set by considering the following:

- risk appetite;
- the preference of rating agencies for permanent capital;
- stressed scenarios;
- proposed Basel amendments; and
- peer analysis.

59. Going concern

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

60. Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2012 and the date of authorisation of these consolidated financial statements (as defined per IAS 10 Events After the Reporting Period (IAS 10)).

Company statement of financial position

as at 31 December

	Note	Company 2012 Rm	2011[1] Rm	2010[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**20 433**	19 505	17 343
Statutory liquid asset portfolio	3	**63 020**	57 473	48 215
Loans and advances to banks	4	**41 049**	55 870	26 327
Trading portfolio assets	5	**83 642**	80 677	57 795
Hedging portfolio assets	5	**5 439**	4 299	4 662
Other assets	6	**11 213**	11 133	8 412
Non-current assets held for sale	8	**353**	35	—
Loans and advances to customers	9, 10	**507 635**	481 346	490 750
Loans to Group companies	11	**11 749**	8 325	8 998
Investment securities	12	**6 029**	7 938	10 851
Investments in associates and joint ventures	13	**102**	76	127
Subsidiaries	14	**1 834**	3 279	3 406
Property and equipment	15	**7 642**	7 257	6 974
Intangible assets	16	**1 047**	571	488
Deferred tax assets	17	**—**	27	65
Total assets		**761 187**	737 811	684 413
Liabilities				
Deposits from banks	18	**43 465**	45 078	21 901
Trading portfolio liabilities	19	**47 889**	49 232	43 530
Hedging portfolio liabilities	19	**3 855**	2 456	1 881
Other liabilities	20	**13 892**	10 095	7 410
Provisions	21	**1 386**	1 448	1 526
Current tax liabilities	7	**57**	258	942
Deposits due to customers	22	**466 708**	429 943	380 032
Debt securities in issue	23	**104 923**	126 632	160 248
Loans from Group companies	24	**—**	1 438	—
Borrowed funds	25	**17 907**	14 051	13 649
Deferred tax liabilities	17	**1 357**	932	1 903
Total liabilities		**701 439**	681 563	633 022
Equity				
Capital and reserves				
Attributable to equity holders:				
Ordinary share capital	26	**303**	303	303
Ordinary share premium	26	**12 465**	11 465	11 465
Preference share capital	26	**1**	1	1
Preference share premium	26	**4 643**	4 643	4 643
Retained earnings		**37 417**	36 471	31 435
Other reserves	27	**4 919**	3 365	3 544
Total equity		**59 748**	56 248	51 391
Total liabilities and equity		**761 187**	737 811	684 413

Note

[1]Comparatives have been reclassified, refer to note 1.1.

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2012 Rm	2011[1] Rm
Net interest income		**21 591**	21 590
Interest and similar income	28	**48 110**	48 327
Interest expense and similar charges	29	**(26 519)**	(26 737)
Impairment losses on loans and advances	10.1	**(7 877)**	(4 471)
Net interest income after impairment losses on loans and advances		**13 714**	17 119
Non-interest income		**17 967**	16 609
Net fee and commission income		**13 544**	13 264
Fee and commission income	30	**14 673**	14 290
Fee and commission expense	30	**(1 129)**	(1 026)
Gains and losses from banking and trading activities	31	**3 729**	2 517
Gains and losses from investment activities	32	**289**	452
Other operating income	33	**405**	376
Operating income before operating expenditure		**31 681**	33 728
Operating expenditure		**(21 619)**	(22 132)
Operating expenses	34	**(20 588)**	(21 183)
Other impairments	35	**(496)**	(44)
Indirect taxation	36	**(535)**	(905)
Operating profit before income tax		**10 062**	11 596
Taxation expense	37	**(2 597)**	(3 203)
Profit for the reporting period		**7 465**	8 393
Other comprehensive income			
Foreign exchange differences on translation of foreign operations		**138**	226
Movement in cash flow hedging reserve		**405**	(242)
Fair value gains arising during the reporting period		**2 650**	1 964
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		**(2 088)**	(2 300)
Deferred tax	17	**(157)**	94
Movement in available-for-sale reserve		**1 104**	(52)
Fair value gains/(losses) arising during the reporting period		**1 527**	(93)
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	31	**10**	20
Deferred tax	17	**(433)**	21
Movement in retirement benefit fund asset		**(201)**	(47)
Decrease in retirement benefit fund surplus		**(279)**	(66)
Deferred tax	17	**78**	19
Total comprehensive income for the reporting period		**8 911**	8 278
Profit attributable to:			
Ordinary equity holder		**7 170**	8 109
Preference equity holders		**295**	284
		7 465	8 393
Total comprehensive income attributable to:			
Ordinary equity holder		**8 616**	7 994
Preference equity holders		**295**	284
		8 911	8 278
Earnings per share:			
Basic earnings per share (cents)	38	**1 910,5**	2 167,6
Diluted earnings per share (cents)	38	**1 910,5**	2 167,6

Note

[1]Comparatives have been reclassified, refer to note 1.1.

Company statement of changes in equity

for the reporting period ended 31 December

	Company				
	2012				
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the reporting period	**374 112**	**303**	**11 465**	**1**	**4 643**
Total comprehensive income for the reporting period	—	—	—	—	—
Profit for the reporting period	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	—
Shares issued	4 646	0	1 000	—	—
Purchase of Absa Group Limited shares in respect of equity-settled share-based payment schemes	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Balance at the end of the reporting period	**378 758**	**303**	**12 465**	**1**	**4 643**
Notes		26	26	26	26

	2011				
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the reporting period	374 112	303	11 465	1	4 643
Total comprehensive income for the reporting period	—	—	—	—	—
Profit for the reporting period	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	—
Purchase of Absa Group Limited shares in respect of equity-settled share-based payment schemes	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Balance at the end of the reporting period	374 112	303	11 465	1	4 643
Notes		26	26	26	26

Note

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

Company statement of changes in equity

for the reporting period ended 31 December

Company

2012

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Total equity Rm
36 471	3 365	(228)	2 025	(5)	1 422	151	56 248
7 264	1 647	1 104	405	138	—	—	8 911
7 465	—	—	—	—	—	—	7 465
(201)	1 647	1 104	405	138	—	—	1 446
(6 217)	—	—	—	—	—	—	(6 217)
—	—	—	—	—	—	—	1 000
(211)	—	—	—	—	—	—	(211)
110	(93)	—	—	—	—	(93)	17
110	(110)	—	—	—	—	(110)	—
—	17	—	—	—	—	17	17
37 417	4 919	876	2 430	133	1 422	58	59 748
		27	27	27	27	27	

2011

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Total equity Rm
31 435	3 544	(176)	2 267	(231)	1 422	262	51 391
8 346	(68)	(52)	(242)	226	—	—	8 278
8 393	—	—	—	—	—	—	8 393
(47)	(68)	(52)	(242)	226	—	—	(115)
(3 184)	—	—	—	—	—	—	(3 184)
(281)	—	—	—	—	—	—	(281)
155	(111)	—	—	—	—	(111)	44
155	(155)	—	—	—	—	(155)	—
—	44	—	—	—	—	44	44
36 471	3 365	(228)	2 025	(5)	1 422	151	56 248
		27	27	27	27	27	

Company statement of cash flows

for the reporting period ended 31 December

	Note	Company 2012 Rm	2011[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**63 300**	61 959
Interest, fee and commission expense		**(26 446)**	(27 733)
Net trading and other (expense)/income		**(1 753)**	1 004
Cash payments to employees and suppliers		**(19 925)**	(20 656)
Dividends paid		**(192)**	—
Income taxes paid		**(2 859)**	(4 692)
Cash flow from operating profit before changes in operating assets and liabilities		**12 125**	9 882
Net increase/(decrease) in trading and hedging portfolio assets		**1 466**	(20 033)
Net (increase)/decrease in loans and advances to customers		**(34 560)**[2]	4 194
Net decrease/(increase) in other assets		**5 439**	(36 838)
Net increase in trading and hedging portfolio liabilities		**198**	5 980
Net increase in amounts due to customers and banks		**33 625**	50 431
Net decrease in other liabilities		**(17 208)**	(8 454)
Net cash generated from operating activities		**1 085**	5 162
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale	8	**35**	360
Net decrease in investment securities		**4 191**	2 700
Acquisition of associates and joint ventures	13.5	**(1)**	—
Dividends received from associates and joint ventures		**(289)**	—
Purchase of property and equipment	15	**(1 613)**	(1 519)
Proceeds from disposal of property and equipment		**136**	76
Purchase of intangible assets	16	**(687)**[2]	(231)
Net cash generated from investing activities		**1 772**	1 386
Cash flow from financing activities			
Issue of 'A' ordinary shares		**1 000**	—
Purchase of Absa Group Limited shares in respect of equity-settled share-based payment schemes		**(211)**	(281)
Proceeds from borrowed funds		**5 000**	—
Repayment of borrowed funds		**(1 500)**	—
Dividends paid		**(6 217)**	(3 184)
Net cash utilised in financing activities		**(1 928)**	(3 465)
Net increase in cash and cash equivalents		**929**	3 083
Cash and cash equivalents at the beginning of the reporting period		**7 857**	4 774
Cash and cash equivalents at the end of the reporting period	47	**8 786**	7 857

Notes

[1]Comparatives have been reclassified, refer to note 1.1.

[2]Includes an amount of R8 279 million relating to the acquisition of the Edcon portfolio. The R388 million cost of the related intangible assets recognised has been included in 'Purchase of Intangible assets'.

1. Summary of significant accounting policies

The financial statements of Absa Bank Limited (the Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Bank. For detailed accounting policies refer to the Bank's financial statements.

1.1 Reclassifications

Some items within the financial statements for the reporting periods ended 31 December 2011 and 31 December 2010 were reclassified in the reporting period under review.

1.1.1 Initial margin

During the reporting period, the Company reclassified certain initial margins placed as collateral which were previously disclosed as 'Other assets' to 'Loans and advances to banks' and 'Loans and advances to customers' in order to better reflect the true nature of these balances as collateralised loans. This resulted in comparatives being reclassified for the 2011 and 2010 reporting periods as reflected in the table that follows:

	2011			2010		
	As previously reported	Reclassifications	Reclassified	As previously reported	Reclassifications	Reclassified
Loans and advances to banks	55 803	67	55 870	26 250	77	26 327
Other assets	12 622	(1 489)	11 133	9 307	(895)	8 412
Loans and advances to customers	479 924	1 422	481 346	489 932	818	490 750

1.1.2 Elimination of funding interest

During the current reporting period, the Company refined the elimination of funding interest between 'Interest and similar income' and 'Interest expense and similar charges'. This resulted in comparatives being reclassified for the 2011 reporting period as reflected in the table that follows.

	2011		
	As previously reported Rm	Reclassifi-cations Rm	Reclassified Rm
Interest and similar income	48 357	(30)	48 327
Interest expense and similar charges	(26 767)	30	(26 737)

1.2 Changes in accounting policies

The application of the Company's accounting policies are consistent with those adopted in the prior reporting period, except for those standards and amendments which became effective in the current reporting period as detailed in note 1 on page 17.

		Company	
		2012 Rm	2011 Rm
2.	**Cash, cash balances and balances with central banks**		
	Balances with the South African Reserve Bank (SARB)	12 339	12 279
	Coins and bank notes	8 094	7 226
		20 433	19 505
	Portfolio analysis		
	Loans and receivables		
	Balances with the SARB	12 339	12 279
	Coins and bank notes	8 094	7 226
		20 433	19 505
3.	**Statutory liquid asset portfolio**		
	Republic of South Africa (RSA) government bonds	51 853	44 222
	Reverse repurchase agreements, refer to note 42 of the Bank's financial statements	3	3
	SARB debentures	—	200
	Treasury bills	11 164	13 048
		63 020	57 473
	Portfolio analysis		
	Available-for-sale financial assets	35 047	33 327
	RSA government bonds	23 883	20 079
	SARB debentures	—	200
	Treasury bills	11 164	13 048
	Available-for-sale financial assets in a fair value hedging relationship		
	RSA government bonds	27 173	23 342
	Financial assets designated at fair value through profit or loss	800	804
	RSA government bonds	797	801
	Reverse repurchase agreements	3	3
		63 020	57 473

RSA government bonds, SARB debentures and treasury bills valued at R2 592 million (2011: R2 289 million) have been pledged with the SARB, refer to note 42 in the Bank's financial statements.

	Company		
	2012 Rm	2011[1] Rm	2010[1] Rm

4. Loans and advances to banks

	2012 Rm	2011[1] Rm	2010[1] Rm
Collateralised loans	**1 274**	3 478	2 695
Other	**30 641**	45 653	18 060
Reverse repurchase agreements (refer to note 42 of the Bank's financial statements)	**9 134**	6 739	5 572
	41 049	55 870	26 327
Portfolio analysis			
Financial assets designated at fair value through profit or loss	**9 728**	7 886	7 548
Collateralised loans	**—**	306	501
Other	**6 759**	1 672	1 475
Reverse repurchase agreements	**2 969**	5 908	5 572
Loans and receivables	**31 321**	47 984	18 779
Collateralised loans	**1 274**	3 172	2 194
Other	**23 882**	43 981	16 585
Reverse repurchase agreements	**6 165**	831	—
	41 049	55 870	26 327

Loans with variable rates are **R23 859 million** (2011: R49 106 million; 2010: R19 447 and with fixed rates are **R17 190 million** (2011: R6 764 million; 2010: R6 880).

Included above are loans and advances to banks with a carrying value of **R2 668 million** (2011: R1 313 million; 2010: R1 445 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42 of the Bank's financial statements. The amounts pledged are the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Note
[1]Comparatives have been reclassified, refer to note 1.1.

	Company 2012 Rm	Company 2011 Rm
5. Trading and hedging portfolio assets		
Commodities	514	243
Debt instruments	24 614	27 114
Derivative assets (refer to note 50.3)	46 823	45 545
Commodity derivatives	605	298
Credit derivatives	195	205
Equity derivatives	969	1 085
Foreign exchange derivatives	5 814	12 151
Interest rate derivatives	39 240	31 806
Equity instruments	741	72
Money market assets	10 950	7 703
Total trading portfolio assets	83 642	80 677
Hedging portfolio assets (refer to note 50.3)	5 439	4 299
	89 081	84 976
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	3 859	3 168
Derivatives designated as fair value hedging instruments	1 580	1 131
Financial assets held for trading	83 128	80 434
Debt instruments	24 614	27 114
Derivative assets	46 823	45 545
Equity instruments	741	72
Money market assets	10 950	7 703
Non-financial instruments	514	243
	89 081	84 976

Included above are financial instruments which related to the Company's interest rate economic hedging programme with a notional value of **R5 560 million** (2011: R6 381 million) and a fair value of **R655 million** (2011: R781 million).

Trading portfolio assets with a carrying value of **R12 063 million** (2011: R20 059 million) were pledged as security for repurchase agreements, refer to note 42 of the Bank's financial statements. In addition, trading portfolio assets with a carrying value of **R645 million** (2011: Rnil) were restricted as security under lending transactions. These assets are pledged for the duration of the respective agreements.

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

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

	Company		
	2012 Rm	2011[1] Rm	2010[1] Rm
6. Other assets			
Accounts receivable and prepayments	**6 713**	4 216	3 491
Deferred costs	**95**	61	51
Inventories	**348**	750	459
Cost	**413**	836	548
Write-down	**(65)**	(86)	(89)
Retirement benefit fund surplus (refer to note 40 of the Bank's financial statements)	**466**	628	705
Settlement accounts	**3 591**	5 478	3 706
	11 213	11 133	8 412
Portfolio analysis			
Loans and receivables	**10 058**	9 334	6 778
Accounts receivable	**6 467**	3 856	3 072
Settlement accounts	**3 591**	5 478	3 706
Financial assets designated at fair value through profit or loss	**16**	16	—
Non-financial assets	**1 139**	1 783	1 634
	11 213	11 133	8 412

Note
[1]Comparatives have been reclassified. Refer to note 1.1.

	Company	
	2012 Rm	2011 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	—	—
Current tax liabilities		
Amount due to revenue authorities	**57**	258
8. Non-current assets held for sale		
Balance at the beginning of the reporting period	**35**	—
Disposal of assets previously disclosed under non-current assets held for sale	**(35)**	(358)
Transfer from investment securities	**30**	307
Transfer from investments in associates and joint ventures (refer to note 13.6)	—	51[1]
Transfer from subsidiary shares	**301**	—
Transfer from property and equipment	**22**	35
Balance at the end of the reporting period	**353**	35

During the reporting period, the Company effected the following transfers to non-current assets held for sale:

- Through the RBB segment:
  - The investment in Sekunjalo Investments Limited, with a carrying value of R20 million. This investment was subsequently sold in January 2013.
  - In the Commercial Property FInance Equity (CPF Equity) division, its investment in one of its subsidiaries totalling R301 million, as well as one of its property equity investments with a carrying value of R10 million.
  - In the CPF Equity division, property and equipment with a carrying value of R22 million.
- Through the Head Office and Other segment:
  - Transferred several properties in the Corporate Real Estate division, whose contracts for sale were concluded in the previous reporting period.

Note

[1]Includes R53 million transferred from investments in associates and an impairment reversal of R2 million, refer to note 13.1.

	Company		
	2012 Rm	2011[1] Rm	2010[1] Rm
9. Loans and advances to customers			
Cheque accounts	**31 619**	31 370	30 570
Corporate overdrafts and specialised finance loans	**5 121**	10 681	9 612
Credit cards[2]	**27 051**	16 072	15 258
Foreign currency loans	**12 152**	8 564	5 602
Instalment credit agreements (refer to note 9.1)	**57 395**	53 510	52 774
Gross advances	**69 611**	64 281	62 832
Unearned finance charges	**(12 216)**	(10 771)	(10 058)
Reverse repurchase agreements with non-banks (refer to note 42 of the Bank's financial statements)	**4 698**	1 613	3 063
Loans to associates and joint ventures	**10 094**	6 884	6 825
Microloans	**1 846**	1 690	1 766
Mortgages	**278 486**	287 908	302 593
Other advances[3]	**3 231**	4 600	3 777
Overnight finance	**18 862**	12 320	7 647
Personal and term loans	**29 638**	26 324	25 262
Preference shares	**4 549**	3 317	2 788
Wholesale overdrafts	**35 518**	27 325	35 780
Gross loans and advances to customers	**520 260**	492 178	503 317
Impairment losses on loans and advances (refer to note 10)	**(12 625)**	(10 832)	(12 567)
	507 635	481 346	490 750
Portfolio analysis			
Amortised cost items held in a fair value hedging relationship	**4 970**	3 397	3 005
Corporate overdrafts and specialised finance loans	**194**	110	118
Wholesale overdrafts	**4 776**	3 287	2 887
Financial assets designated at fair value through profit or loss	**11 144**	9 377	9 532
Corporate overdrafts and specialised finance loans	**—**	—	593
Foreign currency loans	**950**	955	703
Mortgages	**1 019**	1 664	1 161
Preference shares	**382**	454	461
Reverse repurchase agreements	**4 698**	1 613	3 063
Wholesale overdrafts	**4 095**	4 691	3 551
Loans and receivables	**504 146**	479 404	490 780
	520 260	492 178	503 317

The Company has securitised certain loans and advances to customers, the total value of these securitised assets is **R6 444 million** (2011: R7 436 million; 2010: R5 140 million), refer to note 41 for additional disclosures.

Included above are loans and advances to customers with a carrying value of **Rnil** (2011: Rnil; 2010: R589 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42 of the Bank's financial statements. The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

The total value of collateralised loans is **R3 956 million** (2011: R3 310 million; 2010: R1 476 million). Included in the total value of collateralised loans is **R2 474 million** (2011: R1 888 million; 2010: R658 million) relating to securities borrowed, refer to note 42 of the Bank's financial statements.

Notes

[1]Comparatives have been reclassified, refer to note 1.1.

[2]'Includes the acquisition of the Edcon portfolio, refer to the directors' report in the Bank's financial statements.

[3]Includes customer liabilities under acceptances, working capital solutions and collateralised loans.

	Company		
	2012		
	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	**22 274**	**(3 601)**	**18 673**
Between one and five years	**45 206**	**(8 191)**	**37 015**
More than five years	**2 131**	**(424)**	**1 707**
	69 611	**(12 216)**	**57 395**

	2011		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	20 385	(3 247)	17 138
Between one and five years	42 484	(7 258)	35 226
More than five years	1 412	(266)	1 146
	64 281	(10 771)	53 510

	2010		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	21 246	(3 311)	17 935
Between one and five years	40 344	(6 526)	33 818
More than five years	1 242	(221)	1 021
	62 832	(10 058)	52 774

The Company enters into instalment credit agreements in respect of motor vehicles, equipment and commercial assets.

The majority of the 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 290 million** (2011: R4 819 million; 2010: R5 133 million).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R1 464 million** (2011: R1 517 million; 2010: R1 308 million).

		Company 2012 Rm	Company 2011 Rm
10.	**Impairment losses on loans and advances**		
	Balance at the beginning of the reporting period	10 832	12 567
	Amounts written off during the reporting period	(5 860)	(5 686)
	Exchange differences	3	1
	Interest on impaired assets (refer to note 28)	(1 011)	(1 166)
		3 964	5 716
	Impairments raised during the reporting period (refer to note 10.1)	8 661	5 116
	Balance at the end of the reporting period (refer to note 9)	12 625	10 832
	Comprising:		
	Identified impairments	11 728	10 076
	Unidentified impairments	897	756
		12 625	10 832
10.1	**Statement of comprehensive income charge for the reporting period ended 31 December 2012**		
	Impairments raised	8 661	5 116
	Identified impairments	8 510	5 234
	Unidentified impairments	151	(118)
	Recoveries of loans and advances previously written off	(784)	(645)
		7 877	4 471
11.	**Loans to Group companies**		
	Fellow subsidiaries	11 749	8 325
	Portfolio analysis		
	Loans and receivables	11 749	8 325
12.	**Investment securities**		
	Debt instruments	3 146	2 866
	Listed equity instruments	152	156
	Unlisted equity and hybrid instruments	2 731	4 916
		6 029	7 938
	Market value		
	Directors' valuation of unlisted equity and hybrid instruments	2 731	4 916
	Market value of debt instruments	3 146	2 866
	Market value of listed equity instruments	152	156
		6 029	7 938
	Portfolio analysis		
	Available-for-sale financial assets (refer to note 12.1)	1 798	1 063
	Debt instruments	1 708	916
	Listed equity instruments	51	43
	Unlisted equity and hybrid instruments	39	104
	Financial instruments designated at fair value through profit or loss	4 231	6 875
	Debt instruments	1 438	1 950
	Listed equity instruments	101	113
	Unlisted equity and hybrid instruments	2 692	4 812
		6 029	7 938

	Company 2012 Rm	Company 2011 Rm
12. Investment securities *(continued)*		
12.1 Available-for-sale financial assets		
Carrying value at the beginning of the reporting period[1]	1 063	574
Cost plus fair value movements	1 115	711
Impairments	(52)	(137)
Movement in investment securities	735	489
Net acquisitions	740	397
Transferred to investments in associates and joint ventures (refer to note 13.4)	(25)	—
Fair value movements and accrued interest income	20	92
Carrying value at the end of the reporting period	1 798	1 063
Cost plus fair value movements	1 837	1 115
Impairments[1]	(39)	(52)
13. Investments in associates and joint ventures		
Unlisted investments	102	76
13.1 Movement in carrying value		
Balance at the beginning of the reporting period	76	127
Net movement resulting from acquisitions, disposals and transfers (refer to note 13.4)	26	(53)
Impairment reversal in the statement of comprehensive income (refer to notes 13.4 and 35)	—	2
Balance at the end of the reporting period	102	76
13.2 Analysis of carrying value		
Unlisted investments		
Shares at cost	102	76
13.3 Market value		
Directors' valuation of unlisted investments	562	412

Note
[1] All impairments relate to equity instruments.

13. Investments in associates and joint ventures *(continued)*

13.4 Net movement resulting from acquisitions, disposals and transfers

	Company 2012 Effective holding (%)	2012 Movement Rm	2011 Effective holding (%)	2011 Movement Rm
Acquired during the current reporting period, at cost:				
The Document Exchange Association	33	1	—	—
Transferred from investment securities during the current reporting period (refer to note 12.1):		25		
SBV Services Proprietary Limited	25	25	—	—
The South African Bankers Services Company Proprietary Limited	23	0	—	—
Transferred to non-current assets held for sale during the prior reporting period (refer to note 8):				
Sekunjalo Investments Limited[1]	—	—	9	(51)[1]
		26		(51)

	Company 2012 Rm	2011 Rm
13.5 Details of the purchase consideration on net assets acquired		
Cash consideration	1	—
	1	—
13.6 Details of transfers and consideration received on net assets acquired/(disposed)		
Transfer to non-current assets held for sale (refer to note 8)	—	(51)[1]
Transfer from investment securities	25	—
	25	(51)
Refer to note 44.8 of the Bank's financial statements for the full disclosure of the Company's investments in associates and joint ventures.		

Note

[1]Includes R53 million transferred from investments in associates and an impairment reversal of R2 million, refer to note 13.1.

	Company 2012 Rm	Company 2011 Rm
14. Subsidiaries		
Loans to subsidiary companies	**1 306**	2 105
Shares at cost	**528**	1 174
	1 834	3 279

The disposal of the Absa Property Equity Fund (refer to note 51 of the Bank's financial statements), the impairment of investments in subsidiaries with underlying investment properties and the reclassification of investments in subsidiaries to non-current assets held for sale (refer to note 8), contributed to the decline in the balance from the prior reporting period.

	Company 2012 Cost Rm	2012 Accumulated depreciation and/or impairments Rm	2012 Carrying value Rm	2011 Cost Rm	2011 Accumulated depreciation and/or impairments Rm	2011 Carrying value Rm
15. Property and equipment						
Computer equipment	**5 300**	**(3 930)**	**1 370**	4 969	(3 453)	1 516
Freehold property	**3 935**	**(327)**	**3 608**	3 648	(253)	3 395
Furniture and other equipment	**5 782**	**(3 138)**	**2 644**	4 985	(2 680)	2 305
Leasehold property	**387**	**(367)**	**20**	387	(346)	41
Motor vehicles	**4**	**(4)**	**—**	4	(4)	—
	15 408	**(7 766)**	**7 642**	13 993	(6 736)	7 257

Company 2012	Opening balance Rm	Additions Rm	Disposals Rm	Transferred to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Closing balance Rm
Reconciliation of property and equipment							
Computer equipment	**1 516**	**474**	**(45)**	**—**	**—**	**(575)**	**1 370**
Freehold property	**3 395**	**252**	**—**	**(22)**	**3**	**(20)**	**3 608**
Furniture and other equipment	**2 305**	**887**	**(11)**	**—**	**—**	**(537)**	**2 644**
Leasehold property	**41**	**—**	**—**	**—**	**—**	**(21)**	**20**
	7 257	**1 613**	**(56)**	**(22)**	**3**	**(1 153)**	**7 642**
Note				8		34	

Company 2011	Opening balance Rm	Additions Rm	Disposals[1] Rm	Transferred to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Closing balance Rm
Reconciliation of property and equipment							
Computer equipment	1 581	587	(35)	—	—	(617)	1 516
Freehold property	3 166	322	(12)	(35)	2	(48)	3 395
Furniture and other equipment	2 163	610	(1)	—	—	(467)	2 305
Leasehold property	64	—	(1)	—	—	(22)	41
	6 974	1 519	(49)	(35)	2	(1 154)	7 257
Note				8		34	

The fair value of freehold property is determined by both external and internal valuers. The most recent valuation was performed during the current reporting period and indicated that the fair value of the freehold property amounted to **R3 732 million** (2011: R3 701 million).

Leasehold property and computer equipment with a carrying value of **R116 million** (2011: R147 million) are encumbered under finance leases, refer to note 20.

Included in the above additions is **R185 million** (2011: R221 million) that relates to expenditure capitalised to the cost of the asset during the course of its construction. During the current reporting period, an amount of **R209 million (2011: R1 745 million)** was transferred from assets under construction and brought into use.

No borrowing costs were capitalised during the current and previous reporting period.

	Company					
	2012			2011		
	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
16. Intangible assets						
Computer software development costs	1 473	(832)	641	1 192	(621)	571
Customer lists and relationships[1]	387	(1)	386	1	(1)	—
Other	22	(2)	20	2	(2)	—
	1 882	(835)	1 047	1 195	(624)	571

	Company				
	2012				
	Opening balance Rm	Additions Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of intangible assets					
Computer software development costs	571	281	(143)	(68)	641
Customer lists and relationships[1]	—	386	—	—	386
Other	—	20	—	—	20
	571	687	(143)	(68)	1 047
Note			34	35	

	Company				
	2011				
	Opening balance Rm	Additions Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of intangible assets					
Computer software development costs	488	231	(148)	—	571
Customer lists and relationships[1]	—	—	—	—	—
Other	—	—	—	—	—
	488	231	(148)	—	571
Note			34	35	

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

Included in computer software development costs is **R156 million** (2011: R168 million) relating to assets under construction.

The intangible asset acquired through the transaction where the Edcon portfolio was acquired, relates to purchased credit card relationships. The relationships and other intangible assets acquired were valued by discounting expected future income relating thereto over the life of the assets. At the end of the reporting period, there were no indicators of impairment of the intangible assets.

No borrowing costs were capitalised during the current or previous reporting periods.

Note

[1] 'Customer lists and relationships' includes both the Woolworths Financial Services store card loan portfolio as well as the Edcon store card loan portfolio.

	Company	
	2012 Rm	2011 Rm
17. Deferred tax		
17.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the reporting period	**905**	1 838
Deferred tax asset released on STC credits (refer to note 17.3)	**27**	38
Deferred tax on amounts charged directly to other comprehensive income	**512**	(134)
Available-for-sale financial assets	**433**	(21)
Fair value measurement	**430**	(21)
Transfer to the profit and loss component of the statement of comprehensive income	**3**	—
Cash flow hedges	**157**	(94)
Fair value measurement	**741**	(738)
Transfer to the profit and loss component of the statement of comprehensive income	**(584)**	644
Retirement benefit fund asset	**(78)**	(19)
Charge to the profit and loss component of the statement of comprehensive income (refer to note 37)	**(85)**	(851)
Tax effect of translation and other differences	**(2)**	14
Balance at the end of the reporting period	**1 357**	905
17.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**1 449**	969
Fair value adjustments on financial instruments	**(174)**	(230)
Impairment of loans and advances	**(158)**	(139)
Lease and rental debtor allowances	**(20)**	96
Property allowances	**(41)**	(75)
Retirement benefit fund asset	**130**	176
Share-based payments	**171**	135
Deferred tax liability	**1 357**	932
Deferred tax asset – STC credits (refer to note 17.3)	**—**	(27)
Net deferred tax liability	**1 357**	905
17.3 Secondary taxation on companies (STC)		
Accumulated STC credits	**—**	271
Deferred tax asset raised (refer to note 17.2)	**—**	27
Movement in deferred tax asset for the reporting period (refer to note 17.1)	**(27)**	(38)

In 2007, the Minister of Finance announced a two-phase approach to STC reform, which included the reduction of the STC tax rate to 10% and the replacement of STC with a new dividends withholding tax on shareholders (DWT). On 1 April 2012, DWT came into effect and the tax ceased to be levied at a company level, and is now levied on shareholders who receive the dividend.

Unutilised STC credits at the end of December 2011 have been utilised against the STC payable on the final dividend declared after the reporting date. Deferred tax assets relating to unutilised STC credits up to 31 March 2012 have also been utilised.

	Company 2012 Rm	Company 2011 Rm
18. Deposits from banks		
Call deposits	**10 163**	15 539
Fixed deposits	**7 777**	5 905
Foreign currency deposits	**5 668**	6 809
Other	**6 788**	5 500
Repurchase agreements (refer to note 42 of the Bank's financial statements)	**13 069**	11 325
	43 465	45 078
Portfolio analysis		
Financial liabilities at amortised cost	**28 488**	31 665
Financial liabilities designated at fair value through profit or loss	**14 977**	13 413
Fixed deposits	**4 384**	4 219
Foreign currency deposits	**35**	71
Repurchase agreements	**10 558**	9 123
	43 465	45 078

Deposits with variable rates are **R22 138 million** (2011: R27 085 million) and with fixed rates are **R21 327 million** (2011: R17 993 million).

	Company 2012 Rm	Company 2011 Rm
19. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 50.3)	**46 763**	48 703
Commodity derivatives	**174**	154
Credit derivatives	**182**	666
Equity derivatives	**1 782**	3 399
Foreign exchange derivatives	**5 610**	13 353
Interest rate derivatives	**39 015**	31 131
Short positions	**1 126**	529
Total trading portfolio liabilities	**47 889**	49 232
Hedging portfolio liabilities (refer to note 50.3)	**3 855**	2 456
	51 744	51 688
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**14**	26
Derivatives designated as fair value hedging instruments	**3 841**	2 430
Financial liabilities held for trading	**47 889**	49 232
Derivative liabilities	**46 763**	48 703
Short positions	**1 126**	529
	51 744	51 688

Included above are financial instruments related to the Company's interest rate economic hedging programme with a notional value of **R1 119 million** (2011: R1 070 million) and a fair value of **R76 million** (2011: R81 million).

	Company 2012 Rm	Company 2011 Rm
20. Other liabilities		
Accruals	**1 038**	890
Audit fee accrual	**53**	35
Creditors	**4 136**	4 873
Deferred income	**340**	215
Liabilities under finance leases (refer to note 20.1)	**289**	504
Settlement balances	**7 426**	3 095
Share-based payment liability (refer to note 50 of the Bank's financial statements)	**610**	483
	13 892	10 095
Portfolio analysis		
Financial liabilities at amortised cost	**11 851**	8 472
Creditors	**4 136**	4 873
Liabilities under finance leases	**289**	504
Settlement balances	**7 426**	3 095
Non-financial liabilities	**2 041**	1 623
	13 892	10 095

Company 2012	Minimum lease payments due Rm	Interest Rm	Principal Rm
20.1 Liabilities under finance leases			
Less than one year	**227**	**(23)**	**204**
Between one and two years	**82**	**(2)**	**80**
Between two and three years	**5**	**0**	**5**
	314	**(25)**	**289**

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

Under the terms of the leases, no contingent rentals are payable. Refer to note 15 for details of property and equipment subject to finance leases.

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	170 Main Street, Johannesburg 180 Main Street, Johannesburg 10 Troye Street, Johannesburg	Original term of 18 years with negotiable escalation clauses and a renewal date of 31 March 2014.
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.
IBM Global Financing	Various locations	Lease of various items of information technology systems with an original term of between three and five years with no escalation clauses and an earliest renewal date of 1 June 2013.

	Company	
	2012 Rm	2011 Rm
20.1.2 Minimum future income receivable from subleasing		
Receivable within one year	**1**	1
Receivable within two to five years	**0**	1
	1	2

	Company		
	2012		
	Staff bonus and incentive provision Rm	**Sundry provisions Rm**	**Total Rm**
21. Provisions			
Balance at the beginning of the reporting period	**963**	**485**	**1 448**
Additions	**844**	**231**	**1 075**
Amounts used	**(947)**	**(81)**	**(1 028)**
Reversals	**(24)**	**(85)**	**(109)**
Balance at the end of the reporting period	**836**	**550**	**1 386**

	2011		
	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the reporting period	804	722	1 526
Additions	936	306	1 242
Amounts used	(776)	(238)	(1 014)
Reversals	(1)	(305)	(306)
Balance at the end of the reporting period	963	485	1 448

Provisions expected to be recovered or settled within no more than 12 months after the reporting date amounted to **R1 061 million** (2011: R1 133 million).

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

	Company 2012 Rm	Company 2011 Rm
22. Deposits due to customers		
Call deposits	**56 648**	55 528
Cheque account deposits	**139 856**	130 953
Credit card deposits	**1 938**	1 884
Fixed deposits	**124 832**	124 341
Foreign currency deposits	**9 723**	6 898
Notice deposits	**55 728**	28 500
Other[1]	**948**	876
Repurchase agreements with non-banks (refer to note 42 of the Bank's financial statements)	**1 503**	8 734
Saving and transmission deposits	**75 532**	72 229
	466 708	429 943
Portfolio analysis		
Financial liabilities at amortised cost	**448 045**	409 443
Financial liabilities designated at fair value through profit or loss	**18 663**	20 500
Cheque accounts	**61**	5
Fixed deposits	**17 099**	11 761
Repurchase agreements with non-banks	**1 503**	8 734
	466 708	429 943
23. Debt securities in issue		
Credit linked notes	**9 800**	8 976
Floating rate notes	**52 639**	68 435
Negotiable certificates of deposit	**17 926**	30 302
Other	**7**	—
Promissory notes	**1 561**	3 168
Structured notes and bonds	**1 098**	1 451
Senior notes	**21 892**	14 300
	104 923	126 632
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**9 887**	10 774
Floating rate notes	**—**	5 868
Negotiable certificates of deposit	**44**	87
Senior notes	**9 843**	4 819
Financial liabilities at amortised cost	**91 595**	112 471
Financial liabilities designated at fair value through profit or loss	**3 441**	3 387
Credit linked notes	**1 572**	—
Negotiable certificates of deposit	**59**	8
Promissory notes	**712**	1 928
Structured notes and bonds	**1 098**	1 451
	104 923	126 632

Note

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

	Company 2012 Rm	Company 2011 Rm
24. Loans from Group companies		
Fellow subsidiaries	—	1 438
Portfolio analysis		
Financial liabilities at amortised cost	—	1 438

25. Borrowed funds

Subordinated callable notes

The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act, No 94 of 1990 (as amended).

Interest rate	Final maturity date	Note	Company 2012 Rm	Company 2011 Rm
8,75%	1 September 2017	i	—	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
8,295%	21 November 2023	v	1 188	—
Three-month JIBAR + 2,10%	3 May 2022	vi	400	400
Three-month JIBAR + 1,95%	21 November 2022	vii	1 805	—
Three-month JIBAR + 2,05%	21 November 2023	viii	2 007	—
CPI-linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	ix	1 886	1 886
6,00%	20 September 2019	x	3 000	3 000
5,50%	7 December 2028	xi	1 500	1 500
Accrued interest			1 462	1 157
Fair value adjustment			334	283
			17 907	14 051
Portfolio analysis				
Amortised cost financial liabilities held in a fair value hedging relationship			4 007	5 507
Financial liabilities designated at fair value through profit or loss			778	771
Financial liabilities held at amortised cost			13 122	7 773
			17 907	14 051

i The 8,75% fixed rate notes redeemed in full on 3 September 2012. Interest was paid semi-annually in arrear on 1 March and 1 September of each year.

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

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

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

v The 8,295% fixed rate notes may be redeemed in full at the option of the Company on 21 November 2018. Interest paid semi-annually in arrear on 21 May and 21 November of each year. If the Company does not exercise the redemption option, there is no step-up in the coupon rate. The Company has an option to exercise the redemption on any interest payment date after 21 November 2018.

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

25. Borrowed funds *(continued)*

vii The three-month JIBAR plus 1,95% floating rate notes may be redeemed in full at the option of the Company on 21 November 2017. Interest is paid quarterly in arrear on 21 February, 21 May, 21 August and 21 November of each year. If the Company does not exercise the redemption option, there is no step up in the coupon rate. The Company has an option to exercise the redemption on any interest payment date after 21 November 2017.

viii The three-month JIBAR plus 2,05% floating rate notes may be redeemed in full at the option of the Company on 21 November 2018. Interest paid quarterly on 21 February, 21 May, 21 August and 21 November of each year. If the Company does not exercise the redemption option, there is no step up in the coupon rate. The Company has an option to exercise the redemption on any interest payment date after 21 November 2018.

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

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

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

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

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

	Company	
	2012 Rm	2011 Rm
26. Share capital and premium		
26.1 Ordinary share capital		
Authorised		
320 000 000 (2011: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2011: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2011: 302 609 359) ordinary shares of R1,00 each	**303**	303
76 149 040 (2011: 71 502 632) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**12 465**	11 465
	12 768	11 768

Authorised shares

There were no changes to authorised share capital during the current reporting period.

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 current reporting period

An additional 4 646 408 'A' ordinary shares were issued during the current reporting period.

Shares issued during the prior reporting period

There were no shares issued during the previous reporting period.

All shares in issue by the Company were paid in full.

	Company	
	2012 Rm	2011 Rm
26. Share capital and premium *(continued)*		
26.2 Preference share capital and premium		
Authorised		
30 000 000 (2011: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2011: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

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

27. Other reserves

27.1 Available-for-sale reserve

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

27.2 Cash flow hedging reserve

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

27.3 Foreign currency translation reserve

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

27.4 Capital reserve

The capital reserve arose on the amalgamation of the founding banks of the Company.

27.5 Share-based payment reserve

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

28. Interest and similar income

	Company 2012 Rm	Company 2011[1] Rm
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	19	2
Fair value adjustments on hedging instruments	(185)	1 063
Investment securities	117	193
Loans and advances to banks	811	960
Other[1]	717	805
Reverse repurchase agreements	94	155
Loans and advances to customers	40 628	40 617
Cheque accounts	2 677	2 572
Corporate overdrafts and specialised finance loans	484	664
Credit cards	2 660	2 089
Foreign currency loans	218	110
Instalment credit agreements	5 265	5 205
Interest on impaired financial assets (refer to note 10)	1 011	1 166
Loans to associates and joint ventures	494	417
Microloans	477	505
Mortgages	20 651	21 717
Other advances[2]	207	255
Overnight finance	814	584
Personal and term loans	3 228	3 260
Preference shares	251	189
Wholesale overdrafts	2 191	1 884
Other interest[3]	1 136	1 207
Statutory liquid asset portfolio	5 584	4 285
	48 110	48 327
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale financial assets held in a fair value hedging relationship (refer to note 50.2)	1 780	428
Loans and advances to customers	431	41
Statutory liquid asset portfolio	1 349	387
Fair value adjustments on hedging instruments	390	1 630
Cash flow hedges (refer to note 50.2)	1 990	2 112
Economic hedges	(9)	(14)
Fair value hedges (refer to note 50.2)	(1 591)	(468)
Interest on financial assets held at amortised cost and available-for-sale financial assets	45 880	45 343
Interest on financial assets designated at fair value through profit or loss	60	926
Hedging instrument	(574)	(567)
Investment securities	68	131
Loans and advances	497	1 215
Statutory liquid asset portfolio	69	147
	48 110	48 327

Notes
[1]Comparatives have been reclassified, refer to note 1.1.
[2]Includes items such as interest on factored debtors' book.
[3]Includes items such as overnight interest on contracts for difference and inter-segment eliminations between 'Interest and similar income', 'Interest expense and similar charges', 'Gains and losses from banking and trading activities' and 'Gains and losses from investment activities'.

	Company	
	2012 Rm	2011[1] Rm
29. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	1 350	1 350
Debt securities in issue	8 236	9 604
Deposits due to customers	17 748	16 180
Call deposits	2 863	3 072
Cheque account deposits	3 171	2 810
Credit card deposits	9	10
Fixed deposits	6 884	7 064
Foreign currency deposits	73	80
Notice deposits	2 469	776
Other	134	299
Savings and transmission deposits	2 145	2 069
Deposits from banks	1 227	1 273
Call deposits	677	744
Fixed deposits	517	504
Other	33	25
Fair value adjustments on hedging instruments	(998)	(778)
Interest incurred on finance leases	51	85
Other[2]	(1 095)	(977)
	26 519	26 737
Portfolio analysis		
Fair value adjustments on amortised cost instruments held in a fair value hedging relationship (refer to note 50.2)	446	179
Borrowed funds	44	39
Debt securities in issue	402	140
Fair value adjustments on hedging instruments	(652)	(482)
Cash flow hedges (refer to note 50.2)	(79)	(155)
Economic hedges	(185)	(174)
Fair value hedges (refer to note 50.2)	(388)	(153)
Interest on financial liabilities designated at fair value through profit or loss	724	841
Borrowed funds	70	—
Debt securities in issue	366	556
Deposits due to customers	634	581
Hedging instruments	(346)	(296)
Interest on financial liabilities held at amortised cost	26 001	26 199
	26 519	26 737

Notes

[1]Comparatives have been reclassified, refer to note 1.1.

[2]Includes items such as inter-segment eliminations between 'Interest and similar income', 'Interest expense and similar charges', 'Gains and losses from banking and trading activities' and 'Gains and losses from investment activities'.

	Company	
	2012 Rm	2011[1] Rm
30. Net fee and commission income		
Asset management and other related fees	**62**	78
Consulting and administration fees	**104**	79
Credit-related fees and commissions	**11 856**	11 746
Cheque accounts	**3 539**	3 292
Credit cards[2,3]	**428**	449
Electronic banking	**4 067**	4 086
Other[4]	**1 352**	1 544
Savings accounts	**2 470**	2 375
Insurance commission received	**461**	432
Investment banking fees	**252**	202
Merchant income[3]	**1 843**	1 656
Other	**66**	78
Trust and other fiduciary service fees	**29**	19
Portfolio and other management fees	**19**	14
Trust and estate income	**10**	5
Fee and commission income	**14 673**	14 290
Fee and commission expense	**(1 129)**	(1 026)
Cheque processing fees	**(161)**	(171)
Other	**(478)**	(427)
Transaction-based legal fees	**(310)**	(227)
Trust and other fiduciary service fees	**(56)**	(64)
Valuation fees	**(124)**	(137)
	13 544	13 264

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

	Company	
	2012 Rm	2011[1] Rm
30.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	**3 539**	3 292
Credit cards	**428**	449
Other	**869**	927
Savings accounts	**2 470**	2 375
Fee and commission income	**7 306**	7 043
Fee and commission expense	**(904)**	(794)
	6 402	6 249

Notes

[1]Comparatives have been reclassified.

[2]Includes acquiring and issuing fees.

[3]During the current reporting period, certain clearing fees were reclassified from 'Credit cards' to 'Merchant income' to more accurately present Card's non-interest income. This resulted in a reclassification of comparatives.

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

	Company	
	2012 Rm	2011 Rm
31. Gains and losses from banking and trading activities[1]		
Associates and joint ventures – dividends received	74	—
Subsidiaries – loss realised on disposal	—	(15)
Net gains on investments[1,2]	188	429
Debt instruments designated at fair value through profit or loss	179	214
Equity instruments designated at fair value through profit or loss	19	235
Available-for-sale unwind from reserve	(10)	(20)
Net trading result	3 429	2 095
Net trading income excluding the impact of hedge accounting	3 407	2 069
Ineffective portion of hedges	22	26
Cash flow hedges (refer to note 50.2)	45	33
Fair value hedges (refer to note 50.2)	(23)	(7)
Other gains	38	8
	3 729	2 517
Net trading income excluding the impact of hedge accounting	3 407	2 069
Losses on financial instruments designated at fair value through profit or loss	(750)	(835)
Net gains on financial assets designated at fair value through profit or loss	1 292	594
Net losses on financial liabilities designated at fair value through profit or loss	(2 042)	(1 429)
Gains on financial instruments held for trading	4 157	2 904
Other gains	38	8
(Losses)/gains on financial instruments designated at fair value through profit or loss	(27)	26
Gains/(losses) on financial instruments held for trading	65	(18)
32. Gains and losses from investment activities		
Associates and joint ventures – dividends received	4	—
Net gains on investments		
Other[3]	285	452
	289	452
33. Other operating income		
Foreign exchange differences	39	37
Profit on disposal of property and equipment	80	27
Profit on sale of repossessed properties	14	36
Gross sales	550	304
Cost of sales	(536)	(268)
Rental income	104	102
Sundry income[4]	168	174
	405	376

Notes

[1]In order to provide for improved disclosure, revaluations between debt and equity instruments have been reclassified.

[2]Due to structure changes, certain revenue streams have been reclassified from 'Markets' to Corporate'. This also resulted in a reclassification from 'Net trading result' to 'Net gains on investments'.

[3]Includes gains and losses from instruments designated at fair value through profit or loss.

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

	Company 2012 Rm	Company 2011 Rm
34. Operating expenses		
Amortisation of intangible assets (refer to note 16)	**143**	148
Auditors' remuneration[1]	**148**	149
Audit fees – current reporting period	**102**	97
Audit fees – under provision	**9**	5
Audit related fees[1]	**31**	37
Other services	**6**	10
Cash transportation	**591**	643
Depreciation (refer to note 15)	**1 153**	1 154
Equipment costs	**177**	173
Rentals	**105**	109
Maintenance	**72**	64
Information technology[2]	**1 925**	2 061
Marketing costs	**925**	900
Operating lease expenses on properties	**912**	878
Other property costs	**160**	188
Other[3]	**762**	419
Printing and stationery	**180**	213
Professional fees[2]	**608**	874
Property costs	**1 182**	1 042
Staff costs	**11 087**	11 685
Bonuses	**827**	1 100
Current service costs on post-retirement benefit fund	**513**	647
Other[4]	**386**	427
Salaries	**8 748**	8 860
Share-based payments (refer to note 50 of the Bank's financial statements)	**431**	434
Training costs	**182**	217
Telephone and postage	**635**	656
	20 588	21 183
35. Other impairments		
Financial instruments		
Amortised cost[5]	**258**	26
Other	**238**	18
Computer software development costs	**68**	—
Investments in associates and joint ventures (refer to note 13.1)	**—**	(2)
Repossessed properties	**—**	20
Subsidiaries[6]	**170**	—
	496	44

The current and prior reporting period's impairment losses reported by segment, are disclosed in note 54 of the Bank's financial statements.

Notes

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

[2]'Information technology' and 'Professional fees' include research and development costs totalling **R113 million** (2011: R101 million).

[3]Includes accommodation, travel and entertainment costs.

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

[5]These impairments relate to the impairment of loans advanced by Absa Bank to CPF Equity subsidiaries.

[6]The impairments in subsidiaries relates to impairments of the following: Barrie Island R10 million, Ballito R57 million, Ngwenya R83 million and Sugarloaf Investments R20 million.

	Company 2012 Rm	Company 2011 Rm
36. Indirect taxation		
Training levy	90	87
VAT net of input credits	445	818
	535	905
37. Taxation expense		
Current		
Foreign tax	39	38
South African current tax	2 834	3 729
South African current tax – prior reporting period	(236)	116
STC	45	171
	2 682	4 054
Deferred		
Deferred tax (refer to note 17.1)	(85)	(851)
Accelerated tax depreciation	(46)	(146)
Allowances for loan losses	(19)	(144)
Other provisions	11	(32)
Other temporary differences	(63)	(533)
Retirement benefit fund asset	32	4
	2 597	3 203
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	10 062	11 596
Tax calculated at a tax rate of 28%	2 817	3 247
Effect of different tax rates in other countries	—	(30)
Expenses not deductible for tax purposes	20	88
Income not subject to tax	(311)	(321)
Other	26	48
STC	45	171
	2 597	3 203

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 withholding tax on shareholders (dividend tax). On 1 April 2012 the dividend tax came into effect and the tax ceased to be levied at a company level, and is now levied on the shareholders who receive the dividends.

Unutilised STC credits at the end of December 2011 were utilised against the STC payable on the final dividend declared in February 2012. Deferred tax assets relating to unutilised STC credits up to 31 March 2012 have been utilised.

	Company 2012 Rm	Company 2011 Rm
38. Earnings per share		
Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holder, 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 reporting period. Diluted earnings are determined by adjusting the profit or loss attributable to the ordinary equity holder and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares. There are currently no instruments in issue that would have a dilutive impact.		
Basic earnings attributable to the ordinary equity holder	**7 170**	8 109
Weighted average number of ordinary shares in issue (millions)	**375,3**	374,1
Issued shares at the beginning of the reporting period	**374,1**	374,1
Effect of shares issued during the reporting period (weighted)	**1,2**	—
Basic earnings per share (cents)	**1 910,5**	2 167,6

	Company 2012 Gross Rm	2012 Net[1] Rm	2011 Gross Rm	2011 Net[1] Rm
39. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to the ordinary equity holder		**7 170**		8 109
Total headline earnings adjustments:		**143**		1
IAS 16 – Profit on disposal of property and equipment (refer to note 33)	**(80)**	**(62)**	(27)	(23)
IAS 27 – Net loss on disposal of subsidiaries (refer to note 31)	**—**	**—**	15	11
IAS 28 and 31 – Impairment reversal of investments in associates and joint ventures (refer to note 35)	**—**	**—**	(2)	(1)
IAS 36 – Impairment of investment in subsidiary	**170**	**149**	—	—
IAS 38 and IAS 36 – Loss on disposal and impairment of intangible assets	**68**	**49**	—	—
IAS 39 – Release of available-for-sale reserves (refer to note 31)	**10**	**7**	20	14
Headline earnings/diluted headline earnings		**7 313**		8 110
Headline earnings per share/diluted headline earnings per share (cents)		**1 948,5**		2 167,9

Notes
[1]The net amount is reflected after taxation.

	Company 2012 Rm	Company 2011 Rm
40. Dividends per share		
Ordinary dividend paid[1]		
Interim dividend (27 July 2012: **695,5 cents)** (2 August 2011: 414,3 cents)	**2 602**	1 550
Special dividend paid to the ordinary shareholder (27 September 2012: **330,5 cents)**	**1 000**	—
Final dividend (12 February 2013: **605,5 cents)** (10 February 2012: 620,1 cents)	**2 293**	2 320
	5 895	3 870
Preference dividend paid[1]		
Interim dividend (27 July 2012: **3 134,6575 cents)** (2 August 2011: 2 858,3014 cents)	**155**	141
Final dividend (12 February 2013: **2 950,5479 cents)** (10 February 2012: 2 827,2329 cents)	**146**	140
	301	281

Note

[1]Included in the statement of changes in equity is the interim dividend paid during the current reporting period **R2 602 million** (2011: R1 550 million), special dividend paid of R1 000 million (2011: Rnil) and the final dividend paid at the end of the previous reporting period of **R2 320 million** (R2011: R1 350 million), attributed to the ordinary equity holders, as well as the interim dividend paid to preference equity holders during the current reporting period of **R155 million** (2011: R141 million) and the final dividend paid at the end of the previous reporting period of **R140 million** (2010: R143 million) paid to the preference equity holders.

41. Transfer of financial assets

41.1 Assets transferred, but not derecognised

In the ordinary course of business, the Company enters into transactions that result in the transfer of assets to third parties or SPEs that are not derecognised.

Where the holders of the associated liabilities only have recourse to the transferred assets the fair value of the transferred assets, the fair value of the liabilities and the net asset or liability were as follows:

	2012 Carrying amount of assets Rm	2012 Associated liabilities Rm
Loans and advances to customers		
Commissioner Street 1	383	(381)

	2012 Fair value of assets Rm	2012 Fair value of liabilities Rm	2012 Net asset/ (liabilities) Rm
Loans and advances to customers			
Commissioner Street 1	383	(381)	2

Details of the Company's current securitisations are described below:

Commissioner Street No 1 Proprietary Limited (Commissioner Street 1)

The Company sold certain exposures to Commissioner Street 1, a SPE established by the Company. 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 Company invested in 100% of the B notes. External investors invested in 100% of the A1 notes and A2 notes. Due to the Company being exposed to the majority of risks and rewards of Commissioner Street 1, the Company 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 Company 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.

41. Transfer of financial assets *(continued)*

41.2 Assets recognised to the extent of continuing involvement

The following assets are still recognised by the Company due to its continuing involvement in these assets:

	2012		
	Carrying amounts of assets before transfer Rm	Carrying amounts of assets Rm	Associated liabilities Rm
Loans and advances to customers			
Corporate overdrafts and specialised finance loans	1 185	1 146	—

Details of the Company's continuing involvement are described below:

Commissioner street No 3 Proprietary Limited (Commissioner Street 3)

The Company sold certain exposures to Commissioner Street 3, a SPE established by the Company. Commissioner Street 3 issued various classes of notes to investors consisting of:

- class A1 secured floating rate notes;
- class A2 secured floating rate notes;

The Company invested in 100% of the A2 notes and external investors invested in 100% of the A1 notes.

Due to the Company not being exposed to the majority of risks and rewards of Commissioner Street 3, the Company recognised only its continuing involvement in the loan.

The loans are included in the statement of financial position under Loans and advances to customers.

Commissioner Street No 4 Proprietary Limited (Commissioner Street 4)

The Company sold certain exposures to Commissioner Street 4, a SPE established by the Company. 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 Company invested in 67% of the A3 floating rate notes, 100% of the A4 floating rate notes and 100% of the A6 notes. External investors invested in 100% of the A1, A2, A3 fixed rate notes, A4 fixed rate notes and A5 notes, as well as 33% of A3 floating rate notes. Due to the Company 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 Company 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.

41.3 Securities lending and repurchase agreements

The following assets have been transferred, but are still being recognised by the Company:

	2012		2011	
	Carrying amounts of assets at the reporting date Rm	Associated liabilities at the reporting date Rm	Carrying amounts of assets at the reporting date Rm	Associated liabilities at the reporting date Rm
Trading portfolio assets				
Debt instruments	14 599	(14 599)	20 085	(20 085)
Equity instruments	1 149	(1 405)	1 471	(1 850)
Total	15 748	(16 004)	21 556	(21 935)

	Company 2012 Rm	Company 2011 Rm
42. Related parties		
Refer to note 44 of the Bank's financial statements for the full disclosure of related party transactions.		
42.1 Balances and transactions with the parent company[1]		
Other assets	64	—
Deposits from banks	(708)	(220)
Transactions		
Dividends paid	5 921	3 184
42.2 Balances and transactions with subsidiaries[1]		
The following are balances with and transactions entered into with, subsidiaries:		
Balances		
Loans to Group companies	971	1 161
Subsidiary shares	1 834	3 279
Trading and hedging portfolio assets	126	71
Transactions		
Interest and similar income	(122)	(172)
Interest expense and similar charges	(38)	(49)
Net fee and commission income	9	6
Gains and losses from banking and trading activities	(94)	(73)
Operating expenditure	(31)	(40)
Various terms and conditions are agreed upon, taking into account transfer pricing and relevant tax requirements.		
42.3 Balances and transactions with fellow subsidiaries[1]		
The following are balances and transactions entered into with fellow subsidiaries:		
Balances		
Trading and hedging portfolio assets	1 213	(4)
Loans to Group companies	10 777	7 164
Deposits from banks	(3 455)	(3 520)
Debt securities in issue	(242)	(1 625)
Loans from Group companies	—	(1 438)
Transactions		
Interest and similar income	(476)	(563)
Interest expense and similar charges	615	777
Net fee and commission income	(474)	(512)
Gains and losses from banking and trading activities	1 905	1 624
Other operating income	(32)	(26)
Operating expenditure	(412)	(442)
Various terms and conditions are agreed upon, taking into account transfer pricing and relevant tax requirements.		
42.4 Transfer of assets from subsidiaries and fellow subsidiaries[1]		
The following are transactions entered into with subsidiaries and fellow subsidiaries:		
Transactions		
Acquisition of bond investments	—	1 351
Acquisition of equity investments	—	250
Sale of debt investments[2]	2 500	—
43. Assets under management and administration[2]		
Private equity	—	728
Portfolio management	5 942	5 136
Unit trusts	551	262
	6 493	6 126
44. Financial guarantee contracts[3]		
Financial guarantee contracts	876	2 317

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

Notes

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

[2]During December 2012, a 73,4% interest in the semi-captive fund worth R2 300 million and a 39,95% interest in Treacle private equity worth R176 million was transferred from the Bank through its equity investments division to Absa Bank Trading Investment Solutions (ATIS). This transaction was completed in order to reduce the equity risk exposure on the Bank's Statement of Financial Position and to create a ring-fenced entity to house equity investment exposure.

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

	Company	
	2012 Rm	2011 Rm
45. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**208**	119
The Company has capital commitments in respect of computer equipment and property development. Management is confident that future net revenues and funding will be sufficient to cover these commitments.		
Operating lease payments due		
No later than one year	**893**	1 073
Later than one year and no later than five years	**1 816**	2 062
Later than five years	**303**	488
	3 012	3 623
The operating lease commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Company. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.		
Sponsorship payments due		
No later than one year	**289**	209
Later than one year and no later than five years	**884**	299
	1 173	508
The Company has sponsorship commitments in respect of sports, arts and culture sponsorships. Certain sponshorship agreements expire in 2013 and are under review by management for renewal in the forseeable future.		
46. Contingencies		
Guarantees	**15 540**	12 509
Irrevocable debt facilities	**46 191**	45 637
Irrevocable equity facilities	**543**	494
Letters of credit	**5 894**	4 560
Other	**6**	10
	68 174	63 210

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

Guarantees include performance guarantee contracts and payment guarantee contracts.

Legal proceedings

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

- Ukwanda Leisure Holdings Proprietary Limited (Ukwanda): Ukwanda was a client of derivatives broker Cortex Securities (Cortex). In December 2008, Ukwanda defaulted on its obligation to pay variation margins. Under JSE rules, the positions of the defaulting shareholders were closed out. Cortex was unable to meet its payment obligations as required by JSE rules. The Bank, as the clearing bank for Cortex, was obligated to underwrite Cortex's obligations to the JSE, which it duly did, in return for the underlying shares. The Company had to make payment of an amount of R732 million as a result of the default and is claiming damages against Ukwanda for this amount. Ukwanda has counterclaimed in the amount of R1 064 million. The Company is opposing the counterclaim and a trial date has been allocated for the hearing thereof during August 2013.
- Pinnacle Point Holdings Proprietary Limited (PPG): New Port Finance Company and the trustees of the Winifred Trust (the plaintiffs) allege a local bank conducted itself unlawfully, and that the Company was privy to such conduct. They have instituted proceedings against the Company for damages in an amount of R1 387 million. The Company has entered an appearance to defend the claim. The matter has not progressed from the previous reporting period.

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

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

Regulatory matters

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

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

	Company 2012 Rm	Company 2011 Rm
47. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**8 094**	7 226
Loans and advances to banks	**692**	631
	8 786	7 857

	Company 2012 Assets Rm	Company 2012 Liabilities and equity Rm	Company 2011[1] Assets Rm	Company 2011[1] Liabilities and equity Rm
48. Consolidated statement of financial position summary – IAS 39 classification				
Fair value through profit or loss	**114 486**	**89 603**	109 691	89 759
Designated at fair value	**25 919**	**37 859**	24 958	38 071
Statutory liquid asset portfolio	**800**	**—**	804	—
Loans and advances to banks	**9 728**	**—**	7 886	—
Other assets	**16**	**—**	16	—
Loans and advances to customers	**11 144**	**—**	9 377	—
Investment securities	**4 231**	**—**	6 875	—
Deposits from banks	**—**	**14 977**	—	13 413
Deposits due to customers	**—**	**18 663**	—	20 500
Debt securities in issue	**—**	**3 441**	—	3 387
Borrowed funds	**—**	**778**	—	771
Held for trading	**83 128**	**47 889**	80 434	49 232
Trading portfolio assets	**83 128**	**—**	80 434	—
Trading portfolio liabilities	**—**	**47 889**	—	49 232
Hedging instruments	**5 439**	**3 855**	4 299	2 456
Hedging portfolio assets	**5 439**	**—**	4 299	—
Hedging portfolio liabilities	**—**	**3 855**	—	2 456
Available-for-sale	**64 018**	**—**	57 732	—
Designated as available-for-sale	**36 845**	**—**	34 390	—
Statutory liquid asset portfolio	**35 047**	**—**	33 327	—
Investment securities	**1 798**	**—**	1 063	—
Hedged items				
Statutory liquid asset portfolio	**27 173**	**—**	23 342	—
Amortised cost	**570 052**	**606 995**	557 117	587 543
Designated at amortised cost	**565 082**	**593 101**	553 720	571 262
Cash, cash balances and balances with central banks	**20 433**	**—**	19 505	—
Loans and advances to banks	**31 321**	**—**	47 984	—
Other assets	**10 058**	**—**	9 334	—
Loans and advances to customers	**491 521**	**—**	468 572	—
Loans to Group companies	**11 749**	**—**	8 325	—
Deposits from banks	**—**	**28 488**	—	31 665
Other liabilities	**—**	**11 851**	—	8 472
Deposits due to customers	**—**	**448 045**	—	409 443
Debt securities in issue	**—**	**91 595**	—	112 471
Loans from Group companies	**—**	**—**	—	1 438
Borrowed funds	**—**	**13 122**	—	7 773
Hedged items	**4 970**	**13 894**	3 397	16 281
Loans and advances to customers	**4 970**	**—**	3 397	—
Debt securities in issue	**—**	**9 887**	—	10 774
Borrowed funds	**—**	**4 007**	—	5 507
Non-financial assets and liabilities	**12 631**	**4 841**	13 271	4 261
Total equity	**—**	**59 748**	—	56 248
	761 187	**761 187**	737 811	737 811

Note

[1]Comparatives have been reclassified, refer to note 1.1.

49. Fair value of financial instruments

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

	Company			
	2012		2011[1, 2]	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the SARB	12 339	12 339	12 279	12 279
Coins and bank notes	8 094	8 094	7 226	7 226
Cash, cash balances and balances with central banks (refer to note 2)	20 433	20 433	19 505	19 505
Loans and advances to banks (refer to note 4)	31 321	31 321	47 984	47 984
Other assets (refer to note 6)	10 058	10 058	9 334	9 334
Retail Markets	315 133	322 704	305 530	306 074
Cheque accounts	1 578	1 578	2 244	2 244
Credit cards	25 987	25 987	14 751	14 751
Instalment credit agreements	41 178	42 554	37 542	37 814
Loans to associates and joint ventures	6 634	6 634	4 836	4 836
Microloans	1 525	1 965	1 368	1 470
Mortgages	226 119	231 874	232 292	232 462
Other	0	0	4	4
Personal and term loans	12 112	12 112	12 493	12 493
Business Markets	84 517	86 901	86 461	86 908
Cheque accounts	16 402	16 402	12 468	12 468
Commercial asset finance	15 893	16 251	14 737	14 766
Commercial property finance	37 583	39 609	41 703	42 121
Term loans	14 639	14 639	17 553	17 553
CIBW	91 762	91 762	76 439	76 439
Head Office inter-segment eliminations and Other	109	109	142	142
Loans and advances to customers – net of impairment (refer to note 9)	491 521	501 476	468 572	469 563
Loans to Absa Group companies (refer to note 11)	11 749	11 749	8 325	8 325
Total	565 082	575 037	553 720	554 711
Financial liabilities				
Deposits from banks (refer to note 18)	28 488	28 491	31 665	31 672
Other liabilities (refer to note 20)	11 851	11 851	8 472	8 472
Call deposits	56 648	56 648	55 528	55 528
Cheque account deposits	139 795	139 795	130 948	130 948
Credit card deposits	1 938	1 938	1 884	1 884
Fixed deposits	107 733	108 174	112 581	112 705
Foreign currency deposits	9 723	9 723	6 898	6 898
Notice deposits	55 728	55 935	28 500	28 506
Other	948	948	875	875
Savings and transmission deposits	75 532	75 532	72 229	72 229
Deposits due to customers (refer to note 22)	448 045	448 693	409 443	409 573
Debt securities in issue (refer to note 23)	91 595	91 595	112 471	112 471
Loans from Absa Group companies (refer to note 24)	—	—	1 438	1 438
Borrowed funds (refer to note 25)	13 122	14 407	7 773	8 497
Total	593 101	595 037	571 262	572 123

Notes

[1]Comparatives have been reclassified, refer to note 1.1.

[1]Comparatives have been reclassified for structure changes made during the current reporting period, refer to note 54 of the Bank's financial statements.

50. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Company's accounting policies.

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

50.1 Derivatives held for trading

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

50.2 Derivatives held for hedging

As part of the Company's hedging activities, it enters into derivative transactions which are designated as either fair value or cash flow hedges for recognised assets or liabilities or forecasted transactions.

50.2.1 Derivatives designated as fair value hedges

Fair value hedges are used by the Company to protect against changes in fair value of financial instruments due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Company's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

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

	Company	
	2012 Rm	2011 Rm
Gains on hedged items (assets) (refer to note 28)	**1 780**	428
Losses on hedging instruments (assets) (refer to note 28)	**(1 591)**	(468)
Losses on hedged items (liabilities) (refer to note 29)	**(446)**	(179)
Gains on hedging instruments (liabilities) (refer to note 29)	**388**	153

Hedge effectiveness is measured using a statistical method and results would have to be within the 80% to 125% range in order for hedge accounting to be applied.

The amount of movement in fair value that was recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Company	
	2012 Rm	2011 Rm
Ineffectiveness (outside range) (refer to note 31)	**(23)**	(7)
Ineffectiveness (inside range)	**(21)**	(72)

50. Derivatives *(continued)*

50.2 Derivatives held for hedging *(continued)*

50.2.1 Derivatives designated as cash flow hedges

The objective of cash flow hedges is to protect against changes in future interest cash flows resulting from the impact of changes in market interest risk and reinvestment or reborrowing of current balances.

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

The Company is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Company designates interest rate swaps as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows due to changes in interest rates.

The following schedule indicates the periods when the cash flows from the hedged item are expected to occur and when they are expected to affect the profit and loss component of the statement of comprehensive income as at the reporting date. The cash flows presented below are on an undiscounted basis (before taxation).

	Company						
	2012						
	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	**1 947**	**1 324**	**634**	**198**	**20**	**—**	**4 123**
Forecast payable cash flow	**(11)**	**—**	**—**	**(1)**	**(2)**	**(26)**	**(40)**
Net cash flow before taxation	**1 936**	**1 324**	**634**	**197**	**18**	**(26)**	**4 083**
	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	1 889	1 129	383	36	—	—	3 437
Forecast payable cash flow	(5)	—	(7)	(14)	(84)	(24)	(134)
Net cash flow before taxation	1 884	1 129	376	22	(84)	(24)	3 303

50. Derivatives *(continued)*

50.2 Derivatives held for hedging *(continued)*

50.2.1 Derivatives designated as cash flow hedges

The following net gains/(losses) on cash flow hedges were recycled from other comprehensive income to the profit and loss component of the statement of comprehensive income:

	Company	
	2012 Rm	2011 Rm
Interest and similar income (refer to note 28)	**1 990**	2 112
Interest expense and similar charges (refer to note 29)[1]	**79**	155
Gains and losses from banking and trading activities (refer to note 31)	**45**	33
	2 114	2 300

The amount of movement in fair value that has been recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Company	
	2012 Rm	2011 Rm
Ineffectiveness (outside range) (refer to note 31)	**45**	33
Ineffectiveness (inside range)	**202**	66

50.3 Detailed breakdown of derivatives

The Company uses the following derivative instruments for both hedging and non-hedging purposes:

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (i.e. fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument, at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Company and a customer.

Note

[1]These balances are shown before taxation.

50. Derivatives *(continued)*

50.3 Detailed breakdown of derivatives *(continued)*

	Company					
	2012				2011	
	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	50 086	(393)	450	(843)	57 159	(516)
Currency swaps	534 508	437	4 960	(4 523)	500 798	(818)
Over-the-counter (OTC) foreign exchange options	35 237	160	401	(241)	26 844	131
OTC foreign exchange options purchased	18 820	401	401	—	15 602	617
OTC foreign exchange options written	16 417	(241)	—	(241)	11 242	(486)
Other OTC foreign exchange derivatives	247	(1)	2	(3)	—	—
Exchange-traded derivatives	97 174	1	1	—	248 545	0
Eurodollar futures	96 533	—	—	—	247 388	—
Exchange-traded options purchased	496	1	1	—	—	—
Exchange-traded options written	—	—	—	—	38	0
Exchange-traded futures	145	—	—	—	1 119	0
Embedded derivatives	—	—	—	—	40	1
Total foreign exchange derivatives	**717 252**	**204**	**5 814**	**(5 610)**	833 386	(1 202)
Interest rate derivatives						
Forward rate agreements (FRAs)	1 281 461	(131)	716	(847)	1 693 452	(111)
Currency interest rate swaps	174 075	(827)	4 134	(4 961)	158 563	(991)
Swaps	62 362	(5)	1 255	(1 260)	2 611	(7)
Interest rate swaps	1 122 885	1 758	32 096	(30 338)	1 251 340	1 928
OTC options on FRAs and swaps	109 669	(142)	455	(597)	208 010	59
OTC options on FRAs and swaps purchased	71 196	455	455	—	111 025	737
OTC options on FRAs and swaps written	38 473	(597)	—	(597)	96 985	(678)
OTC bond option contracts	—	—	—	—	2 042	(37)
OTC bond options purchased	—	—	—	—	619	28
Other bond options written	—	—	—	—	1 423	(65)
Other OTC interest rate derivatives	12 319	4	47	(43)	2 159	(15)
Exchange-traded derivatives	7 647	4	4	—	4 681	0
Exchange-traded options on FRAs and swaps purchased	7 647	4	4	—	4 681	0
Embedded derivatives	11 791	(436)	533	(969)	9 378	(151)
Total interest rate derivatives	**2 782 209**	**225**	**39 240**	**(39 015)**	3 332 236	675
Balance carried forward	**3 499 461**	**429**	**45 054**	**(44 625)**	4 165 622	(527)

50. Derivatives *(continued)*

50.3 Detailed breakdown of derivatives *(continued)*

Trading *(continued)*

	Company 2012 Notional amount Rm	2012 Net fair value Rm	2012 Fair value assets Rm	2012 Fair value liabilities Rm	2011 Notional amount Rm	2011 Net fair value Rm
Balance brought forward	**3 499 461**	**429**	**45 054**	**(44 625)**	4 165 622	(527)
Equity derivatives						
OTC options purchased	7 991	512	672	(160)	8 907	685
OTC options written	8 331	(544)	—	(544)	11 210	(1 948)
Equity futures	1 989	(6)	—	(6)	17 195	33
Other OTC equity derivatives	30 505	(659)	292	(951)	22 807	(873)
OTC equity derivatives	48 816	(697)	964	(1 661)	60 119	(2 103)
Exchange-traded derivatives	3 361	5	5	—	1 419	(12)
Exchange-traded options purchased	544	5	5	—	176	1
Exchange-traded options written	14	—	—	—	1 191	(13)
Exchange-traded futures	2 803	—	—	—	52	0
Embedded derivatives	1 028	(121)	—	(121)	5 898	(199)
Total equity derivatives	**53 205**	**(813)**	**969**	**(1 782)**	67 436	(2 314)
Commodity derivatives						
Agricultural forwards	361	(32)	—	(32)	332	24
OTC agricultural options	132	(9)	7	(16)	295	(8)
OTC agricultural options purchased	54	(1)	6	(7)	150	0
OTC agricultural options written	78	(8)	1	(9)	145	(8)
OTC options on gold	28	—	—	—	12	—
OTC gold options purchased	28	—	—	—	12	—
Other OTC commodity derivatives	4 768	502	596	(94)	5 767	127
OTC commodity derivatives	5 289	461	603	(142)	6 406	143
Exchange-traded agricultural derivatives	2 218	2	2	—	2 481	1
Exchange-traded agricultural futures	2 218	2	2	—	2 481	1
Embedded derivatives	296	(32)	—	(32)	—	—
Total commodity derivatives	**7 803**	**431**	**605**	**(174)**	8 887	144
Credit derivatives						
Credit derivatives purchased (swaps)	4 327	(48)	4	(52)	6 236	33
Credit derivatives written (swaps)	11 865	18	96	(78)	9 743	(519)
Embedded derivatives	11 201	43	95	(52)	10 590	25
Total credit derivatives	**27 393**	**13**	**195**	**(182)**	26 569	(461)
Total trading	**3 587 862**	**60**	**46 823**	**(46 763)**	4 268 514	(3 158)
Balance carried forward	**3 587 862**	**60**	**46 823**	**(46 763)**	4 268 514	(3 158)

	Company					
	2012				2011	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
50. Derivatives *(continued)*						
50.3 Detailed breakdown of derivatives *(continued)*						
Balance brought forward	**3 587 862**	**60**	**46 823**	**(46 763)**	4 268 514	(3 158)
Hedging						
Cash flow hedges						
Interest rate swaps	**149 992**	**3 845**	**3 859**	**(14)**	148 899	3 142
Total cash flow hedges	**149 992**	**3 845**	**3 859**	**(14)**	148 899	3 142
Fair value hedges						
Currency swaps	**137 150**	**(2 261)**	**1 580**	**(3 841)**	11 071	(360)
Interest rate swaps	**—**	**—**	**—**	**—**	141 901	(939)
Total fair value hedges	**137 150**	**(2 261)**	**1 580**	**(3 841)**	152 972	(1 299)
Total hedges	**287 142**	**1 584**	**5 439**	**(3 855)**	301 871	1 843
Total derivative instruments	**3 875 004**	**1 644**	**52 262**	**(50 618)**	4 570 385	(1 315)

Derivative assets and liabilities subject to counterparty netting agreements amounted to **R43 652 million** (2011: R41 778 million). Additionally, the Company held **R7 786 million** (2011: R3 908 million) of collateral against the net derivative asset exposure. OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association (ISDA) Master Agreement is used by the Company. The ISDA Master Agreement and all the confirmations entered into under it form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and replace them with a single net amount payable by one party to the other.

Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Company's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates on hand, the extent to which instruments are favourable or unfavourable and therefore the aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

Fair value

The amounts disclosed represent the fair value as at the reporting date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

51. Fair value hierarchy disclosures

51.1 Valuation methodology

The table below shows the Company's financial instruments that are recognised and subsequently measured at fair value and are analysed by valuation techniques. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out in the table below.

	Company			
	2012			
	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	36 806	—	39	36 845
Statutory liquid asset portfolio (refer to note 3)	35 047	—	—	35 047
Investment securities (refer to note 12)	1 759	—	39	1 798
Available-for-sale financial assets in a fair value hedging relationship				
Statutory liquid assets (refer to note 3)	27 173	—	—	27 173
Financial assets designated at fair value through profit or loss	1 077	15 256	9 586	25 919
Statutory liquid asset portfolio (refer to note 3)	797	3	—	800
Loans and advances to banks (refer to note 4)	—	9 728	—	9 728
Loans and advances to customers (refer to note 9)	—	5 523	5 621	11 144
Investment securities (refer to note 12)	280	2	3 949	4 231
Other assets (refer to note 6)	—	—	16	16
Financial assets held for trading	25 567	62 048	952	88 567
Derivative assets (refer to note 5)	1	46 743	79	46 823
Trading assets (refer to note 5)	25 566	9 866	873	36 305
Hedging assets (refer to note 5)	—	5 439	—	5 439
Total financial assets	90 623	77 304	10 577	178 504
Financial liabilities designated at fair value through profit or loss	778	29 222	7 859	37 859
Deposits from banks (refer to note 18)	—	14 977	—	14 977
Deposits due to customers (refer to note 22)	—	10 991	7 672	18 663
Debt securities in issue (refer to note 23)	—	3 254	187	3 441
Borrowed funds (refer to note 25)	778	—	—	778
Financial liabilities held for trading	1 131	50 539	74	51 744
Derivative liabilities (refer to note 19)	5	46 684	74	46 763
Trading liabilities (refer to note 19)	1 126	—	—	1 126
Hedging liabilities (refer to note 19)	—	3 855	—	3 855
Total financial liabilities	1 909	79 761	7 933	89 603

Notes

[1]The nature of the valuation techniques is summarised in note 51.2.

[2]The nature of the valuation techniques is summarised in note 51.3.

[3]Comparatives have been reclassified, refer to note 1.1.

Company			
2011[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
34 286	—	104	34 390
33 327	—	—	33 327
959	—	104	1 063
23 883	—	—	23 883
1 506	11 345	12 107	24 958
801	3	—	804
—	7 886	—	7 886
—	3 366	6 011	9 377
705	90	6 080	6 875
—	—	16	16
26 105	57 472	1 156	84 733
34	45 302	209	45 545
26 071	7 871	947	34 889
—	4 299	—	4 299
85 780	68 817	13 367	167 964
771	29 477	7 821	38 069
—	13 413	—	13 413
—	12 888	7 612	20 500
—	3 176	209	3 385
771	—	—	771
529	50 976	183	51 688
—	48 520	183	48 703
529	—	—	529
—	2 456	—	2 456
1 300	80 453	8 004	89 757

51. Fair value hierarchy disclosures *(continued)*

51.2 Valuations based on observable inputs

Valuations based on observable inputs include:

Level 1

Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes highly liquid government and other bonds, active listed equities, exchange-traded commodities and exchange-traded derivatives.

Level 2

Financial instruments valued using inputs other than quoted prices as described above for Level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

This category includes certain private equity investments, loans and advances, investments in debt instruments, commodity derivatives, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

51.3 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.

51. Fair value hierarchy disclosures *(continued)*

51.3 Valuations based on unobservable inputs *(continued)*

Level 3 *(continued)*

(vii) Discount rates

Discount rates are key inputs in the valuation of certain private equity investments. Discount rates are unobservable for some investments.

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Judgemental inputs on valuation of principal instruments

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Debt securities and treasury as well as 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.

51. Fair value hierarchy disclosures *(continued)*

51.4 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 for all movements in Level 3 financial instruments is set out below:

Company

2012

	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 at the beginning of the reporting period	**104**	**16**	**6 011**	**6 080**	**947**
Net interest income	—	—	11	32	—
Gains and losses from banking and trading activities	—	—	691	175	68
Gains and (losses) from investment activities	(1)	—	—	(215)	—
Purchases	—	—	630	114	—
Sales	—	—	(868)	(2 082)	(40)
Issues	—	—	154	—	—
Settlements	—	—	(1 008)	(108)	(102)
Transferred to/(from) assets/liabilities	(64)	—	—	(47)	—
Movement in/(out) of Level 3[1]	—	—	—	—	—
Closing balance at the end of the reporting period	**39**	**16**	**5 621**	**3 949**	**873**

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 at the beginning of the reporting period	95	—	4 978	4 707	966
Net interest income	—	—	16	20	—
Gains and (losses) from banking and trading activities	—	—	541	195	62
Other comprehensive income	5	—	—	—	—
Purchases	—	16	1 386	584	41
Sales	—	—	(646)	(858)	—
Issues	—	—	720	(7)	—
Settlements	4	—	(942)	(1)	(122)
Transferred to/(from) assets/liabilities	—	—	—	55	—
Movement in/(out) of Level 3[1, 2]	—	—	(42)	1 385	—
Closing balance at the end of the reporting period	104	16	6 011	6 080	947

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 previous reporting period, the Company reassessed the parameters incorporated into the valuation models for certain unlisted equity investments. Due to these parameters now predominantly being unobservable inputs this portfolio was transferred from Level 2 into Level 3 in accordance with the Company's accounting policies.

Company

2012

Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss: Deposits due to customers Rm	Financial liabilities designated at fair value through profit or loss: Debt securities in issue Rm	Financial liabilities held for trading: Net derivatives Rm	Total financial liabilities including net derivatives Rm
13 158	7 612	209	(26)	7 795
43	—	—	—	—
934	735	7	16	758
(216)	—	—	—	—
744	—	—	(4)	(4)
(2 990)	—	—	—	—
154	920	—	(34)	886
(1 218)	(1 595)	(29)	0	(1 624)
(111)	—	—	16	16
—	—	—	27	27
10 498	7 672	187	(5)	7 854

2011

Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss: Deposits due to customers Rm	Financial liabilities designated at fair value through profit or loss: Debt securities in issue Rm	Financial liabilities held for trading: Net derivatives Rm	Total financial liabilities including net derivatives Rm
10 746	8 499	73	493	9 065
36	—	—	4	4
798	772	(14)	(94)	664
5	—	—	—	—
2 027	—	—	(43)	(43)
(1 504)	—	—	(8)	(8)
713	67	195	9	271
(1 061)	(1 071)	(1)	(388)	(1 460)
55	—	—	—	—
1 343	(655)	(44)	1	(698)
13 158	7 612	209	(26)	7 795

51. Fair value hierarchy disclosures *(continued)*

51.5 Unrealised gains and losses on Level 3 positions

The total unrealised gains and losses for the reporting period on Level 3 positions held at the reporting date are set out below:

Company

2012

	Financial assets designated at fair value through profit or loss		Financial assets held for trading	
	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm	Total financial assets excluding derivatives Rm
Net interest income	29	7	—	36
Gains and losses from banking and trading activities	437	316	24	777
Gains and losses from investment activities	—	(215)	—	(215)
	466	108	24	598

2011

	Financial assets designated at fair value through profit or loss		Financial assets held for trading	
	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm	Total financial assets excluding derivatives Rm
Net interest income	44	—	—	44
Gains and losses from banking and trading activities	530	57	62	649
	574	57	62	693

Company

2012

Financial liabilities designated at fair value through profit or loss		Financial liabilities held for trading	
Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
—	—	—	—
(735)	(0)	4	(731)
—	—	—	—
(735)	(0)	4	(731)

2011

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

51. Fair value hierarchy disclosures *(continued)*

51.6 Sensitivity analysis of valuations using unobservable inputs

As part of the Company's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

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

Company

	2012				
		Potential effect recorded in profit and loss		Potential effect recorded directly in equity	
	Significant unobservable parameters[1]	Favourable Rm	Unfavourable Rm	Favourable Rm	Unfavourable Rm
Loans and advances	i, iii, iv, v, vi, vii	245	306	—	—
Net derivatives	i, iii	150	136	—	—
Private equity	i, v, vi, vii	1 527	1 735	5	4
Structured notes and deposits	iv	181	181	—	—
Trading assets	iii, iv	27	28	—	—
Other	v, vi	2	2	—	—
		2 132	2 388	5	4

	2011				
		Potential effect recorded in profit and loss		Potential effect recorded directly in equity	
	Significant unobservable parameters[1]	Favourable Rm	Unfavourable Rm	Favourable Rm	Unfavourable Rm
Loans and advances	i, iii, iv, v, vi, vii	253	300	—	—
Net derivatives	i, iii	78	96	5	43
Private equity	v, vi, vii	799	926	—	—
Structured notes and deposits	iv	57	57	—	—
Trading assets	i	29	27	—	—
		1 216	1 406	5	43

The following table reflects how the unobservable parameters were changed in order to evaluate sensitivities of Level 3 financial instruments:

Instrument	Parameter	Positive/(negative) variance in parameters
Credit derivatives	Credit spreads	100/(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/(100) bps
Loans and advances designated at fair value through profit or loss	Credit spreads	100/(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/(100) bps

Note

[1]Refer to note 51.3 for valuation inputs.

52. Unrecognised gains/(losses) as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in the statement of comprehensive income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	Company	
	2012 Rm	2011 Rm
Opening balance at the beginning of the reporting period	**(51)**	73
New transactions	**38**	(46)
Amounts recognised in the profit and loss component of the statement of comprehensive income during current reporting period	**(80)**	(78)
Closing balance at the end of the reporting period	**(93)**	(51)

53. Acquisitions and disposals of businesses

53.1 Acquisitions of businesses during the current reporting period

There were no acquisitions of businesses during the current reporting period.

53.2 Acquisitions of businesses during the prior reporting period

There were no acquisitions of businesses during the prior reporting period.

54. Financial risks

Refer to note 58 of the Bank's financial statements.

55. Going concern

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

56. Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2012 and the date of authorisation of these stand-alone financial statements (as defined per IAS 10).