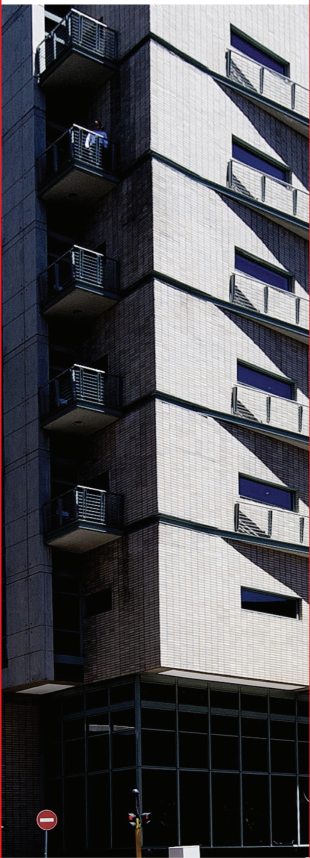
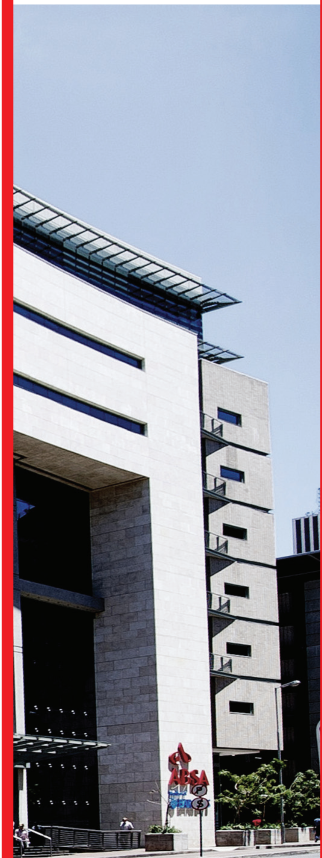
Absa Group Limited





Annual consolidated and separate financial statements

for the reporting period ended 31 December 2012

Member of
BARCLAYS

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Absa Group Limited
(1986/003934/06)
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 Group Limited audited annual consolidated and separate financial statements (financial statements) include the financial statements as well as the audited sections of the remuneration review and the risk management report (marked as 'audited' in these respective reports). These financial statements should be read in conjunction with the audited sections of the remuneration review and the risk management report.

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 Group Limited. This report includes the requirements of section 94(7)(f) of the Companies Act, No. 71 of 2008 (as amended) (the Companies Act), the King Code of Governance Principles for South Africa 2009 (King III) and other regulatory requirements.

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

Information on the membership and composition of the GACC, its terms of reference and its procedures are set out in the 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 Group'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 Group'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 Group and the external auditors in relation to the Group or any of its business units and subsidiaries.

In respect of the financial statements and accounting practices:

- confirmed the 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 Group 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;
- 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 Group and is satisfied that they are appropriate and comply in all material respects with the relevant provisions of the Companies Act, IFRS and the interpretations of IFRS standards.

Note

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

Activities of the GACC *(continued)*

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; and
- 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 Group's 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 Group. Where areas of improvement were identified by AIA, management has completed corrective actions, or is 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 Group compliance monitoring plan and the Group compliance policy;
- reviewed compliance practices and procedures for enabling the directors of the Group to discharge their regulatory responsibilities;
- noted the status of compliance of the Group 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 Group 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 Group-wide significance;
- reviewed and approved the regulatory compliance risk control framework and applicable compliance policies, which include the requirements for the Group to comply with applicable laws, rules, codes and standards;
- 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;
- satisfied itself that the functioning of Group Compliance is in line with relevant regulatory requirements;
- assessed the adequacy and effectiveness of Group Compliance's performance;
- considered any significant compliance risk matters reported by Group 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 Group;
- ensured procedures are in place for receiving and treating complaints in terms of the Companies Act and other applicable acts regarding accounting practices, the internal audit of the Group, the content or auditing of the Group's financial statements, the internal financial controls of the Group or any related matters (including internal, anonymous complaints from employees or any other person);
- reviewed and monitored the Group'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 Group's approach to and compliance with Turnbull attestations;
- considered regular SOX reports providing status updates on SOX-related matters; and
- reviewed the Group'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.

Activities of the GACC *(continued)*

In respect of risk management:

- reviewed the reports identifying significant control issues that required, 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 Group. The GACC determined that the process coordinating all assurance activities is appropriate to address the significant risks facing the Group 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 Group's business continuity management plans and processes.

In respect of integrated reporting:

- reviewed feedback on the Group's 2012 integrated report;
- considered and approved the GACC report included in the financial statements in compliance with the Companies Act;
- considered the integrated report for approval by the Disclosure Committee (DC), a subcommittee of the GACC and mandated by the board to approve the integrated report;
- the DC undertook the following:
  - considered factors and risks that may impact on the integrity of the integrated report;
  - considered and reviewed the findings and recommendations of the various Group board committees insofar as they related to the integrated report;
  - endorsed the appointment of PwC and E&Y to provide assurance on certain sustainability matters contained in the integrated report;
  - together with management, met with the external auditors to consider the latter's findings, make appropriate enquiries and through this process received the necessary assurances that the material disclosures in the integrated report are reliable and do not conflict with financial information; and
  - recommended the integrated report to the board for approval.

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 Group 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 Group.

Independence of the external auditors

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

- representations from PwC and E&Y confirming their independence and that nothing had taken place 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 Group;
- the criteria for independence set by the Independent Regulatory Board for Auditors and international regulatory bodies were satisfied;
- the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditors; and
- the 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 Group reacted strongly to the emerging effects of the economy and the more recent experience of write-offs in the Home Loans book. The Group 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 Group.

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

The DC reviewed the Group's integrated report and the board approved the report for release on 28 March 2013.

On behalf of the GACC:

C Beggs

Chairman of the GACC

Johannesburg
28 March 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 Group.

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 Group and of Absa Group 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 Group'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 Group and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems, and discipline are applied and managed within predetermined procedures and constraints;
- the Group's internal audit 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 Group's risk functions, take cognisance of the relative degrees of risk of each function or aspect of the business;
- the GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC reviews reports on the principal risk areas and is responsible for approving the principal risk control frameworks. The GACC is satisfied that the external auditors are independent; and
- the Group 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 Group 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 Group 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 Group 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 Group and Company is set out on page 6 of this report.

The directors' report on pages 7 to 13, the financial statements of the Group and the Company and the related IFRS 7 Financial Instruments: Disclosure (IFRS 7) disclosures, which appear in the risk management report 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 Group 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 Group Limited

We have audited the consolidated annual financial statements and annual financial statements of Absa Group Limited, set out on pages 14 to 162, 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 risk management report and remuneration review, but excludes the sections marked as 'unaudited' in notes 50, 59.3 and 59.4.

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 auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 Group 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

Johannesburg
11 February 2013

Ernst & Young Inc.

Director – E L Pera
Registered Auditor

Wanderers Office Park
52 Corlett Drive, Illovo

Directors' report

General information and nature of activities

The Group, which has a primary listing on the JSE, is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, financial services and wealth management products and services. The Group operates primarily in South Africa and employs 33 717 people. The address of the Group's registered office is 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001.

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

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

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

The Group 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), financial services 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 Group and the Company for the reporting period ended 31 December 2012.

Group Audit and Compliance Committee report

Refer to page 1.

Group results

Main business and operations

The Group recorded a decline of 9% in headline earnings to **R8 807 million** (2011: R9 719 million) for the reporting period. Headline earnings per share (HEPS) decreased by 9% to **1 227,3 cents** (2011: 1 355,9 cents) and diluted HEPS decreased by 9% to **1 224,6 cents** (2011: 1 350,0 cents).

Headline earnings was derived from the following activities:

	Group	
	2012 Rm	2011[1] Rm
Banking operations		
Retail and Business Banking (RBB)	**4 346**	6 106
Retail Markets	**3 436**	4 243
Home Loans	**(992)**	516
Vehicle and Asset Finance	**791**	403
Card (including Edcon)	**2 088**	1 757
Personal Loans	**587**	720
Retail Bank	**947**	647
AllPay	**15**	200
Business Markets	**910**	1 863
Corporate, Investment Banking and Wealth (CIBW)	**2 810**	2 230
Corporate Centre	**239**	(37)
Capital and funding centres	**369**	329
Non-controlling interest – preference shares[2]	**(295)**	(284)
Total banking	**7 469**	8 344
Financial Services	**1 338**	1 375
Headline earnings (refer to note 44)	**8 807**	9 719

Notes

[1]Comparatives have been reclassified, refer to notes 1.27 and 59.1 for additional information.

[2]Includes the elimination of non-controlling interest – preference shares of Retail Markets.

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 Group has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting (AGM). The 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 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 Group 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 ordinary shares of the Company

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

	Direct number of shares Beneficial		Indirect number of shares Beneficial		Total direct and indirect number of shares Beneficial	
	2012	2011	**2012**	2011	**2012**	2011
Present directors						
G Griffin	**—**	—	**8 000**	8 000	**8 000**	8 000
C Beggs	**2 000**	2 000	**—**	—	**2 000**	2 000
Y Z Cuba	**1 000**	1 000	**—**	—	**1 000**	1 000
S A Fakie	**1 000**	1 000	**—**	—	**1 000**	1 000
M J Husain	**1 000**	1 000	**—**	—	**1 000**	1 000
A P Jenkins	**1 000**	1 000	**—**	—	**1 000**	1 000
R Le Blanc	**1 000**	1 000	**—**	—	**1 000**	1 000
T M Mokgosi-Mwantembe	**1 000**	1 000	**—**	—	**1 000**	1 000
E C Mondlane, Jr	**1 000**	1 000	**—**	—	**1 000**	1 000
T S Munday	**1 000**	1 000	**2 000**	2 000	**3 000**	3 000
S G Pretorius	**1 000**	1 000	**—**	—	**1 000**	1 000
B J Willemse	**—**	—	**1 000**	1 000	**1 000**	1 000
L L von Zeuner	**308 176**	308 176	**—**	—	**308 176**	308 176
Past director						
B P Connellan[1]	**n/a**	1 000	**—**	—	**n/a**	1 000
	319 176	320 176	**11 000**	11 000	**330 176**	331 176

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

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

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

The Group entered into a broad-based black economic empowerment (BBBEE) transaction with Batho Bonke in July 2004. In the current reporting period, this transaction reached maturity and all the shares held by Batho Bonke were disposed of.

The following directors held an indirect interest in the Company through their direct or indirect holdings of ordinary shares in Batho Bonke in the previous reporting period:

	Indirect number of shares Beneficial 2011
Present directors	
Y Z Cuba	91 600
S A Fakie	40 000
M J Husain	40 000
T M Mokgosi-Mwantembe	40 000
	211 600

Note

[1]Retired as a director on 3 May 2012.

Directors' interests in the preference shares of Absa Bank Limited

As at the reporting date, the direct and indirect preference shareholding of directors in Absa Bank Limited 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 Group to provide facilities management and other associated services for a five-year period. The Group 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 Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group.

Directors' and prescribed officers' emoluments

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

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

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 49 to the annual consolidated financial statements.

Acquisitions and disposals of businesses and other significant assets

Refer to notes 8, 13, 49 and 56 for additional information on the acquisitions and disposals of businesses and other significant assets.

Acquisitions

Subsidiaries and business combinations

Absa Financial Services Limited (AFS) obtained regulatory approval to start a new life insurance business in Zambia through its subsidiary Absa Financial Services Africa Holdings Proprietary Limited (AFSAH). AFSAH injected R15 million by subscribing in the ordinary share capital during the reporting period for the subsidiary, Barclays Life Zambia Limited.

During the reporting period, the Group, through its wholly-owned subsidiary Absa Bank Limited, (the Bank) acquired the remaining 50% shareholding in NewFunds Proprietary Limited (NewFunds) from Vunani Capital Proprietary Limited. Following the acquisition, the Group 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.

On 1 September 2011, AFSAH acquired 100% of the share capital of Global Alliance Seguros S.A. (GA) for an initial purchase price of R156 million. The purchase price was subject to a guaranteed net asset value (NAV) of R77 million and the outcome of a due diligence investigation at the acquisition date, which is customary for a transaction of this nature. The due diligence highlighted a shortfall in the actual NAV, which resulted in AFSAH and the seller entering into negotiations to resolve the differences. The seller accepted the outcome of the due diligence and the final purchase price was settled at R129 million. The difference between the initial purchase price paid of R156 million and the final purchase price of R129 million was kept in an escrow account and refunded to the Group at the end of May 2012. The acquisition price of R129 million is represented by net assets of R54 million, goodwill of R24 million and other intangible assets, net of deferred tax of R51 million.

Other significant assets

The Group, through 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 Group 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 Group'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 Group, 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.

Acquisitions and disposals of businesses and other significant assets *(continued)*

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 on 28 June 2012. The transaction is a common control transaction since APEF and Absa Financial Services Proprietary Limited are ultimately controlled by the same party, both before and after the transaction. The Bank has recognised the disposal of APEF, while Absa Financial Services Proprietary Limited has recognised the acquisition. There is no change in the accounting and presentation of the CPF division and no impact on the Group's reported profits. The transfer resulted in net assets of R340 million being transferred between RBB and Financial Services.

APEF operates as a special purpose entity (SPE) and was consolidated in terms of SIC-12 Consolidated – Special Purpose Entities (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.

During July 2012, AFS disposed of some of the units it owned in the APEF to the extent that its effective holding decreased. Management's intention is to dispose of further units such that AFS will no longer have control over the APEF. As at the reporting date, Absa Financial Services Proprietary Limited remains committed to its sale plan involving loss of control. The investment in APEF has therefore been classified as a non-current asset held for sale.

No gain or loss was recognised on deconsolidation in the Group consolidated results due to the underlying assets being measured at fair value.

Dividends

- On 10 February 2012, a final dividend of 392 cents per ordinary share was announced to ordinary shareholders registered on 30 March 2012.
- On 27 July 2012, an interim dividend of 315 cents per ordinary share was announced to ordinary shareholders registered on 7 September 2012.
- On 11 February 2013, a final dividend of 369 cents per ordinary share was approved. The dividend was announced on 12 February 2013 to ordinary shareholders registered on 5 April 2013. This dividend is payable on 8 April 2013.

Special resolutions

The following special resolutions were passed by the Group's ordinary shareholders at the AGM held on 3 May 2012, in accordance with the Companies Act:

- **Special resolution number 1 – Approval of the Absa Long Term Incentive Plan (LTIP)**

  In accordance with schedule 14 of the JSE Listings Requirements, shareholder approval is required for any share incentive trust. Shareholders approved and adopted the LTIP and resolved that any director of the Company is authorised to do all such acts and things as they consider necessary to give effect to the LTIP and implementation thereof.

- **Special resolution number 2 – Remuneration of non-executive directors**

  Resolved to approve the proposed remuneration to be payable to non-executive directors for the period 1 May 2012 to 30 April 2013.

- **Special resolution number 3 – Financial assistance to any person as envisaged in section 44 of the Companies Act**

  Resolved to enable the Company, in terms of a general authority, to provide direct or indirect financial assistance as regulated by section 44 of the Companies Act to any person for the subscription or purchase of securities in the Company or an inter-related company/corporation for a period of two years.

- **Special resolution number 4 – Financial assistance to a related or inter-related company/corporation**

  Resolved to enable the Company, in terms of a general authority, to provide direct or indirect financial assistance as regulated by section 45 of the Companies Act to a related or inter-related company/corporation and or to a member of a related or inter-related company/corporation for a period of two years.

- **Special resolution number 5 – General repurchases**

  Resolved to enable the Company or any of its subsidiaries, in terms of a general authority from shareholders, to repurchase ordinary shares issued by the Company in terms of the Companies Act. During the reporting period, no repurchases of ordinary shares were made by the directors in terms of the special resolution.

- **Special resolution number 6 – Memorandum of Incorporation (MOI)**

  Resolved to adopt the new MOI of the Company in terms of the Companies Act. The new MOI is to replace the Company's Memorandum of Association and Articles of Association.

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 Group. At the AGM of 2 May 2013, shareholders will be requested to re-appoint PwC and E&Y as auditors of the Group 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 **R1 760 935 000** (2011: R1 760 935 000) consists of **880 467 500** (2011: 880 467 500) ordinary shares of R2,00 each.

Issued

There were no shares issued during the current reporting period.

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

- **718 210 043** (2011: 718 210 043) ordinary shares of R2,00 each.

No preference shares are currently in issue by the Company.

Consolidated statement of financial position

as at 31 December

	Note	Group 2012 Rm	2011[1] Rm	2010[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**26 221**	26 997	23 741
Statutory liquid asset portfolio	3	**63 020**	57 473	48 215
Loans and advances to banks	4	**44 649**	57 499	27 572
Trading portfolio assets	5	**87 203**	84 623	62 047
Hedging portfolio assets	5	**5 439**	4 299	4 662
Other assets	6	**14 189**	14 730	11 960
Current tax assets	7	**304**	288	196
Non-current assets held for sale	8	**4 052**	35	—
Loans and advances to customers	9, 10	**528 191**	504 925	509 598
Reinsurance assets	11	**1 003**	1 009	860
Investment securities	12	**20 555**	21 182	24 446
Investments in associates and joint ventures	13	**569**	420	416
Investment properties	14	**1 220**	2 839	2 523
Property and equipment	15	**8 397**	7 996	7 493
Goodwill and intangible assets	16	**2 561**	2 135	1 794
Deferred tax assets	17	**366**	269	434
Total assets		**807 939**	786 719	725 957
Liabilities				
Deposits from banks	18	**36 035**	38 339	15 406
Trading portfolio liabilities	19	**51 684**	55 960	47 454
Hedging portfolio liabilities	19	**3 855**	2 456	1 881
Other liabilities	20	**18 215**	14 695	11 239
Provisions	21	**1 681**	1 710	1 808
Current tax liabilities	7	**59**	267	965
Non-current liabilities held for sale	8	**1 480**	—	—
Deposits due to customers	22	**477 427**	440 960	387 598
Debt securities in issue	23	**108 044**	130 262	164 545
Liabilities under investment contracts	24	**13 609**	15 233	13 964
Policyholder liabilities under insurance contracts	25	**3 550**	3 183	3 001
Borrowed funds	26	**17 907**	14 051	13 649
Deferred tax liabilities	17	**1 599**	1 198	2 298
Total liabilities		**735 145**	718 314	663 808
Equity				
Capital and reserves				
Attributable to ordinary equity holders:				
Share capital	27	**1 435**	1 434	1 433
Share premium	27	**4 604**	4 676	4 590
Retained earnings		**56 903**	53 813	47 958
Other reserves	28	**3 941**	2 385	2 309
		66 883	62 308	56 290
Non-controlling interest – ordinary shares		**1 267**	1 453	1 215
Non-controlling interest – preference shares	29	**4 644**	4 644	4 644
Total equity		**72 794**	68 405	62 149
Total liabilities and equity		**807 939**	786 719	725 957

Note

[1]Comparatives have been reclassified, refer to note 1.27.

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Group 2012 Rm	Group 2011[1] Rm
Net interest income		**24 111**	24 429
Interest and similar income	30	**50 766**	51 191
Interest expense and similar charges	31	**(26 655)**	(26 762)
Impairment losses on loans and advances	10.1	**(8 290)**	(5 081)
Net interest income after impairment losses on loans and advances		**15 821**	19 348
Non-interest income		**22 741**	21 403
Net fee and commission income		**15 435**	15 293
Fee and commission income	32	**17 936**	17 422
Fee and commission expense	32	**(2 501)**	(2 129)
Net insurance premium income	33	**5 618**	5 209
Net insurance claims and benefits paid	34	**(2 719)**	(2 517)
Changes in investment and insurance contract liabilities	35	**(980)**	(914)
Gains and losses from banking and trading activities	36	**3 670**	2 594
Gains and losses from investment activities	37	**963**	966
Other operating income	38	**754**	772
Operating income before operating expenditure		**38 562**	40 751
Operating expenditure		**(26 693)**	(26 581)
Operating expenses	39	**(25 874)**	(25 458)
Other impairments	40	**(113)**	(52)
Indirect taxation	41	**(706)**	(1 071)
Share of post-tax results of associates and joint ventures	13.1	**249**	40
Operating profit before income tax		**12 118**	14 210
Taxation expense	42	**(3 377)**	(4 026)
Profit for the reporting period		**8 741**	10 184
Other comprehensive income			
Foreign exchange differences on translation of foreign operations		**140**	522
Movement in cash flow hedging reserve		**405**	(237)
Fair value gains arising during the reporting period		**2 650**	1 972
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)**	91
Movement in available-for-sale reserve		**1 109**	(17)
Fair value gains/(losses) arising during the reporting period		**1 532**	(58)
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	36	**10**	20
Deferred tax	17	**(433)**	21
Movement in retirement benefit fund assets and liabilities		**(242)**	(51)
Decrease in retirement benefit fund surplus	45.3	**(279)**	(66)
Increase in retirement benefit fund deficit	45.1	**(59)**	(5)
Deferred tax	17	**96**	20
Total comprehensive income for the reporting period		**10 153**	10 401
Profit attributable to:			
Ordinary equity holders		**8 393**	9 674
Non-controlling interest – ordinary shares		**53**	226
Non-controlling interest – preference shares		**295**	284
		8 741	10 184
Total comprehensive income attributable to:			
Ordinary equity holders		**9 812**	9 791
Non-controlling interest – ordinary shares		**46**	326
Non-controlling interest – preference shares		**295**	284
		10 153	10 401
Earnings per share:			
Basic earnings per share (cents)	43.1	**1 169,6**	1 349,6
Diluted earnings per share (cents)	43.2	**1 167,0**	1 343,8

Note

[1]Comparatives have been reclassified, refer to note 1.27.

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm	Available-for-sale reserve Rm
Balance at the beginning of the reporting period	717 014	1 434	4 676	53 813	2 385	15	(213)
Total comprehensive income for the reporting period	—	—	—	8 151	1 661	—	1 109
Profit for the reporting period	—	—	—	8 393	—	—	—
Other comprehensive income	—	—	—	(242)	1 661	—	1 109
Dividends paid during the reporting period	—	—	—	(5 069)	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment schemes	—	—	(211)	—	—	—	—
Elimination of the movement in treasury shares held by Group entities	648	1	29	—	—	—	—
Movement in share-based payment reserve	—	0	110	—	(97)	—	—
Transfer from share-based payment reserve	—	0	110	—	(110)	—	—
Value of employee services	—	—	—	—	13	—	—
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(13)	13	—	—
Movement in general credit risk reserve	—	—	—	(54)	54	54	—
Movement in insurance contingency reserve	—	—	—	324	(324)	—	—
Share of post-tax results of associates and joint ventures	—	—	—	(249)	249	—	—
Increase in the interest of non-controlling equity holders	—	—	—	—	—	—	—
Disposal of interest in subsidiary without loss of control	—	—	—	—	—	—	—
Balance at the end of the reporting period	717 662	1 435	4 604	56 903	3 941	69	896
Notes		27	27			28	28

Notes

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

[1]This reserve is no longer required due to a change in the Financial Services Board (FSB) regulations.

[2]The foreign insurance subsidiary regulatory reserve is calculated on the basis of the following minimum percentages of profits recorded in each reporting period for that subsidiary:

- 20% until the value of reserves represents half of the minimum capital required under the foreign insurance subsidiary's legislation.
- 10% from the time the amount specified in the preceding paragraph, has been attained.

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2012

Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Insurance[1] contin-gency reserve Rm	Foreign[2] insurance subsidiary regulatory 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 – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total equity Rm
2 021	(218)	324	—	169	287	62 308	1 453	4 644	68 405
405	147	—	—	—	—	9 812	46	295	10 153
—	—	—	—	—	—	8 393	53	295	8 741
405	147	—	—	—	—	1 419	(7)	—	1 412
—	—	—	—	—	—	(5 069)	(138)	(295)	(5 502)
—	—	—	—	—	—	(211)	—	—	(211)
—	—	—	—	—	—	30	—	—	30
—	—	—	—	(97)	—	13	—	—	13
—	—	—	—	(110)	—	—	—	—	—
—	—	—	—	13	—	13	—	—	13
—	—	—	13	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	(324)	—	—	—	—	—	—	—
—	—	—	—	—	249	—	—	—	—
—	—	—	—	—	—	—	35	—	35
—	—	—	—	—	—	—	(129)	—	(129)
2 426	(71)	—	13	72	536	66 883	1 267	4 644	72 794
28	28	28	28	28	28			29	

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm
Balance at the beginning of the reporting period	716 590	1 433	4 590	47 958	2 309	63
Total comprehensive income for the reporting period	—	—	—	9 623	168	—
Profit for the reporting period	—	—	—	9 674	—	—
Other comprehensive income	—	—	—	(51)	168	—
Dividends paid during the reporting period	—	—	—	(3 744)	—	—
Purchase of Group shares in respect of equity-settled share-based payment schemes	—	—	(281)	—	—	—
Elimination of the movement in treasury shares held by Group entities	424	1	193	—	—	—
Movement in share-based payment reserve	—	0	174	—	(116)	—
Transfer from share-based payment reserve	—	0	174	—	(174)	—
Value of employee services	—	—	—	—	58	—
Movement in general credit risk reserve	—	—	—	48	(48)	(48)
Movement in insurance contingency reserve	—	—	—	(19)	19	—
Share of post-tax results of associates and joint ventures	—	—	—	(40)	40	—
Disposal of associates and joint ventures – release of reserves	—	—	—	(13)	13	—
Increase in the interest of non-controlling equity holders	—	—	—	—	—	—
Non-controlling interest arising from business combinations	—	—	—	—	—	—
Balance at the end of the reporting period	717 014	1 434	4 676	53 813	2 385	15
Notes		27	27			28

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

Group

2011

Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Insurance contin-gency reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total equity Rm
(196)	2 258	(640)	305	285	234	56 290	1 215	4 644	62 149
(17)	(237)	422	—	—	—	9 791	326	284	10 401
—	—	—	—	—	—	9 674	226	284	10 184
(17)	(237)	422	—	—	—	117	100	—	217
—	—	—	—	—	—	(3 744)	(173)	(284)	(4 201)
—	—	—	—	—	—	(281)	—	—	(281)
—	—	—	—	—	—	194	—	—	194
—	—	—	—	(116)	—	58	—	—	58
—	—	—	—	(174)	—	—	—	—	—
—	—	—	—	58	—	58	—	—	58
—	—	—	—	—	—	—	—	—	—
—	—	—	19	—	—	—	—	—	—
—	—	—	—	—	40	—	—	—	—
—	—	—	—	—	13	—	—	—	—
—	—	—	—	—	—	—	21	—	21
—	—	—	—	—	—	—	64	—	64
(213)	2 021	(218)	324	169	287	62 308	1 453	4 644	68 405
28	28	28	28	28	28			29	

Consolidated statement of cash flows

for the reporting period ended 31 December

	Note	Group 2012 Rm	2011[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**69 005**	68 018
Interest, fee and commission expense		**(28 636)**	(27 867)
Insurance premiums and claims		**1 942**	1 811
Net trading and other income		**14**	3 067
Cash payments to employees and suppliers		**(23 093)**	(23 555)
Dividends received from banking and trading activities		**118**	184
Income taxes paid		**(3 652)**	(5 628)
Cash flow from operating profit before changes in operating assets and liabilities		**15 698**	16 030
Net decrease/(increase) in trading and hedging portfolio assets		**99**	(20 605)
Net (increase)/decrease in loans and advances to customers		**(31 896)**[2]	648
Net decrease/(increase) in other assets		**10 226**	(39 035)
Net (decrease)/increase in insurance and investment contracts		**(443)**	1 372
Net (decrease)/increase in trading and hedging portfolio liabilities		**(2 734)**	8 784
Net increase in amounts due to customers and banks		**32 892**	73 163
Net decrease in other liabilities		**(18 265)**	(32 052)
Net cash generated from operating activities		**5 577**	8 305
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale	8	**35**	356
Net decrease in investment securities		**474**	1 642
Dividends received from investment activities		**100**	130
Acquisition of associates and joint ventures, net of cash	13.5	**(1)**	—
Net decrease/(increase) in loans to associates and joint ventures	13.1	**2**	(7)
Dividends received from associates and joint ventures		**78**	—
Purchase of investment properties	14	**(202)**	(255)
Proceeds from disposal of investment properties	14	**43**	4
Purchase of property and equipment	15	**(1 759)**	(1 729)
Proceeds from disposal of property and equipment		**160**	119
Purchase of intangible assets	16	**(890)**[2]	(482)
Proceeds from disposal of intangible assets		**91**	4
Acquisitions and disposals of businesses and other similar transactions, net of cash	56	**(13)**	(293)
Net cash utilised in investing activities		**(1 882)**	(511)
Cash flow from financing activities			
Elimination of treasury shares		**30**	166
Purchase of Group 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		**(5 364)**	(4 028)
Net cash utilised in financing activities		**(2 045)**	(4 143)
Net increase in cash and cash equivalents		**1 650**	3 651
Cash and cash equivalents at the beginning of the reporting period		**10 068**	6 417
Effect of foreign exchange rate movements on cash and cash equivalents		**(2)**	0
Cash and cash equivalents at the end of the reporting period	54	**11 716**	10 068

Notes

[1]Comparatives have been reclassified, refer to note 1.27.

[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 1.30 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 Group.

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 48 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 investment 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 Group. 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

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 Group, refer to note 44 for the required disclosures.

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

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 Group's accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and Company financial statements. These policies have been consistently applied to all the reporting periods presented, unless otherwise stated.

1.2 Use of estimates, assumptions and judgements

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

1.2.1 Impairment of loans and advances

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

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

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

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

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

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

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

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

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

1.2.1 Impairment of loans and advances (continued)

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

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

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

Note 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 Group's policy for determining the fair value of financial instruments is described in note 61.

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.

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

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

1.2.3 Valuation of financial instruments *(continued)*

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

Available-for-sale financial assets are measured at fair value, and changes in fair value are recognised in 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.

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 Group's charge for impairment of available-for-sale debt instruments is particularly sensitive, because of the range of different types of securities held, and the wide range of factors which can affect the occurrence of loss events and the cash flows of securities, including different types of collateral.

1.2.5 Impairment of investments in associates and joint ventures

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

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

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

1.2.6 Deferred tax assets

The Group's accounting policy for the recognition of deferred tax assets is described in note 1.23.2. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's 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 Group consolidates certain SPEs, which may or may not be directly or indirectly owned subsidiaries. These SPEs are consolidated when they are controlled by the Group. Judgement is required in assessing and determining if the Group controls SPEs. 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 45 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 Group's legal counsel in assessing the probability of matters of a significant nature.

1.2.10 Share-based payments

Where the fair value of share awards relating to share-based payments is not based on the Group's share price with a zero strike price, it is determined using option pricing models. The inputs to the option pricing models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The valuation of share awards is described in more detail in note 55. Refer to note 20 for the carrying amount of liabilities arising from cash-settled schemes.

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

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

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

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

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

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

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

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

1.2.12 Liabilities arising from claims made under life insurance contracts

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

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

1.2.13 Income taxes

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

1.2.14 Offsetting financial assets and liabilities

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

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

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

1.3 Consolidation

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

1.3.1 Subsidiaries

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

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

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

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

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

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

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

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

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

1.3.2 Investments in associates and joint ventures

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

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

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

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

1.3 Consolidation *(continued)*

1.3.2 Investments in associates and joint ventures (continued)

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 Group's reporting period, these are adjusted in respect of material adjustments between their reporting date and the Group's reporting date. The Group's share of its post-acquisition profits or losses is recognised in the statement of comprehensive income and the Group's interest in the post-acquisition reserves of associates and joint ventures is treated as distributable reserves in the Group's financial statements. 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 Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

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

Investments in entities that form part of venture capital activities of the Group have been designated at fair value through profit or loss and disclosed under 'Investment securities'. The designation has been made in accordance with IAS 39, based on the scope exclusion that is provided in IAS 28 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 Group. These manifest as private equity investments. Private equity is medium- to long-term finance that is provided in return for an equity stake in potentially high-growth unquoted entities. The fair value of these investments is determined in accordance with international private equity and venture capital valuation guidelines.

1.3.3 Transactions with non-controlling interests

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

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

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

1.3.4 Special purpose entities

The Group 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 Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. Control exists when the Group has the power to govern the financial and operating policies of entities so as to obtain benefits from its activities.

SPEs controlled by the Group are established under terms that:

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

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

1.3 Consolidation *(continued)*

1.3.5 Business combinations achieved in stages (step acquisitions)

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

1.3.6 Common control

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

The assets and liabilities of the combining entities are not adjusted to fair value but 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 Group has identified its reportable segments based on a combination of products and services offered to customers, external revenue and the location of the markets served. The segments also reflect how the Group's businesses are managed and reported to the CODM, refer to note 59 for more detail.

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

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

1.4.1 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 Group has been divided into three specific segments. RBB, CIBW and Financial Services, 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 Group'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 were 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 Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand, which is the holding Company's functional and presentation currency.

1.5.2 Foreign currency translations

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

- The assets and liabilities of foreign subsidiary companies are translated at the closing exchange rates ruling at the reporting date. Statement of comprehensive income items in respect of foreign entities are translated at the appropriate weighted average exchange rate for the 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 Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary equity holders 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. Summary of significant accounting policies *(continued)*

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

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

The Group generally adopts an approach of not reclassifying financial instruments between different categories subsequent to initial recognition. In exceptional circumstances, where such reclassifications do occur, the Group will apply the requirements of 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 Group has a positive intention and ability to hold the instruments to such date. These instruments are held at amortised cost, using the effective interest rate and are reviewed for impairment at each reporting date.

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

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

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

1.7.2 Financial instruments at fair value through profit or loss

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

Financial instruments classified as held for trading

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

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

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

1.7 Financial instruments *(continued)*

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

Financial instruments designated at fair value through profit or loss

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

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

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

Derivatives

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

1.7.3 Available-for-sale assets

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

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

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

1.7 Financial instruments *(continued)*

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

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

Available-for-sale assets are regularly assessed for impairment. In assessing whether or not impairment 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 Group'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.

1.7.4 Loans and receivables

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

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

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

1.7.5 Embedded derivatives

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

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

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

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

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

1.7 Financial instruments *(continued)*

1.7.6 Financial liabilities

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

1.7.7 Impairment of financial assets at amortised cost

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

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

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

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

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

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

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

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

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

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

1.7 Financial instruments *(continued)*

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

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

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

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

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

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

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

Identified impairment

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

Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in revisions to the impairment allowance as individual decisions are taken case by case.

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

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

Unidentified impairment

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

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

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

1.7 Financial instruments *(continued)*

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

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

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

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

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

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

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

1.7.8 Renegotiated loans

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

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

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

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

1.7 Financial instruments *(continued)*

1.7.9 Derecognition of financial assets *(continued)*

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

1.7.10 Derecognition of financial liabilities

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

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

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

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

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

- 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:
  - using recent arm's length market transactions;
  - reference to the current fair value of similar instruments; and
  - discounted cash flow analysis, pricing models or other techniques commonly used by market participants.
- Level 3 – Valuation techniques, as described under level 2 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 Group acts as an agent (i.e. facilitates lending transactions on behalf of customers), the associated transactions are not accounted for on the Group's statement of financial position, as the risks and rewards of ownership of these related assets and liabilities never transfer to the Group.

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

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

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

1.7 Financial instruments *(continued)*

1.7.12 Scrip lending *(continued)*

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

1.7.13 Hedge accounting

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

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

1.7 Financial instruments *(continued)*

1.7.13 Hedge accounting *(continued)*

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

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

1.7.14 Offsetting

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

1.7.15 Repurchase and reverse repurchase agreements

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

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

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

1.7.16 Compound financial instruments

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

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

1.7.17 Loan commitments

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

1.7.18 Financial guarantee contracts

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

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

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

1.7 Financial instruments *(continued)*

1.7.18 Financial guarantee contracts *(continued)*

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

1.8 Share capital

1.8.1 Ordinary share capital

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

1.8.2 Preference share capital

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

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

Where preference shares contain both a liability and an equity component, such components are classified separately as financial liabilities and equity components 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 Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

1.9.1 Net interest income

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

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

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

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

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

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

1.9 Revenue recognition *(continued)*

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

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

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

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

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

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

1.9.3 Instalment credit agreements

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

1.9.4 Net fee and commission income

Fee and commission income

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

Fee income is accounted for as follows:

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

Fee and commission expense

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

Trust and other fiduciary activities

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

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

1.9 Revenue recognition *(continued)*

1.9.5 Gains and losses from derivative and trading portfolio instruments

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

1.9.6 Dividends received on investments in equity instruments

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

1.9.7 Fee income and expenses from investment contracts

Service fees

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

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

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

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

Commissions paid

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

1.9.8 Sale of assets under construction

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

1.9.9 Rental income

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

1.10 Deferred revenue liability

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

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

1.10 Deferred revenue liability *(continued)*

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

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

1.11 Classification of insurance and investment contracts

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

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

1.11.1 Insurance contracts

Short-term insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

Liability adequacy test

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

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

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

1.11.1 Insurance contracts *(continued)*

Life insurance contracts

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

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liabilities are valued at each reporting date using the financial soundness valuation (FSV) basis described in Standard of Actuarial Practice (SAP)104: Calculation of the value of assets, liabilities and capital adequacy requirements of long-term insurers, issued by the Actuarial Society of South Africa (ASSA) and the liability is reflected as policyholder liabilities under insurance contracts.

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

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

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

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

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

Valuation methodology

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

Policyholders' reasonable expectations are allowed for by valuing all guaranteed benefits. Maturity guarantee liabilities have been valued in accordance with the requirements of Advisory Practice Note (APN) 110: Allowance for embedded investment derivatives, issued by the ASSA. In terms of this guidance, an internationally recognised market-consistent stochastic model is used to perform a range of asset projections from which the maturity guarantee liability is derived. In terms of APN 110 the projections allow for at least a certain minimum level of market volatility. The liability is equal to the discounted shortfall (of simulated maturity values against minimum guaranteed values) across all projections for the policies concerned. Refer to note 1.2.9.1 where changes in the valuation of Absa Life policyholder liabilities are provided in more detail.

Liability adequacy test

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

Deferred policy acquisition costs

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

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

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

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

1.11.1 Insurance contracts *(continued)*

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

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

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

Deferred reinsurance acquisition revenue

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

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

Reinsurance contracts held

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

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

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

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

Receivables and payables related to insurance and investment contracts

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

Salvage and subrogation reimbursements

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

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

Philosophy on release of profits on the valuation basis

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

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

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

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

1.11.1 Insurance contracts (continued)

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

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

Value of business acquired

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

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

1.11.2 Investment contracts

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

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

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

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

1.12 Cell arrangements

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

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

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

1.12 Cell arrangements *(continued)*

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

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

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

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

1.13 Commodities

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

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

1.14 Intangible assets

1.14.1 Goodwill

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

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

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

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

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

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

1.14 Intangible assets *(continued)*

1.14.2 Computer software development costs, customer lists and relationships, 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 Group can demonstrate that the intangible asset will be used to generate future economic benefits, the Group intends to and has sufficient resources to complete development and to use the asset, and the Group can demonstrate the ability to use or sell the intangible asset. The expenditure capitalised includes the cost of materials, staff costs and overhead costs that are directly attributable to preparing the software for intended use. Other development expenditure which does not meet the above requirements is recognised in the profit and loss component of the statement of comprehensive income when the Group has right of access to the goods or as the services are received.

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

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

Customer lists and 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.

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

A summary of the policies applied to the Group'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. Summary of significant accounting policies *(continued)*

1.15 Property and equipment

1.15.1 Property and equipment not subject to lease agreements

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

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

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

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

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss component of the statement of comprehensive income within 'Other operating income' in the 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.

1.15.2 Property and equipment subject to lease agreements

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

Finance leases

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

Operating leases

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

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

1.15 Property and equipment *(continued)*

1.15.3 Investment properties

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

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

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

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

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

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

1.16 Repossessed properties

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

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

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

1.17 Constructed assets held for sale

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

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

1.18 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 Group's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount and fair value, less cost to sell. Any impairment loss on a disposal group is first allocated to reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, investment properties, insurance assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies.

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

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

1.19 Impairment of property, equipment and intangible assets

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

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

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

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

1.20 Cash and cash equivalents

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

1.21 Provisions, contingent liabilities and commitments

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

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

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

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

1.21 Provisions, contingent liabilities and commitments *(continued)*

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

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

1.22 Employee benefits

1.22.1 Post-retirement benefits

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

Defined contribution structures

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

Contributions to any defined contribution plan are expensed as incurred.

Defined benefit structures

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

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and 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 Group, the recognised asset is limited to the net total of any unrecognised past-service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

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

The Group makes provision for post-retirement benefits to eligible employees. The cost in relation to eligible employees is assessed in accordance with actuarial principles based on the projected unit credit methodology, and recognised in the profit and loss component in the statement of comprehensive income. Actuarial gains and losses are recognised in other comprehensive income in the statement of comprehensive income in the 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 Group's defined benefit structure is closed to new members and the structure will therefore run down as current membership dwindles.

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

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

1.22 Employee benefits *(continued)*

1.22.1 Post-retirement benefits *(continued)*

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

Short-term benefits

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

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

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

1.22.2 Share-based payments

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

Employee services settled in equity instruments

The fair value of the employee services received in exchange for the grant of awards is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards determined at the grant date, excluding the impact of any non-market vesting conditions (e.g. profitability). 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 share capital (nominal value) and to share premium when the options are exercised. The total cash outflow incurred to fund the acquisition of equity instruments in the parent company granted to employees is charged against share premium.

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

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

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

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

1.22 Employee benefits *(continued)*

1.22.2 Share-based payments *(continued)*

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.

1.23 Taxation

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

1.23.1 Current tax

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

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

1.23.2 Deferred tax

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

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

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

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

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

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

1.23 Taxation *(continued)*

1.23.2 Deferred tax (continued)

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

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

1.23.3 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 Group after 1 April 2012, the Group 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 Group 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.

1.23.4 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.

1.24 Treasury shares

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

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

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

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

1.26 Assets under management and administration

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

1.27 Reclassifications

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.

1.27.1 Initial margin

During the current reporting period, the Group 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:

	Group					
	2011			2010		
	As previously reported Rm	Reclassifi-cations Rm	Reclassified Rm	As previously reported Rm	Reclassifi-cations Rm	Reclassified Rm
Loans and advances to banks	57 432	67	57 499	27 495	77	27 572
Other assets	16 219	(1 489)	14 730	12 855	(895)	11 960
Loans and advances to customers	503 503	1 422	504 925	508 780	818	509 598

1.27.2 Elimination of funding interest

During the current reporting period, the Group 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:

	Group		
	2011		
	As previously reported Rm	Reclassifi-cations Rm	Reclassified Rm
Interest and similar income	51 221	(30)	51 191
Interest expense and similar charges	(26 792)	30	(26 762)

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

1.28 Changes in accounting policies

The application of the Group's accounting policies is 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 21.

1.29 Changes in accounting estimates

1.29.1 Policyholder liabilities under insurance contracts

Policyholder liabilities under insurance contracts are valued using SAP 104 which, allows for additional margins if the Statutory Actuary believes that the compulsory margins are insufficient for prudent provisioning and/or to defer the release of profits in line with policy design and company practice. These margins are incorporated into the liability calculations

It is the Company's policy that profit margins contained in the premium basis, which are expected to be released in future as the business runs off, should not be capitalised and recognised prematurely. Such margins should only be released to profits once premiums have been received and the risk cover has been provided.

Management considered it appropriate to provide for these margins as a result of not having sufficiently large volumes of business and accompanying data. As a result, there were random fluctuations in the policyholder liabilities and the discretionary margins provided, to some extent, a buffer against these fluctuations. However the volumes of business have shown positive growth over the past reporting periods and a more credible volume of data has emerged. Management have set the margins to 0% (2011: 0%). The only remaining discretionary margin is to hold a liability equal to the surrender value of a policy and the elimination of all negative liabilities. This margin mainly represents a mass lapse scenario to ensure that solvency is maintained if all in-force policies are cancelled.

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

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

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

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. 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 Group as the Group's investments in joint ventures are accounted for using the equity method, unless they have been designated at fair value through profit 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.

The Group is in the process of assessing the impact for future reporting periods and expects 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 Group.

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

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

IAS 19 Employee Benefits (amended 2011), which is applicable for financial 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 Group.

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

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

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 Group.

IAS 28 Investments in Associates and Joint Ventures (2011), is the amended version of the current IAS 28 and 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 Group.

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 Group.

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 Group.

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 Group.

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 Group.

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

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

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), is applicable for 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:

Amendments 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 Group.

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 effected 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 Group.

Amendments to IAS 32 Financial Instruments: Presentation – The amendments clarify 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 Group.

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 Group.

	Group	
	2012 Rm	2011 Rm
2. Cash, cash balances and balances with central banks		
Balances with other central banks	**1 250**	1 201
Balances with the South African Reserve Bank (SARB)	**12 340**	12 279
Coins and bank notes	**8 816**	7 893
Money market assets	**3 815**	5 624
	26 221	26 997
Portfolio analysis		
Available-for-sale financial assets		
Money market assets	**537**	523
Financial assets designated at fair value through profit or loss		
Money market assets	**2 507**	3 112
Held-to-maturity financial assets		
Money market assets	**735**	530
Loans and receivables	**22 442**	22 832
Balances with other central banks	**1 250**	1 201
Balances with the SARB	**12 340**	12 279
Coins and bank notes	**8 816**	7 893
Money market assets	**36**	1 459
	26 221	26 997

Included above are money market assets of **R96 million** (2011: R72 million) which are linked to investment contracts, refer to note 24.1.

	Group	
	2012 Rm	2011 Rm
3. Statutory liquid asset portfolio		
Republic of South Africa (RSA) government bonds	**51 853**	44 222
Reverse repurchase agreements (refer to note 47)	**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 47.

	Group		
	2012 Rm	2011[1] Rm	2010[1] Rm
4. Loans and advances to banks			
Collateralised loans	**1 274**	3 478	2 695
Other	**34 241**	47 282	19 305
Reverse repurchase agreements (refer to note 47)	**9 134**	6 739	5 572
	44 649	57 499	27 572
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	**34 921**	49 613	20 024
Collateralised loans	**1 274**	3 172	2 194
Other	**27 482**	45 610	17 830
Reverse repurchase agreements	**6 165**	831	—
	44 649	57 499	27 572

Loans with variable rates are **R27 085 million** (2011: R50 529 million; 2010: R20 626 million) and fixed rates are **R17 564 million** (2011: R6 970 million; 2010: R6 946 million).

Included above are loans and advances to banks with a carrying value of **R6 037 million** (2011: R1 313 million; 2010: R1 445 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 47. The amounts pledged are the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

	Group	
	2012 Rm	2011 Rm
5. Trading and hedging portfolio assets		
Commodities	**514**	243
Debt instruments	**24 615**	27 114
Derivative assets (refer to note 60.3)	**46 695**	45 604
Commodity derivatives	**605**	298
Credit derivatives	**195**	205
Equity derivatives	**986**	1 226
Foreign exchange derivatives	**5 815**	12 125
Interest rate derivatives	**39 094**	31 750
Equity instruments	**6 613**	4 921
Money market assets	**8 766**	6 741
Total trading portfolio assets	**87 203**	84 623
Hedging portfolio assets (refer to note 60.3)	**5 439**	4 299
	92 642	88 922
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	**86 689**	84 380
Debt instruments	**24 615**	27 114
Derivative assets	**46 695**	45 604
Equity instruments	**6 613**	4 921
Money market assets	**8 766**	6 741
Non-financial instruments	**514**	243
	92 642	88 922

Note
[1]Comparatives have been reclassified, refer to note 1.27.

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

Included in the previous table are financial instruments which related to the Group'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 47. In addition, trading portfolio assets with a carrying value of **R645 million** (2011: Rnil) were restricted as security under lending transactions. These assets were pledged for the duration of the respective agreements.

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

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

	Group		
	2012 Rm	2011[1] Rm	2010[1] Rm
6. Other assets			
Accounts receivable and prepayments	**8 178**	6 015	5 223
Deferred costs	**180**	135	150
Deferred acquisition costs (refer to note 6.1)[2]	**85**	70	88
Other deferred costs	**95**	65	62
Inventories	**910**	1 486	1 255
Cost	**975**	1 572	1 344
Write-down	**(65)**	(86)	(89)
Retirement benefit fund surplus (refer to note 45)	**466**	628	705
Settlement accounts	**4 455**	6 466	4 627
	14 189	14 730	11 960
Portfolio analysis			
Loans and receivables	**12 289**	11 998	9 319
Accounts receivable	**7 834**	5 532	4 692
Settlement accounts	**4 455**	6 466	4 627
Financial assets designated at fair value through profit or loss	**16**	17	16
Non-financial assets	**1 884**	2 715	2 625
	14 189	14 730	11 960
6.1 Deferred acquisition costs			
Balance at the beginning of the reporting period	**70**	88	83
Additions	**182**	302	510
Amortisation charge	**(167)**	(320)	(505)
Balance at the end of the reporting period	**85**	70	88

	Group	
	2012 Rm	2011 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**304**	288
Current tax liabilities		
Amount due to revenue authorities	**59**	267

Notes

[1] Comparatives have been reclassified, refer to note 1.27.

[2] Relates to the Group's investment and insurance businesses.

	Group	
	2012 Rm	2011 Rm
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 cash, cash balances and balances with central banks	**123**	—
Transfer from loans and advances to banks	**14**	—
Transfer from other assets	**159**	—
Transfer from reinsurance assets	**206**	—
Transfer from investment securities	**2 103**	311
Transfer from investments in associates and joint ventures (refer to note 13.6)	**46**	43[1]
Transfer from investment properties (refer to note 14)	**1 378**	—
Transfer from property and equipment (refer to note 15)	**23**	35
Balance at the end of the reporting period	**4 052**	35
8.2 Non-current liabilities held for sale		
Balance at the beginning of the reporting period	**—**	—
Transfer from other liabilities	**424**	—
Transfer from liabilities under investment contracts	**698**	—
Transfer from policyholder liabilities under insurance contracts	**206**	—
Transfer from deferred tax liabilities (refer to note 17.1)	**152**	—
Balance at the end of the reporting period	**1 480**	—

During the reporting period, the Group 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 Financial Services segment:
  - Transferred net assets totalling R44 million in Absa Insurance Risk Management Services Limited, a subsidiary of Absa Insurance Company Limited (AIC). The disposal of the subsidiary is due to take place during 2013.
  - Transferred net assets totalling R245 million in the APEF. Management's intention is to dispose of further units in the APEF such that the Group no longer has control over the APEF.
  - Transferred gross assets and liabilities totalling R1,7 billion and R700 million, respectively in the General Fund. This transfer is as a result of the amalgamation of the General Fund with the Absa Select Equity Fund due to take place during 2013.
  - Transferred an investment in One Commercial Investment Holdings Cell Captive with a carrying value of R10 million from investments in associates and joint ventures.
- 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 R45 million transferred from investments in associates and an impairment reversal of R2 million, refer to note 13.1.

	Group		
	2012 Rm	2011[1] Rm	2010[1] Rm
9. Loans and advances to customers			
Cheque accounts	**33 809**	33 398	32 005
Corporate overdrafts and specialised finance loans	**5 121**	10 681	9 612
Credit cards[2]	**33 034**	21 579	20 663
Foreign currency loans	**13 143**	9 628	6 609
Instalment credit agreements (refer to note 9.1)	**60 489**	57 385	56 967
Gross advances	**73 124**	68 540	67 517
Unearned finance charges	**(12 635)**	(11 155)	(10 550)
Reverse repurchase agreements with non-banks (refer to note 47)	**4 698**	1 613	3 063
Loans to associates and joint ventures (refer to note 49.6)	**10 094**	7 909	8 025
Microloans	**2 002**	1 922	2 069
Mortgages	**282 778**	292 463	307 054
Other advances[3]	**3 226**	4 619	3 766
Overnight finance	**18 862**	12 320	7 647
Personal and term loans	**33 654**	29 925	28 283
Preference shares	**6 342**	6 958	6 622
Wholesale overdrafts	**34 951**	26 656	31 115
Gross loans and advances to customers	**542 203**	517 056	523 500
Impairment losses on loans and advances (refer to note 10)	**(14 012)**	(12 131)	(13 902)
	528 191	504 925	509 598
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	**11 941**	10 198	10 332
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	**4 099**	4 702	3 567
Loans and receivables	**523 452**	501 512	509 534
	542 203	517 056	523 500

The Group 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 48 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 47. The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

The total value of collateralised 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 47).

Notes

[1]Comparatives have been reclassified, refer to note 1.27.

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

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

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

9.1 Instalment credit agreements

	Group		
	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	**47 553**	**(8 461)**	**39 092**
More than five years	**2 154**	**(428)**	**1 726**
	73 124	**(12 635)**	**60 489**

	2011		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	22 197	(3 431)	18 766
Between one and five years	44 926	(7 459)	37 467
More than five years	1 417	(265)	1 152
	68 540	(11 155)	57 385

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

The Group 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).

	Group	
	2012 Rm	2011 Rm
10. Impairment losses on loans and advances		
Balance at the beginning of the reporting period	**12 131**	13 902
Amounts written off during the reporting period	**(6 355)**	(6 493)
Exchange differences	**(4)**	1
Interest on impaired assets (refer to note 30)	**(1 018)**	(1 173)
	4 754	6 237
Impairments raised during the reporting period (refer to note 10.1)	**9 258**	5 894
Balance at the end of the reporting period (refer to note 9)	**14 012**	12 131
Comprising:		
Identified impairments	**13 040**	11 306
Unidentified impairments	**972**	825
	14 012	12 131
10.1 Statement of comprehensive income charge for the reporting period ended 31 December		
Impairments raised	**9 258**	5 894
Identified impairments	**9 100**	6 015
Unidentified impairments	**158**	(121)
Recoveries of loans and advances previously written off	**(968)**	(813)
	8 290	5 081
11. Reinsurance assets		
Insurance contracts (refer to note 25)	**551**	469
Life insurance contracts	**54**	57
Short-term insurance contracts	**497**	412
Investment contracts (refer to note 24.1)	**452**	540
	1 003	1 009

Included in 'Other assets – Deferred acquisition costs' is **R14 million** (2011: Rnil) relating to amounts receivable from reinsurers for claims made against them, refer to note 6.

	Group 2012 Rm	Group 2011 Rm
12. Investment securities		
Debt instruments	**5 332**	4 821
Investments linked to investment contracts (refer to note 24.1)	**8 012**	9 891
Debt instruments	**1**	49
Derivative instruments (refer to note 60.3)	**41**	29
Listed equity instruments	**7 416**	8 754
Money market instruments	**554**	1 059
Listed equity instruments	**2 229**	1 448
Unlisted equity and hybrid instruments	**4 982**	5 022
	20 555	21 182

	Group	
	2012 Rm	2011 Rm
12. Investment securities *(continued)*		
Market value		
Directors' valuation of unlisted equity and hybrid instruments	**4 982**	5 022
Market value of debt instruments	**5 333**	4 870
Market value of derivative instruments	**41**	29
Market value of listed equity instruments	**9 645**	10 202
Market value of money market instruments	**554**	1 059
	20 555	21 182
Portfolio analysis		
Available-for-sale financial assets (refer to note 12.1)	**2 189**	1 444
Debt instruments	**2 030**	1 214
Listed equity instruments	**66**	72
Unlisted equity and hybrid instruments	**93**	158
Financial instruments designated at fair value through profit or loss	**17 854**	19 284
Debt instruments	**2 831**	3 182
Investments linked to investment contracts	**7 971**	9 862
Listed equity instruments	**2 163**	1 376
Unlisted equity and hybrid instruments	**4 889**	4 864
Held for trading financial instruments		
Derivative instruments linked to investment contracts (refer to note 60.3)	**41**	29
Held-to-maturity financial instruments		
Debt instruments	**471**	425
	20 555	21 182
12.1 Available-for-sale financial assets		
Carrying value at the beginning of the reporting period	**1 444**	1 492
Cost plus fair value movements	**1 496**	1 629
Impairments[1]	**(52)**	(137)
Movement in investment securities	**745**	(48)
Net acquisitions/(disposals)	**753**	(171)
Transferred to investments in associates and joint ventures (refer to note 13.4)	**(25)**	—
Fair value movements and accrued interest income	**17**	123
Carrying value at the end of the reporting period	**2 189**	1 444
Cost plus fair value movements	**2 228**	1 496
Impairments[1]	**(39)**	(52)

Note

[1]All impairments relate to equity instruments.

		Group 2012 Rm	Group 2011 Rm
13.	**Investments in associates and joint ventures**		
	Unlisted investments	**569**	420
13.1	**Movement in carrying value**		
	Balance at the beginning of the reporting period	**420**	416
	Share of current reporting period's post-tax results[1]	**249**	40
	Share of current reporting period's results before taxation	**343**	57
	Taxation on current reporting period's results	**(94)**	(17)
	Net movement resulting from acquisitions, disposals and transfers (refer to note 13.4)	**(20)**	(45)
	Dividends received	**(78)**	—
	Impairment reversal in the statement of comprehensive income (refer to note 40)	**—**	2
	(Decrease)/increase in loans and receivables	**(2)**	7
	Balance at the end of the reporting period	**569**	420
13.2	**Analysis of carrying value**		
	Unlisted investments		
	Loans and receivables	**16**	18
	Shares at cost	**102**	114
	Share of post-acquisition reserves	**451**	288
		569	420
13.3	**Market value**		
	Directors' valuation of unlisted investments	**569**	420

Note

[1]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.

13. Investments in associates and joint ventures *(continued)*

13.4 Net movement resulting from acquisitions, disposals and transfers

	Group			
	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 current reporting period (refer to note 8):		(46)		
One Commercial Investment Holdings Cell Captive	49	(10)	—	—
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]
		(20)		(43)

	Group	
	2012 Rm	2011 Rm
13.5 Details of the purchase consideration on net assets acquired		
Cash consideration	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)	(46)	(43)[1]
Transfer from investment securities	25	—
	(21)	(43)

Refer to note 49.6 for additional disclosure of the Group'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.

	Group 2012 Rm	Group 2011 Rm
14. Investment properties		
Balance at the beginning of the reporting period	**2 839**	2 523
Additions	**202**	255
Additions through business combinations (refer to note 56)	**—**	68
Change in fair value (refer to notes 38 and 39)	**(408)**	(39)
Disposals	**(43)**	(4)
Foreign exchange movements	**8**	36
Transfer to non-current assets held for sale (refer to note 8)	**(1 378)**	—
Balance at the end of the reporting period	**1 220**	2 839

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

	Group 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	**5 696**	**(4 195)**	**1 501**	5 310	(3 655)	1 655
Freehold property	**4 342**	**(364)**	**3 978**	4 002	(284)	3 718
Furniture and other equipment	**6 218**	**(3 385)**	**2 833**	5 397	(2 878)	2 519
Leasehold property	**501**	**(433)**	**68**	467	(382)	85
Motor vehicles	**74**	**(57)**	**17**	72	(53)	19
	16 831	**(8 434)**	**8 397**	15 248	(7 252)	7 996

Group 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	**1 655**	**521**	**(69)**	**(1)**	**22**	**(627)**	**1 501**
Freehold property	**3 718**	**294**	**—**	**(22)**	**14**	**(26)**	**3 978**
Furniture and other equipment	**2 519**	**904**	**(10)**	**—**	**8**	**(588)**	**2 833**
Leasehold property	**85**	**35**	**—**	**—**	**2**	**(54)**	**68**
Motor vehicles	**19**	**5**	**—**	**—**	**1**	**(8)**	**17**
	7 996	**1 759**	**(79)**	**(23)**	**47**	**(1 303)**	**8 397**
Notes				8		39	

	Group 2011							
	Opening balance Rm	Additions Rm	Additions through business combinations 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	1 675	670	—	(65)	—	32	(657)	1 655
Freehold property	3 389	351	21	(12)	(35)	55	(51)	3 718
Furniture and other equipment	2 329	684	3	(7)	—	26	(516)	2 519
Leasehold property	90	10	—	(2)	—	18	(31)	85
Motor vehicles	10	14	—	—	—	1	(6)	19
	7 493	1 729	24	(86)	(35)	132	(1 261)	7 996
Notes			56		8		39	

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: R4 103 million).

Leasehold property and computer equipment with a carrying value of **R116 million** (2011: R192 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 periods.

	Group					
	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	**2 624**	**(1 151)**	**1 473**	2 322	(906)	1 416
Customer lists and relationships[1]	**657**	**(148)**	**509**	270	(125)	145
Goodwill	**721**	**(168)**	**553**	719	(150)	569
Other	**34**	**(8)**	**26**	10	(5)	5
	4 036	**(1 475)**	**2 561**	3 321	(1 186)	2 135

	Group 2012							
	Opening balance Rm	**Additions Rm**	**Additions through business combinations Rm**	**Disposals Rm**	**Foreign exchange movements Rm**	**Amortisation Rm**	**Impairment charge Rm**	**Closing balance Rm**
Reconciliation of goodwill and intangible assets								
Computer software development costs	**1 416**	**479**	**—**	**(94)**	**(10)**	**(229)**	**(89)**	**1 473**
Customer lists and relationships[1]	**145**	**387**	**—**	**—**	**—**	**(23)**	**—**	**509**
Goodwill	**569**	**—**	**2**	**—**	**—**	**—**	**(18)**	**553**
Other	**5**	**24**	**—**	**—**	**—**	**(3)**	**—**	**26**
	2 135	**890**	**2**	**(94)**	**(10)**	**(255)**	**(107)**	**2 561**
Notes			56			39	40	

Note

[1]Includes the Woolworths Financial Services store card loan portfolio and the Edcon portfolio.

16. Goodwill and intangible assets *(continued)*

Reconciliation of goodwill and intangible assets

	Group 2011							
	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	1 122	482	—	(6)	80	(262)	—	1 416
Customer lists and relationships	95	—	76	—	—	(26)	—	145
Goodwill	571	—	26	—	—	—	(28)	569
Other	6	—	—	—	—	(1)	—	5
	1 794	482	102	(6)	80	(289)	(28)	2 135
Notes			56			39	40	

Refer to note 1.14 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 **R211 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 the 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.

	Group	
	2012 Rm	2011 Rm
Composition of goodwill		
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
Absa Asset Management Proprietary Limited	**30**	30
Glenrand MIB employee benefits and healthcare	**22**	22
Global Alliance Seguros S.A.	**24**	23
NewFunds Proprietary Limited	**1**	—
Ngwenya River Estate Proprietary Limited	**—**	18
Woolworths Financial Services Proprietary Limited	**364**	364
	553	569

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 7,0%).

	Group 2012 Rm	Group 2011 Rm
17. Deferred tax		
17.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the reporting period	**929**	1 864
Deferred tax asset released on STC credits (refer to note 17.4)	**31**	38
Net movement resulting from business combinations (refer to note 56)	**—**	20
Deferred tax on amounts charged directly to other comprehensive income	**494**	(132)
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**	(91)
Fair value measurement	**741**	553
Transfer to the profit and loss component of the statement of comprehensive income	**(584)**	(644)
Retirement benefit fund assets and liabilities	**(96)**	(20)
Charge to the profit and loss component of the statement of comprehensive income (refer to note 42)	**41**	(935)
Tax effect of translation and other differences	**(110)**	74
Transfer to non-current assets held for sale (refer to note 8)	**(152)**	—
Balance at the end of the reporting period	**1 233**	929
17.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**1 670**	1 091
Fair value adjustments on financial instruments	**(27)**	(164)
Impairment of loans and advances	**(111)**	(138)
Lease and rental debtor allowances	**(18)**	100
Other differences	**(42)**	13
Property allowances	**(3)**	113
Retirement benefit fund assets and liabilities	**130**	183
Deferred tax liability	**1 599**	1 198
Deferred tax asset	**(366)**	(269)
Deferred tax asset – normal	**(366)**	(238)
Accruals and provisions	**(190)**	(95)
Assessed losses	**(55)**	(43)
Fair value adjustments on financial instruments	**(24)**	(25)
Impairment of loans and advances	**(54)**	(68)
Other differences	**(35)**	(7)
Share-based payments	**(8)**	—
Deferred tax asset – STC credits (refer to note 17.4)	**—**	(31)
Net deferred tax liability	**1 233**	929
17.3 Future tax relief		
Balance at the beginning of the reporting period	**277**	207
Losses incurred	**906**	87
Operating losses utilised	**(268)**	(17)
Balance at the end of the reporting period	**915**	277
17.4 Secondary taxation on companies		
Accumulated STC credits	**—**	307
Deferred tax asset raised (refer to note 17.2)	**—**	31
Movement in deferred tax asset for the reporting period (refer to note 17.1)	**(31)**	(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 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.

	Group 2012 Rm	Group 2011 Rm
18. Deposits from banks		
Call deposits	**9 846**	15 537
Fixed deposits	**3 933**	2 165
Foreign currency deposits	**5 668**	6 809
Other	**3 492**	2 478
Repurchase agreements (refer to note 47)	**13 096**	11 350
	36 035	38 339
Portfolio analysis		
Financial liabilities at amortised cost	**24 903**	28 666
Financial liabilities designated at fair value through profit or loss	**11 132**	9 673
Fixed deposits	**539**	479
Foreign currency deposits	**35**	71
Repurchase agreements	**10 558**	9 123
	36 035	38 339

Deposits with variable rates are **R14 708 million** (2011: R24 089 million) and with fixed rates are **R21 327 million** (2011: R14 250 million).

	Group 2012 Rm	Group 2011 Rm
19. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 60.3)	**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	**4 921**	7 257
Total trading portfolio liabilities	**51 684**	55 960
Hedging portfolio liabilities (refer to note 60.3)	**3 855**	2 456
	55 539	58 416
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	**51 684**	55 960
Derivative liabilities	**46 763**	48 703
Short positions	**4 921**	7 257
	55 539	58 416

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

20. Other liabilities

	Group 2012 Rm	Group 2011 Rm
Accruals	**1 368**	1 199
Audit fee accrual	**70**	47
Creditors	**6 108**	7 885
Deferred income	**325**	231
Liabilities under finance leases (refer to note 20.1)	**303**	504
Retirement benefit fund obligations (refer to note 45)	**647**	592
Settlement balances	**8 761**	3 719
Share-based payment liability (refer to note 55)	**633**	518
	18 215	14 695
Portfolio analysis		
Financial liabilities at amortised cost	**15 164**	12 092
Creditors	**6 100**	7 869
Liabilities under finance leases	**303**	504
Settlement balances	**8 761**	3 719
Financial liabilities designated at fair value through profit or loss	**8**	16
Non-financial liabilities	**3 043**	2 587
	18 215	14 695

20.1 Liabilities under finance leases

Group 2012	Minimum lease payments due Rm	Interest Rm	Principal Rm
Less than one year	**239**	**(23)**	**216**
Between one and two years	**84**	**(2)**	**82**
Between two and three years	**5**	**(0)**	**5**
	328	**(25)**	**303**

Group 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. 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.

	Group	
	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

21. Provisions

	Group		
	2012		
	Staff bonuses and incentive provisions Rm	**Sundry provisions Rm**	**Total Rm**
Balance at the beginning of the reporting period	**1 118**	**592**	**1 710**
Additions	**986**	**293**	**1 279**
Amounts used	**(1 076)**	**(123)**	**(1 199)**
Reversals	**(24)**	**(85)**	**(109)**
Balance at the end of the reporting period	**1 004**	**677**	**1 681**

	2011		
	Staff bonuses and incentive provisions Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the reporting period	909	899	1 808
Additions	1 066	338	1 404
Amounts used	(850)	(257)	(1 107)
Reversals	(7)	(388)	(395)
Balance at the end of the reporting period	1 118	592	1 710

Provisions expected to be recovered or settled within no more than 12 months after the reporting date amounted to **R1 093 million** (2011: R1 288 million).

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

	Group	
	2012 Rm	2011 Rm
22. Deposits due to customers		
Call deposits	**56 667**	55 783
Cheque account deposits	**143 861**	134 505
Credit card deposits	**1 938**	1 884
Fixed deposits	**125 800**	125 273
Foreign currency deposits	**12 253**	8 947
Notice deposits	**55 728**	28 500
Other[1]	**1 707**	2 771
Repurchase agreements with non-banks (refer to note 47)	**1 503**	8 734
Savings and transmission deposits	**77 970**	74 563
	477 427	440 960
Portfolio analysis		
Financial liabilities at amortised cost	**458 764**	420 460
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
	477 427	440 960
23. Debt securities in issue		
Credit linked notes	**9 800**	8 976
Floating rate notes	**53 903**	69 553
Liabilities arising from securitised SPEs	**2 391**	4 218
Negotiable certificates of deposit	**17 575**	30 214
Other	**7**	—
Promissory notes	**1 378**	1 550
Structured notes and bonds	**1 098**	1 451
Senior notes	**21 892**	14 300
	108 044	130 262
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	**94 959**	117 726
Financial liabilities designated at fair value through profit or loss	**3 198**	1 762
Credit linked notes	**1 571**	—
Promissory notes	**529**	311
Structured notes and bonds	**1 098**	1 451
	108 044	130 262

Note

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

	Group	
	2012 Rm	2011 Rm
24. Liabilities under investment contracts		
Balance at the beginning of the reporting period	**15 233**	13 964
Change in investment contract liabilities (refer to note 35)	**636**	906
Inflows on investment contracts	**1 831**	2 548
Policyholder benefits on investment contracts	**(3 393)**	(2 187)
Linked investment policies	**—**	2
Transfer to non-current liabilities held for sale (refer to note 8)	**(698)**	—
Balance at the end of the reporting period	**13 609**	15 233
Portfolio analysis		
Financial liabilities designated at fair value through profit or loss	**13 609**	15 233

	Group		
	2012		
	Linked to investment contracts[1] Rm	**Intergroup assets and liabilities Rm**	**Attributable to external policy-holders Rm**
24.1 Assets linked to investment contracts			
Money market assets (refer to note 2)	**96**	**—**	**96**
Investment securities (refer to note 12)	**13 068**	**(5 056)**	**8 012**
Other assets	**1**	**—**	**1**
Other liabilities	**(8)**	**—**	**(8)**
Reinsurance assets (refer to note 11)	**452**	**—**	**452**
	13 609	**(5 056)**	**8 553**

	2011		
	Linked to investment contracts[1] Rm	Intergroup assets and liabilities Rm	Attributable to external policy-holders Rm
Assets linked to investment contracts			
Money market assets (refer to note 2)	72	—	72
Investment securities (refer to note 12)	15 448	(5 557)	9 891
Other assets	2	—	2
Other liabilities	(15)	—	(15)
Reinsurance assets (refer to note 11)	540	—	540
	16 047	(5 557)	10 490

Note

[1]Includes **Rnil** (2011: R814 million) assets linked to insurance contracts representing Absa Life Limited's investment in the Absa General Fund. The fund was consolidated as an investment contract with the related policyholder liability disclosed as an insurance contract in the previous reporting period. The Absa General Fund was transferred to non-current assets held for sale in the current reporting period, refer to note 8.

	Group 2012 Gross Rm	Group 2012 Reinsurance Rm	Group 2012 Net Rm
25. Policyholder liabilities under insurance contracts			
Short-term insurance contracts:			
Claims outstanding (refer to note 25.1)	707	(236)	471
Claims reported and loss adjustment expense	542	(226)	316
Claims incurred but not reported	165	(10)	155
Unearned premiums at the end of the reporting period	1 035	(261)	774
Balance at the beginning of the reporting period	1 039	(217)	822
Increase during the reporting period	3 015	(385)	2 630
Release during the reporting period	(3 019)	341	(2 678)
	1 742	(497)	1 245
Long-term insurance contracts (refer to note 25.2)	1 808	(54)	1 754
	3 550	(551)	2 999

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

	Group 2012 Rm	Group 2011 Rm
Comprising:		
Unit-linked insurance contracts		
Gross	1 298	1 106
Non-linked insurance contracts	1 701	1 608
Gross	2 252	2 077
Reinsurance (refer to note 11)	(551)	(469)
	2 999	2 714

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

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

	Group 2012 Gross Rm	Group 2012 Reinsurance Rm	Group 2012 Net Rm
Balance at the beginning of the reporting period	672	(195)	477
Cash paid for claims settled during the reporting period	(2 092)	107	(1 985)
Increase in claims arising from the current reporting period's claims outstanding	2 018	(141)	1 877
Increase in claims arising from the previous reporting period's claims outstanding	109	(7)	102
Balance at the end of the reporting period (refer to note 25)	707	(236)	471

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

25.2 Reconciliation of gross long-term insurance contracts

	Group 2012 Rm	Group 2011 Rm
Balance at the beginning of the reporting period	1 472	1 463
Reinsurance liability	(3)	(1)
Transfer adjustment	(5)	—
Value of in-force acquired for transfer of policies	—	2
Change in insurance contract liabilities (refer to note 35)	344	8
Change in economic assumptions	54	27
Change in methodology	(13)	(14)
Change in non-economic assumptions	18	(108)
Expected cash flow	683	535
Expected release of margins	(700)	(572)
Experience variances	(3)	39
Increase in retrospective liabilities	186	1
New business	90	69
Transfer of policies	—	7
Unwind of discount rate	29	24
Balance at the end of the reporting period (refer to note 25)	1 808	1 472
Recoverable from reinsurers	54	57
Net liabilities	1 754	1 415
Unit-linked liabilities (refer to note 25)	1 298	1 106
Non-linked liabilities	456	309
	1 808	1 472

26. Borrowed funds

Subordinated callable notes

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

Interest rate	Final maturity date	Note	Group 2012 Rm	Group 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

	Group 2012 Rm	Group 2011 Rm
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

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

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

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

v The 8,295% fixed rate notes may be redeemed in full at the option of the Bank on 21 November 2018. Interest is paid semi-annually in arrear on 21 May and 21 November of each year. If the Bank does not exercise the redemption option, there is no step-up in the coupon rate. The Bank 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 Bank on 3 May 2017. Interest is paid quarterly on 3 August, 3 November, 3 February and 3 May of each year, provided that the last date for payment shall be 3 May 2017. If the Bank does not exercise the redemption option, then the coupon rate payable after 3 May 2017 reprices from three-month JIBAR plus 2,10% to three-month JIBAR plus 4,10%.

vii The three-month JIBAR plus 1,95% floating rate notes may be redeemed in full at the option of the Bank 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 Bank does not exercise the redemption option, there is no step-up in the coupon rate. The Bank 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 Bank on 21 November 2018. Interest is paid quarterly on 21 February, 21 May, 21 August and 21 November of each year. If the Bank does not exercise the redemption option, there is no step-up in the coupon rate. The Bank 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 Bank on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September each year, provided that the last date for payment shall be 31 March 2013. If the Bank does not exercise the redemption option, then the CPI-linked rate payable will convert to JIBAR plus a spread, which will be payable quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

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

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

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

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

		Group	
		2012 Rm	2011 Rm
27.	**Share capital and premium**		
27.1	**Share capital**		
	Authorised		
	880 467 500 (2011: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
	Issued		
	718 210 043 (2011: 718 210 043) ordinary shares of R2,00 each	**1 436**	1 436
	547 750 (2011: 1 195 822) treasury shares held by Group entities	**(1)**	(2)
		1 435	1 434
	Total issued capital		
	Share capital	**1 435**	1 434
	Share premium	**4 604**	4 676
		6 039	6 110

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.

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

Shares issued during the current reporting period

There were no shares 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.

28. Other reserves

28.1 General credit risk reserve

The general credit risk reserve consists of the following:

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

28.2 Available-for-sale reserve

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

28.3 Cash flow hedging reserve

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

28.4 Foreign currency translation reserve

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

28.5 Insurance contingency reserve

A contingency reserve was maintained at 10% of net written premiums as stipulated by the Short-term Insurance Act, 1988. The utilisation of this reserve, in case of catastrophe, was subject to the approval of the FSB. This reserve is no longer required due to a change in the FSB regulations.

28.6 Foreign insurance subsidiary regulatory reserve

The foreign insurance subsidiary regulatory reserve is calculated on the basis of the following minimum percentages of profits recorded in each reporting period for that subsidiary:

- 20% until the value of reserves represents half of the minimum capital required under the foreign insurance subsidiary's legislation.
- 10% from the time the amount specified in the preceding paragraph, has been attained.

28.7 Share-based payment reserve

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

28.8 Associates' and joint ventures' reserve

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

	Group	
	2012 Rm	2011 Rm
29. Non-controlling interest – preference shares		
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 63,0% of the prime overdraft lending rate. The holders of such shares shall not be entitled to voting rights unless a declared preference dividend remains in arrear and unpaid after six months from the due date thereof, or a resolution is proposed by the Bank which directly affects the rights attached to the preference shares or the interest of the holders thereof.

30. Interest and similar income

	Group 2012 Rm	Group 2011[1] Rm
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	166	159
Fair value adjustments on hedging instruments	(185)	1 063
Investment securities	202	390
Loans and advances to banks	865	989
Other	771	834
Reverse repurchase agreements	94	155
Loans and advances to customers	43 589	43 818
Cheque accounts	3 034	2 947
Corporate overdrafts and specialised finance loans	484	664
Credit cards	3 593	2 991
Foreign currency loans	288	177
Instalment credit agreements	5 550	5 577
Interest on impaired financial assets (refer to note 10)	1 018	1 173
Loans to associates and joint ventures	494	417
Microloans	505	544
Mortgages	20 986	22 062
Other advances[2]	299	378
Overnight finance	814	584
Personal and term loans	3 661	3 649
Preference shares	485	619
Wholesale overdrafts	2 378	2 036
Other interest[3]	545	486
Statutory liquid asset portfolio	5 584	4 286
	50 766	51 191
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale financial assets held in a fair value hedging relationship (refer to note 60.2)	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 60.2)	1 990	2 112
Economic hedges	(9)	(14)
Fair value hedges (refer to note 60.2)	(1 591)	(468)
Interest on financial assets held at amortised cost and available-for-sale financial assets	48 091	47 764
Interest on financial assets designated at fair value through profit or loss	332	1 312
Cash, cash balances and balances with central banks	61	113
Hedging instruments	(575)	(567)
Investment securities	68	217
Loans and advances to customers	709	1 402
Statutory liquid asset portfolio	69	147
	50 766	51 191

Notes

[1]Comparatives have been reclassified, refer to note 1.27.

[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 changes', 'Gains and losses from banking and trading activities' and 'Gains and losses from investment activities'.

	Group	
	2012 Rm	2011[1] Rm
31. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	1 352	1 350
Debt securities in issue	8 485	9 596
Deposits due to customers	17 999	16 467
Call deposits	2 881	3 082
Cheque account deposits	3 130	2 761
Credit card deposits	9	10
Fixed deposits	6 992	7 153
Foreign currency deposits	114	100
Notice deposits	2 471	777
Other	228	489
Savings and transmission deposits	2 174	2 095
Deposits from banks	577	581
Call deposits	450	480
Fixed deposits	103	98
Other	24	3
Fair value adjustments on hedging instruments	(998)	(472)
Interest incurred on finance leases	51	85
Other[2]	(811)	(845)
	26 655	26 762
Portfolio analysis		
Fair value adjustments on amortised cost instruments held in a fair value hedging relationship (refer to note 60.2)	446	179
Borrowed funds	44	39
Debt securities in issue	402	140
Fair value adjustments on hedging instruments	(652)	(472)
Cash flow hedges (refer to note 60.2)	(79)	(155)
Economic hedges	(185)	(175)
Fair value hedges (refer to note 60.2)	(388)	(142)
Interest on financial liabilities designated at fair value through profit or loss	638	677
Borrowed funds	70	—
Debt securities in issue	281	392
Deposits due to customers	634	581
Hedging instruments	(347)	(296)
Interest on financial liabilities held at amortised cost	26 223	26 378
	26 655	26 762

Notes

[1]Comparatives have been reclassified, refer to note 1.27.

[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'.

	Group	
	2012 Rm	2011[1] Rm
32. Net fee and commission income		
Asset management and other related fees	158	129
Consulting and administration fees	566	520
Credit-related fees and commissions	12 404	12 051
Cheque accounts	3 589	3 334
Credit cards[2,3]	617	473
Electronic banking	4 068	4 095
Other[4]	1 642	1 762
Savings accounts	2 488	2 387
Insurance commission received	1 077	901
Investment banking fees	252	222
Merchant income[3]	2 013	1 806
Other	224	256
Pension fund payment services	122	484
Trust and other fiduciary service fees	1 120	1 053
Portfolio and other management fees	870	801
Trust and estate income	250	252
Fee and commission income	17 936	17 422
Fee and commission expense	(2 501)	(2 129)
Cheque processing fees	(161)	(171)
Insurance commission paid	(943)	(877)
Other	(913)	(659)
Transaction-based legal fees	(313)	(229)
Trust and other fiduciary service fees	(44)	(51)
Valuation fees	(127)	(142)
	15 435	15 293

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

	2012 Rm	2011[1] Rm
32.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	3 589	3 334
Credit cards	617	473
Other	1 114	1 158
Savings accounts	2 488	2 387
Fee and commission income	7 808	7 352
Fee and commission expense	(1 345)	(1 033)
	6 463	6 319

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.

	Group 2012 Rm	Group 2011 Rm
33. Net insurance premium income		
Gross insurance premiums	7 073	6 182
Life insurance contracts	2 670	2 404
Short-term insurance contracts	4 403	3 778
Premiums ceded to reinsurers	(1 455)	(973)
Reinsurance on life insurance contracts	(175)	(154)
Reinsurance on short-term insurance contracts	(1 280)	(819)
	5 618	5 209
Comprising (net of reinsurance)		
Life	2 495	2 250
Credit life	989	847
Funeral business	451	449
Home mortgage protection	598	573
Other	457	381
Short-term	3 123	2 959
Commercial business	1 115	1 012
Personal business	2 008	1 947
	5 618	5 209
34. Net insurance claims and benefits paid		
Gross claims and benefits paid on insurance contracts	3 657	3 076
Life insurance claims and benefits	704	672
Short-term insurance claims and benefits	2 953	2 404
Reinsurance recoveries	(938)	(559)
Reinsurance recoveries on life insurance contracts	(111)	(104)
Reinsurance recoveries on short-term insurance contracts	(827)	(455)
	2 719	2 517
Comprising (net of reinsurance)		
Life	593	568
Credit life	110	89
Funeral business	129	115
Home mortgage protection	274	280
Other	80	84
Short-term	2 126	1 949
Commercial business	846	826
Personal business	1 280	1 123
	2 719	2 517

	Group 2012 Rm	Group 2011 Rm
35. Changes in investment and insurance contract liabilities		
Increase in insurance contract liabilities (refer to note 25.2)	344	8
Increase in investment contract liabilities (refer to note 24)	636	906
	980	914
36. Gains and losses from banking and trading activities		
Net gains on investments[1, 2]	93	437
Debt instruments designated at fair value through profit or loss	179	215
Equity instruments designated at fair value through profit or loss	(76)	242
Available-for-sale unwind from reserve	(10)	(20)
Net trading result[2]	3 566	2 271
Net trading income excluding the impact of hedge accounting	3 544	2 245
Ineffective portion of hedges	22	26
Cash flow hedges (refer to note 60.2)	45	33
Fair value hedges (refer to note 60.2)	(23)	(7)
Other gains/(losses)	11	(114)
	3 670	2 594
Net trading income excluding the impact of hedge accounting	3 544	2 245
Losses on financial instruments designated at fair value through profit or loss	(857)	(836)
Net gains on financial assets designated at fair value through profit or loss	1 129	495
Net losses on financial liabilities designated at fair value through profit or loss	(1 986)	(1 331)
Gains on financial instruments held for trading	4 401	3 081
Other gains/(losses)	11	(114)
Losses on financial instruments designated at fair value through profit or loss	(52)	(78)
Gains/(losses) on financial instruments held for trading	63	(36)

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'.

	Group 2012 Rm	Group 2011 Rm
37. Gains and losses from investment activities		
Available-for-sale unwind from reserve	**2**	1
Net gains on investments from insurance activities[3]	**913**	886
Policyholder – insurance contracts	**329**	173
Policyholder – investment contracts	**313**	511
Shareholder funds	**271**	202
Other gains[1]	**48**	79
	963	966
Gains on investments from insurance activities	**913**	886
Gains on financial instruments designated at fair value through profit or loss	**913**	880
Gains on financial instruments held for trading	**—**	6
38. Other operating income		
Foreign exchange differences	**41**	59
Income from investment properties	**30**	19
Change in fair value (refer to note 14)	**—**	2
Rentals	**30**	17
Income from maintenance contracts	**25**	15
Loss on disposal of intangible assets	**(3)**	(2)
Profit on disposal of property and equipment	**81**	33
Profit on disposal of developed properties	**32**	48
Gross sales	**66**	107
Cost of sales	**(34)**	(59)
Profit on disposal of repossessed properties	**14**	24
Gross sales	**550**	291
Cost of sales	**(536)**	(267)
Rental income	**312**	324
Sundry income[2]	**222**	252
	754	772

Notes

[1]Includes gains and losses from instruments designated at fair value through profit or loss.
[2]Includes service fees levied on sundry non-core business activities.
[3]Includes treasury shares held by Group entities, which are eliminated on consolidation.

	Group	
	2012 **Rm**	2011 Rm
39. Operating expenses		
Amortisation of intangible assets (refer to note 16)	**255**	289
Auditors' remuneration	**176**	166
Audit fees – current reporting period	**130**	114
Audit fees – underprovision	**9**	5
Audit-related fees[1]	**31**	37
Other services	**6**	10
Cash transportation	**646**	726
Depreciation (refer to note 15)	**1 303**	1 261
Equipment costs	**287**	224
Rentals	**128**	131
Maintenance	**159**	93
Information technology[2]	**2 134**	2 241
Investment properties charges – change in fair value (refer to note 14)	**408**	41
Marketing costs	**1 024**	1 036
Operating lease expenses on properties	**1 058**	1 018
Other property costs	**399**	286
Other[3]	**1 960**	1 276
Printing and stationery	**220**	253
Professional fees[2]	**862**	1 076
Property costs	**1 270**	1 120
Staff costs	**13 078**	13 642
Bonuses	**985**	1 285
Current service costs on post-retirement benefit funds (refer to note 49.6)	**640**	772
Other[4]	**470**	487
Salaries	**10 308**	10 379
Share-based payments (refer to note 55)	**463**	467
Training costs	**212**	252
Telephone and postage	**794**	803
	25 874	25 458

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 fraud losses, travel, entertainment costs and collection costs.

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

	Group	
	2012 Rm	2011 Rm
40. Other impairments		
Financial instruments at amortised cost	**6**	5
Other	**107**	47
Computer software development costs (refer to note 16)	**89**	—
Goodwill (refer to note 16)	**18**	28
Investments in associates and joint ventures (refer to note 13.1)	**—**	(2)
Repossessed properties	**0**	21
	113	52

The current and previous reporting periods' impairment losses reported by segment are disclosed in note 59.

	2012 Rm	2011 Rm
41. Indirect taxation		
Training levy	**108**	104
VAT net of input credits	**598**	967
	706	1 071

42. Taxation expense

	Group 2012 Rm	Group 2011 Rm
Current		
Foreign tax	(24)	82
South African current tax	3 467	4 485
South African current tax – previous reporting period	(206)	125
STC	99	269
	3 336	4 961
Deferred		
Deferred tax (refer to note 17.1)	41	(935)
Accelerated tax depreciation	(39)	(146)
Allowances for loan losses	(30)	(117)
Other provisions	6	(70)
Other temporary differences	72	(605)
Retirement benefit fund assets and liabilities	32	3
	3 377	4 026
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	12 118	14 210
Share of post-tax results of associates and joint ventures (refer to note 13.1)	(249)	(40)
	11 869	14 170
Tax calculated at a tax rate of 28%	3 323	3 968
Effect of different tax rates in other countries	(4)	(12)
Expenses not deductible for tax purposes	220	149
Income not subject to tax	(392)	(375)
Other	131	27
STC	99	269
	3 377	4 026

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.

43. Earnings per share

43.1 Basic earnings per share

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

	Group 2012 Rm	Group 2011 Rm
Basic earnings attributable to ordinary equity holders	8 393	9 674
Weighted average number of ordinary shares in issue (millions)	717,6	716,8
Issued shares at the beginning of the reporting period	718,2	718,2
Treasury shares held by Group entities (weighted)	(0,6)	(1,4)
Basic earnings per share (cents)	1 169,6	1 349,6

	Group	
	2012 Rm	2011 Rm
43. Earnings per share *(continued)*		
43.2 Diluted earnings per share		
Diluted earnings attributable to ordinary equity holders	**8 393**	9 674
Diluted weighted average number of ordinary shares in issue (millions)	**719,2**	719,9
Issued number of ordinary shares	**717,6**	716,8
Adjustments for share options issued at no value (weighted)	**1,6**	3,1
Diluted earnings per share (cents)	**1 167,0**	1 343,8

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

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

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

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

As part of the recent announcement of the proposed strategic combination of the African operations of Barclays with the Group announced in December 2012, the Group anticipates the issue of 129 540 636 ordinary shares to Barclays representing a value of R18,3 billion for the interest in the African operations of Barclays. Under the transaction, Barclays stake in the Group will increase to 62,3% from 55,5% as at the reporting date. The share issuance is subject to approval by the Group's shareholders, excluding Barclays, by way of an ordinary resolution scheduled for 25 February 2013, and the fulfilment of other conditions precedent as set out in the circular to shareholders.

	Group			
	2012		2011	
	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm
44. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders		8 393		9 674
Total headline earnings adjustment:		414		45
IFRS 3/IAS 36 – Goodwill impairment (refer to note 40)	18	18	28	28
IAS 16 – Profit on disposal of property and equipment (refer to note 38)	(81)	(63)	(33)	(30)
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 40)	—	—	(2)	(1)
IAS 38 and IAS 36 – Loss on disposal and impairment of intangible assets (refer to notes 38 and 40)	92	65	2	1
IAS 39 – Release of available-for-sale reserves (refer to note 36)	10	7	20	14
IAS 40 – Change in fair value of investment properties (refer to notes 38 and 39)	408	388	39	33
Headline earnings/diluted headline earnings		8 807		9 719
Headline earnings per share (cents)		1 227,3		1 355,9
Diluted headline earnings per share (cents)		1 224,6		1 350,0

Note

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

	Group	
	2012 Rm	2011 Rm
45. Retirement benefit fund obligations		
Surplus disclosed in 'Other assets'		
The Group defined benefit plan (refer to notes 6 and 45.3.1)	**466**	628
Obligations disclosed in 'Other liabilities'		
Subsidiaries' defined benefit plan (refer to note 45.1)	**640**	586
Subsidiaries' post-retirement medical aid (refer to note 45.2)	**7**	6
	647	592
Statement of comprehensive income charge included in staff costs and interest expense		
Subsidiaries' defined benefit plan (refer to note 45.1)	**75**	76
The Group defined benefit plan (refer to note 45.3.1)	**(115)**	12
	(40)	88
Recognised in other comprehensive income		
Actuarial gains	**(50)**	(12)
Application of the asset ceiling adjustment	**388**	83
	338	71
45.1 Subsidiaries' defined benefit plan		
Reconciliation of movement in funded obligation		
Balance at the beginning of the reporting period	**586**	352
Benefits paid	**(38)**	(29)
Current service costs	**16**	13
Foreign exchange differences	**(42)**	182
Interest expense	**59**	63
Net actuarial losses	**59**	5
Balance at the end of the reporting period	**640**	586
Total expenses comprise:		
Current service costs	**16**	13
Interest expense	**59**	63
	75	76
Recognised in other comprehensive income		
Actuarial losses	**59**	5
The principal actuarial assumptions used were as follows:		
Discount rate (%)	**10,0**	12,0
Expected rate on plan assets (%)	**8,5**	10,5
Future pension increases (%)	**2,6**	3,4
Future salary increases (%)	**7,5**	9,5
Assumptions regarding future mortality experience are set based on advice from published statistics and experience.		
The average life expectancy in years of a pensioner retiring at the age of 65 is as follows:		
Male	**15,8**	12,5
Female	**15,8**	14,4
Pension fund assets		
Investments		
Government bonds	**169**	191
Treasury bills	**100**	105
Current assets		
Bank balance with BBM	**254**	215
Interest owing by government	**10**	34
	533	545

45. Retirement benefit fund obligations *(continued)*

45.1 Subsidiaries' defined benefit plan *(continued)*

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

	Group				
	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm
Historical information as at reporting date					
Present value of defined benefit obligation	**640**	586	352	418	503
Experience adjustments on plan liabilities	**59**	5	2	32	(19)

45.2 Subsidiaries' post-retirement medical aid plan

Woolworths Financial Services Proprietary Limited subsidises a portion of the medical aid contributions of retired employees who participate in the Wooltru Healthcare Fund. The accrued and future liability in respect of post-retirement medical aid contributions is valued annually on the reporting date. This liability was actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions. For purposes of the valuation, it was assumed that medical inflation is **7,7%** (2011: 7,7%) per annum. The discount rate used to value the liability is **8,7%** (2011: 8,7%) per annum. At the reporting date, the accrued liability amounted to **R7 million** (2011: R6 million) in respect of those current and retired employees who participate in the Wooltru Healthcare Fund. Employees who joined the Wooltru Healthcare Fund after 1 November 2000 are not entitled to receive post-retirement healthcare benefits.

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

	Group	
	2012 Rm	2011 Rm
Unfunded obligation		
Unfunded liability	**7**	6
Unfunded deficit	**7**	6
Net obligation	**7**	6

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

45. Retirement benefit fund obligations *(continued)*

45.3 The Absa Group Limited Pension Fund

45.3.1 Defined benefit plan

	Group 2012 Rm	Group 2011 Rm
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 Group with a fair value of **R231 million** (2011: R95 million). Refer to note 49 for additional disclosure of related party transactions.

The Group 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.

	Group 2012 Rm	Group 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

45. Retirement benefit fund obligations *(continued)*

45.3 The Absa Group Pension Fund *(continued)*

45.3.1 *Defined benefit plan* *(continued)*

	Group				
	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm
Historical information as at the reporting date					
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

	Group	
	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.

45.4 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 Group's policy to ensure that the fund is adequately funded to provide for the benefits of members, and particularly to ensure that any shortfall with regard to the defined benefit structure will be met by way of additional contributions.

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

45. Retirement benefit fund obligations *(continued)*

45.4 Post-retirement benefit funds *(continued)*

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of the fund be carried out at least every three years. The most recent statutory valuation of the fund was effected on 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 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.

46. Dividends per share

	Group	
	2012 Rm	2011 Rm
Ordinary dividend paid[1]		
Interim dividend (27 July 2012: **315 cents**) (2 August 2011: 292 cents)	**2 262**	2 098
Dividend paid on treasury shares – interim dividend[2]	**(3)**	(3)
Final dividend (12 February 2013: **369 cents**) (10 February 2012: 392 cents)	**2 650**	2 815
Dividend paid on treasury shares – final dividend	**n/a**[2]	(5)
	4 909	4 905
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

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

47.1 Reverse repurchase agreements and cash collateral on securities borrowed

Where the Group 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:

	Group			
	2012		2011	
	Cash collateral on securities borrowed Rm	**Reverse repurchase agreements Rm**	Cash collateral on securities borrowed Rm	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 Group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **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 259 million** (2011: R2 095 million) and the final dividend declared at the end of the previous reporting period of **R2 810 million** (2010: R1 649 million). These amounts are net of the dividends paid on treasury shares. Also included in the statement of changes in equity is the interim preference dividend paid 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.

[2]Dividend on treasury shares is determined on the dividend payment date.

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

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

	Group			
	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	13 096	421	11 350
Deposits due to customers (refer to note 22)	371	1 503	466	8 734
	678	14 599	887	20 084

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.

48. Transfer of financial assets

48.1 Assets recognised to the extent of continuing involvement

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

	Group		
	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	—

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

Commissioner Street No 3 Proprietary Limited (Commissioner Street 3)

The Group sold certain exposures to Commissioner Street 3, a SPE established by the Bank. 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 Group invested in 100% of the A2 notes and external investors invested in 100% of the A1 notes.

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

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

48.2 Securities lending and repurchase agreements

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

	Group			
	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	14 599	(14 599)	20 085	(20 085)
	15 748	(16 004)	21 556	(21 935)

49. Related parties

The Group's parent company is Barclays Bank PLC which owns **55,5%** (2011: 55,5%) of the ordinary shares in the Group. 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 Group:

- key management personnel, refer to notes 49.1 and 49.2;
- the parent company, refer to note 49.3;
- fellow subsidiaries, associates and joint ventures of the parent company, refer to note 49.4;
- subsidiaries, refer to note 49.5;
- associates, joint ventures and retirement benefit fund, refer to note 49.6;
- an entity controlled/jointly controlled or significantly influenced by any individual referred to above;
- post-employment benefit plans for the benefit of employees or any entity that is a related party of the Group; and
- children and/or dependants and spouses or partners of the individuals referred to above.

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

49.1 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:

	Group			
	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 Group, 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.

	Group			
	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[1] and other[2]	**(19)**	**1**	1	(0)
Balance at the end of the reporting period	**12**	**3**	31	3
Interest expense	**1**	**0**	1	0
Guarantees issued by the Group	**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 Group. 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.

49. Related parties *(continued)*

49.1 Transactions with key management personnel *(continued)*

	Group			
	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
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

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R0,41 million** (2011: R0,41 million). Key management personnel received claims of **R0,08 million** (2011: R0,17 million).

49.2 Key management personnel compensation

	Group	
	2012 Rm	2011 Rm
Directors		
Post-employment benefit contributions	1	1
Salaries and other short-term benefits	30	33
Share-based payments	32	27
Termination benefits	12	—
	75	61
Other key management personnel		
Post-employment benefit contributions	2	2
Salaries and other short-term benefits	65	42
Share-based payments	47	36
Termination benefits	0	3
	114	83

Note

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

49. Related parties *(continued)*

49.3 Balances and transactions with the parent company

	Group 2012 Rm	Group 2011 Rm
Balances		
Loans and advances to banks	**20 698**	41 065
Derivative assets	**14 310**	10 254
Nominal value of derivative assets	**1 399 103**	637 611
Other assets	**896**	338
Investment securities	**584**	499
Deposits from banks	**(8 968)**	(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)**	—
Gains and losses from banking and trading activities	**(158)**	(136)
Other operating income	**(37)**	(152)
Operating expenditure	**(12)**	(115)
Dividends paid	**2 819**	2 082

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

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

49. Related parties *(continued)*

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

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

Balances and transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed.

	Group	
	2012 Rm	2011 Rm
Balances		
Loans and advances to banks	**221**	188
Derivative assets	**37**	0
Nominal value of derivative assets	**947**	608
Other assets	**87**	—
Deposits from banks	**(1 016)**	—
Derivative liabilities	**5**	(72)
Nominal value of derivative liabilities	**(521)**	(1 441)
Other liabilities	**(61)**	(52)
Transactions		
Interest and similar income	**—**	(2)
Net fee and commission income	**(7)**	(12)
Other operating income	**(3)**	—
Operating expenditure	**126**	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.

49. Related parties *(continued)*

49.5 Subsidiaries[1]

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

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

			Group	
Name	Nature of business	Country of incorporation	**2012 % holding**	2011 % holding
Absa Group Limited and its subsidiaries				
Absa Asset Management Proprietary Limited	An institutional asset management company that offers fixed income, equity, structured products and alternative investment solutions to customers through various pooled and segregated investment mandates.	South Africa	**100**	100
Absa Capital Securities Proprietary Limited	Stockbrokers.	South Africa	**100**	100
Absa Capital Private Equity Proprietary Limited[2]	Investment advisory services.	South Africa	**100**	100
Absa Development Company Holdings Proprietary Limited	Specialises in township development and sale of residential, commercial and industrial land.	South Africa	**100**	100
Absa Stockbrokers Proprietary Limited	Enables customers to trade online or by telephone in shares, warrants and exchange-traded funds.	South Africa	**100**	100
Abseq Properties Proprietary Limited	Property development and investment company.	South Africa	**85**	85
AllPay Consolidated Investment Holdings Proprietary Limited	Distributes social security grants and other payments to beneficiaries on behalf of third parties, mainly provincial government departments.	South Africa	**100**	100
Barclays Bank Mozambique S.A. (incorporated in Mozambique)[3]	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.	Mozambique	**98**	96
Blue Age Properties 60 Proprietary Limited	Property Fund.	South Africa	**100**	100
Diluculo Investments Proprietary Limited[4]	Investment holding and management company, providing project and management services to property funds and trading projects.	South Africa	**100**	100
National Bank of Commerce Limited (incorporated in Tanzania)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.	Tanzania	**55**	55
Woolworths Financial Services Proprietary Limited	Provides credit cards, in-store cards and personal loans.	South Africa	**50**	50

Notes

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

[2]The Group made an additional investment in Absa Capital Private Equity Proprietary Limited without a corresponding increase in the percentage holding.

[3]The increase in the Group's percentage holding relates to the recapitalisation of BBM through a rights issue, which was completed in December 2012.

[4]The Group made an additional investment in Blue Age Properties 60 Proprietary Limited without a corresponding increase in the percentage holding.

Name	Nature of business	Country of incorporation	Group 2012 % holding	Group 2011 % holding
49. Related parties *(continued)*				
49.5 Subsidiaries[1] *(continued)*				
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 Group.	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
Absa Financial Services and subsidiaries				
Absa Consultants and Actuaries Proprietary Limited	Offers comprehensive administrative, actuarial and consulting services, including asset consulting services in respect of pension funds, provident funds and other employee benefit group schemes.	South Africa	**100**	100
Absa Financial Services Africa Holdings Proprietary Limited[3]	Holding company of African financial service related entities.	South Africa	**100**	100
Absa Financial Services Limited	Holding company of financial service related entities.	South Africa	**100**	100
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.	South Africa	**100**	100
Absa Health Care Consultants Proprietary Limited	Advises medical funds and other persons and institutions on any matter relating to the structure and management of medical funds and health care benefits.	South Africa	**100**	100
Absa idirect Limited	Short-term insurance business.	South Africa	**100**	100
Absa Insurance and Financial Advisers Proprietary Limited	Provides a full spectrum of financial advisory services ranging from risk management to wealth creation, preservation and estate planning.	South Africa	**100**	100

Notes

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

[2]The Group acquired the remaining 50% shareholding in NewFunds from Vunani Capital Proprietary Limited, refer to note 56.1.

[3]Originally, this was a dormant company which became operational during the previous reporting period as the holding company for the African operations of Absa Financial Services Limited.

49. Related parties *(continued)*

49.5 Subsidiaries[1] *(continued)*

Name	Nature of business	Country of incorporation	Group 2012 % holding	Group 2011 % holding
Absa Financial Services and its subsidiaries *(continued)*				
Absa Insurance Company Limited	Short-term insurance provider.	South Africa	**100**	100
Absa Insurance Risk Management Services Limited[2]	Provides short-term insurance and other related insurance products.	South Africa	**100**	100
Absa Investment Management Services Proprietary Limited	Approved investment manager and linked investment service provider. Offers off-the-shelf local and international linked investment products, as well as investment solutions to suit specific needs.	South Africa	**100**	100
Absa Life Botswana Proprietary Limited	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments in Botswana.	Botswana	**100**	100
Absa Life Limited	Provides life assurance products, focusing on risk and investment products, that complement the Group's offerings to various market segments.	South Africa	**100**	100
Absa Mortgage Fund Managers Proprietary Limited	Provides loans to small and large companies, close corporations, trusts, property investors and developers for the development, acquisition and/or refinancing of income-producing commercial and industrial properties.	South Africa	**100**	100
Absa Portfolio Managers Proprietary Limited	Markets and exploits investment services through direct delivery systems and manages investment business.	South Africa	**100**	100
Absa Trust Limited	Trust administrative services.	South Africa	**100**	100
Barclays Life Zambia Limited[3]	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments in Zambia.	Zambia	**100**	n/a
Global Alliance Seguros S.A.	Provides non-life insurance in Mozambique.	Mozambique	**100**	100
Share trusts				
Absa Group Limited Share Incentive Trust	Share purchase and option scheme available to senior staff.	South Africa	**n/a**	n/a
Special purpose entities				
Absa Benefit Fund	Cell captive.	South Africa	**n/a**	n/a
Absa Foundation Trust	Funds community upliftment. Receives a percentage of the Group's dividends, which it distributes to identified community-related projects.	South Africa	**n/a**	n/a
Absa General Fund	Fund used to invest in unit trusts.	South Africa	**n/a**	n/a
Absa Property Equity Fund	Fund used to invest in unit trusts.	South Africa	**n/a**	n/a
Alpha Trust	Provides preference share funding.	South Africa	**n/a**	n/a
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
eRafi SA Financial 15[4]	Exchange-traded fund based on eRafi financial products.	South Africa	**92**	92

Notes

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

[2]These entities were reclassified to non-current assets held for sale in the current reporting period.

[3]The entity commenced operations in the current reporting period.

[4]These entities were not assessed to be material in the previous reporting period, accordingly no comparatives are provided.

	Name	Nature of business	Country of incorporation	Group 2012 % holding	Group 2011 % holding
49.	**Related parties** *(continued)*				
49.5	**Subsidiaries**[1] *(continued)*				
	Special purpose entities *(continued)*				
	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
	One Com-STI 3rd Party Cell Captive[2]	Short-term insurance business (3rd party cell captive).	South Africa	**100**	100

	2012 Rm	2011 Rm
Subsidiaries' aggregate profits and losses after taxation[4]	**8 144**	9 634

Notes

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

[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.

49. Related parties *(continued)*

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

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

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

	Group		
	2012		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of Absa Group Pension Fund investments managed by the Group	—	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	6	—	6
Loans and advances to customers (refer to note 9)	10 094	—	10 094
Other liabilities	(25)	—	(25)
Deposits due to customers	—	(130)	(130)
Statement of comprehensive income			
Interest and similar income	(608)	—	(608)
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 39)	—	640	640

Note

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

	Group		
	2011		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm

49. Related parties *(continued)*

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

	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of Absa Group Pension Fund investments managed by the Group	—	7 692	7 692
Value of Absa Group Limited shares held by the Absa Group Pension Fund	—	122	122
Value of Absa Bank Limited securities held by the Absa Group Pension Fund	—	1 720	1 720
Statement of financial position			
Other assets	56	—	56
Loans and advances to customers (refer to note 9)	7 909	—	7 909
Other liabilities	(90)	—	(90)
Deposits due to customers	(2)	(24)	(26)
Statement of comprehensive income			
Interest and similar income	(631)	—	(631)
Interest expense and similar charges	8	2	10
Fee and commission income	(95)	(19)	(114)
Fee and commission expense	167	—	167
Current service costs (refer to note 39)	—	772	772

Pledges and securities

Spring Valley Developments Proprietary Limited has development land pledged as security to the Group for an amount of **R27 million** (2011: R27 million).

Note

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

49. Related parties *(continued)*

49.6 Associates, joint ventures and retirement benefit fund[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 Group's financial statements.

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

Name	Nature of business	Country of incorporation	2012 Ownership %	2011 Ownership %
Equity-accounted associates				
One Commercial Investment Holdings Cell Captive[3]	Cell captive.	South Africa	**49**	49
SBV Services Proprietary Limited[4]	Cash transportation services.	South Africa and Nigeria	**25**	—
Spring Valley Investments Proprietary Limited	Property development.	South Africa	**37**	37
The Document Exchange Association	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
One Commercial Investment Holdings Cell Captive[3]
Sekunjalo Investments Limited[3]
Spring Valley Investments Proprietary Limited
Equity-accounted joint ventures
FFS Finance South Africa Proprietary Limited
Integrated Processing Solutions Proprietary Limited
Kilkishen Investments Proprietary Limited[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 Group.
[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.

Group

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
10	348	348	10	—	276	20
79	956	(638)	54	4	1 656	68
7	112	(37)	(1)	—	24	2
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
0	343	(322)	0	—	180	1
—	—	—	1	—	—	—
8	58	(29)	(7)	—	4	(8)
325	7 839	(7 190)	66	5 605	828	113
26	133	(56)	3	—	287	6
35	109	(52)	2	0	12	6
17	1 831	(1 798)	(25)	1 732	178	51
0	621	(759)	—	0	99	20
9	22	(22)	0	0	2	2
n/a	4 059	(4 666)	n/a	572	200	(21)

		Group	
		2012 Rm	2011 Rm
50.	**Assets under management and administration**		
	Alternative asset management and exchange-traded funds	41 957	30 486
	Deceased estates[1]	2 012	2 166
	Other	12 995	13 882
	Participation bond schemes	2 184	2 544
	Portfolio management	44 222	26 792
	Private equity	819	728
	Trusts[1]	3 783	3 343
	Unit trusts	138 978	133 245
		246 950	213 186
51.	**Financial guarantee contracts[2]**		
	Financial guarantee contracts	146	356

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

		2012 Rm	2011 Rm
52.	**Commitments**		
	Authorised capital expenditure		
	Contracted but not provided for	578	283

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

	2012 Rm	2011 Rm
Operating lease payments due		
No later than one year	936	1 106
Later than one year and no later than five years	1 948	2 136
Later than five years	365	585
	3 249	3 827

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

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

		2012 Rm	2011 Rm
53.	**Contingencies**		
	Guarantees	16 217	13 226
	Irrevocable debt facilities	46 483	46 189
	Irrevocable equity facilities	543	494
	Letters of credit	6 670	5 190
	Other	6	10
		69 919	65 109

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

Guarantees include performance and payment guarantee contracts.

Notes

[1]Unaudited.

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

53. Contingencies *(continued)*

Legal proceedings

The Group 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. Absa Bank Limited, 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 Bank had to make payment of an amount of R732 million as a result of the default and is claiming damages against Ukwanda for this amount. Ukwanda has counterclaimed in the amount of R1 064 million. The Bank is opposing the counterclaim 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 Absa Bank Limited was privy to such conduct. They have instituted proceedings against the Bank for damages in an amount of R1 387 million. The Bank has entered an appearance to defend the claim. The matter has not progressed from the previous reporting period.

The Group is engaged in various other litigation proceedings involving claims by and against it, which arise in the ordinary course of business. The Group does not expect the ultimate resolution of any proceedings, to which the Group is party, to have a significant adverse effect on the financial statements of the Group and the Group has not disclosed the 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 claim.

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

Regulatory matters

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

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

54. Cash and cash equivalents

	Group	
	2012 Rm	2011 Rm
Cash, cash balances and balances with central banks	**8 816**	7 893
Loans and advances to banks	**2 900**	2 175
	11 716	10 068

55. Share-based payments

During the reporting period, **R13 million** (2011: R58 million) and **R450 million** (2011: R409 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 39):

	Group 2012 Rm	Group 2011 Rm
Equity-settled arrangements:		
Absa Group Limited Executive Share Award Scheme (ESAS) (refer to note 55.1)	**7**	58
Absa Group Limited Long Term Incentive Plan (LTIP) (refer to note 55.2)	**6**	—
Absa Group Limited Performance Share Plan (PSP) (refer to note 55.3)	**—**	2
Absa Group Limited Share Incentive Scheme (refer to note 55.4)	**(0)**	(2)
Cash-settled arrangements:		
Absa Group Limited Deferred Award Plan (DAP) (refer to note 55.5)	**386**	321
Absa Group Limited Key Leaders Retention Plan (KLR) (refer to note 55.6)	**19**	28
Absa Group Limited Phantom Executive Share Award Scheme (Phantom ESAS) (refer to note 55.7)	**2**	2
Absa Group Limited Phantom Joiners Share Award Plan (JSAP) (refer to note 55.8)	**43**	58
	463	467
Total carrying amount of liabilities for cash-settled arrangements (refer to note 20)	**633**	518

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).

55.1 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:

	Group Number of options 2012 '000	Group Number of options 2011 '000
Outstanding at the beginning of the reporting period	**1 350**	2 075
Exercised during the reporting period	**(930)**	(701)
Forfeited during the reporting period	**(10)**	(24)
Outstanding at the end of the reporting period	**410**	1 350

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 current reporting period is **R152,50** (2011: R130,74).

55. Share-based payments *(continued)*

55.2 Absa Group Limited Long Term Incentive Plan

The LTIP is an equity-settled share-based payment arrangement. Qualifying participants will be entitled to Absa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Absa Group Limited ordinary shares. The award will be issued by the employing entity or subsidiary in the Group. 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.

	Group Number of awards	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**—**	—
Granted during the reporting period	**849**	—
Forfeited during the reporting period	**—**	—
Outstanding at the end of the reporting period	**849**	—

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 determined at grant date. The fair value of the awards granted to participants is measured after taking into account all terms and conditions of the scheme upon which such awards were granted.

55.3 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 reporting period in which the award is made. The options will vest after three years to the extent that the performance conditions are satisfied. These options are forfeited in total if the Group performance fails to meet the minimum performance criteria.

	Group Number of options	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**1 326**	3 218
Exercised during the reporting period	**—**	(323)
Forfeited during the reporting period	**(1 326)**	(1 569)
Outstanding at the end of the reporting period	**—**	1 326

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.

55.4 Absa Group Limited Share Incentive Scheme

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

55. Share-based payments *(continued)*

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

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

	Group 2012 Number of options '000	Group 2012 Weighted average exercise price R
Outstanding at the beginning of the reporting period	**1 570**	**81,05**
Exercised during the reporting period	**(747)**	**71,27**
Forfeited during the reporting period	**(21)**	**76,12**
Outstanding at the end of the reporting period	**802**	**69,45**
Of which are exercisable	**802**	**69,45**

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

Options exercised during the reporting period resulted in **747 301** (2011: 1 652 031) shares being allocated at an average exercise price of **R71,27** (2011: R76,54) each. The related weighted average share price at the time of exercise was **R152,33** (2011: R137,29).

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

Group 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**	**74 091**
44,36 – 68,93	**49,74**	**1,51**	**38,34**	**301 932**
72,36 – 94,63	**89,79**	**2,60**	**29,22**	**425 567**

2011	Average option exercise price R	Weighted average contractual remaining life Years	Weighted average fair value R	Number of options outstanding
Exercise price ranges				
25,16 – 35,97	33,67	0,43	11,31	143 040
31,99 – 35,01	35,01	1,43	12,03	179 834
44,36 – 68,93	49,48	2,49	34,71	407 938
72,36 – 94,63	90,30	3,61	28,61	574 677
100,30 – 113,75	105,35	4,40	35,30	264 168

55. Share-based payments *(continued)*

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

The following shares and options are available for allocation:

	Group 2012 Percentage of total issued shares	Group 2012 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	2011 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

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

	Group Number of awards 2012 '000	Group Number of awards 2011 '000
Outstanding at the beginning of the reporting period	**4 384**	2 468
Exercised during the reporting period	**(1 722)**	(796)
Forfeited during the reporting period	**(407)**	(189)
Granted during the reporting period	**2 172**	2 901
Outstanding at the end of the reporting period	**4 427**	4 384

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 Group considers adjustments to reflect expectations of phantom awards that might be forfeited before the awards vest. At each reporting date, the Group adjusts the liability to reflect differences:

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

55. Share-based payments *(continued)*

55.6 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.

	Group Number of awards	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**578**	596
Granted during the reporting period	**—**	34
Forfeited during the reporting period	**(147)**	(52)
Outstanding at the end of the reporting period	**431**	578

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 current and previous reporting periods

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

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

55.7 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 Group after the three-year vesting period, the participant will receive 20% matched phantom awards. If the bonus award remains in the Phantom ESAS for another two years, the participant receives an additional 10% bonus phantom awards. Dividends, in the form of cash, are paid to participants on settlement of the phantom awards as if the awards were held from inception. The number of dividend phantom awards is therefore calculated on the initial allocation and on the 20% and/or 10% bonus phantom awards, over the three- or five-year period. Employees that received a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the Phantom ESAS. Employees also had the option of utilising more of their bonus for voluntary Phantom ESAS awards.

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

	Group Number of awards	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**89**	153
Exercised during the reporting period	**(51)**	(62)
Forfeited during the reporting period	**—**	(2)
Outstanding at the end of the reporting period	**38**	89
Of which are exercisable	**—**	51

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).

55. Share-based payments *(continued)*

55.8 Absa Group Limited Phantom Joiners Share Award Plan

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

	Group Number of awards	
	2012 '000	2011 '000
Outstanding at the beginning of the reporting period	**954**	1 183
Exercised during the reporting period	**(338)**	(520)
Forfeited during the reporting period	**(181)**	(169)
Granted during the reporting period	**292**	460
Outstanding at the end of the reporting period	**727**	954

The awards outstanding at the reporting date have no exercise price and a weighted average contractual life of **1,8 years** (2011: 2,2 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 current and previous reporting periods

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

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

56. Acquisitions and disposals of businesses and other similar transactions

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

	Group	
	2012 Rm	2011 Rm
Summary of net cash outflow due to acquisitions	**(13)**	(331)
Summary of total cash and cash equivalents acquired	**—**	38

56. Acquisitions and disposals of businesses and other similar transactions *(continued)*

56.1 Acquisitions of businesses during the current reporting period

56.1.1 During April 2012, the Group acquired the remaining 50% shareholding in NewFunds Proprietary Limited (NewFunds) from Vunani Capital Proprietary Limited. Following the acquisition, the Group 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.

	Group
	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 Group for the period 1 May 2012 to 31 December 2012. If the acquisition occurred on 1 January 2012, the Group's revenue would have been Rnil higher and the net profit before tax for the reporting period would have been Rnil higher.

56. Acquisitions and disposals of businesses and other similar transactions *(continued)*

56.2 Acquisitions of businesses during the previous reporting period

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

	Group 2011 Fair value recognised on acquisition Rm
Details of the net assets acquired 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 Group for the period 1 April 2011 to 31 December 2011. If the acquisition occurred on 1 January 2011, the Group's revenue would have been R17 million higher and the net profit before tax for the previous reporting period would have been R18 million higher.

56.2.2 During September 2011, the Group acquired a 100% shareholding in Global Alliance Seguros S.A. (GA), a leading provider of non-life insurance in Mozambique for a total purchase consideration of R117 million. The acquisition of GA has enabled the Group to offer a full suite of insurance products and services in the Mozambican market. As at the acquisition date, the accounting for the business combination was provisionally determined since all the fair values of identifiable assets and liabilities were in the process of being finalised as part of the due diligence process. Acquisition-related costs amounted to R3 million in the statement of comprehensive income. At the end of May 2012, the initial accounting was finalised with no material adjustments recognised in the current reporting period.

The finalisation of the due diligence process resulted in a payment of R12 million in settlement of the final agreed purchase price, with an adjustment of R1 million to the goodwill recognised at the end of the previous reporting period. The goodwill adjustment was recognised in the current reporting period as the amount is considered by management to be both qualitatively and quantitatively immaterial.

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

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

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

56. Acquisitions and disposals of businesses and other similar transactions *(continued)*

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

56.2.4 The Group, together with two other parties, had a shareholding in Barrie Island Investments Proprietary Limited (Barrie Island). During January 2011, the Group entered into an agreement to purchase an additional 30% of the shares in Barrie Island from another shareholder who wished to exit the arrangement. Following this purchase, the Group owns 70% of the shares of Barrie Island. At the acquisition date, the investment was recognised at Rnil. A fair value adjustment of R3 million was processed as a loss in the statement of comprehensive income when the additional shares in Barrie Island were acquired. Barrie Island holds property in Alberton. The property is zoned for commercial and residential use. The goodwill in Barrie Island has been impaired as Barrie Island had been consistently making losses and was not expected to be profitable in the near future.

	Group 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
Deferred tax asset	1
Other liabilities	(50)
Fair value of existing interest	3
Non-controlling 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 Group for the period to 31 December 2011.

56.3 Disposals of businesses during the current and previous reporting periods

There were no disposals during the current or previous reporting periods.

56.4 Transactions with non-controlling interests

56.4.1 Acquisition of an additional interest in a subsidiary

During December 2012, the Group acquired additional shares in BBM for a purchase consideration of R545,5 million after a rights issue by BBM whereby the non-controlling shareholders did not take up any shares in terms of the rights issue. This increased the Group's effective shareholding in BBM. The Group now holds 98,10% of the share equity of BBM. The carrying amount of the non-controlling shareholders' interest in BBM on the date of acquisition was R27 million. A claw back option for a period of 12 months was granted to the non-controlling shareholders who were unable to subscribe for the shares at the date of the rights issue. The option grants the non-controlling shareholders the right to purchase their pro-rata portion of the shares from the Group at the original issue price plus interest at a market-related rate.

56.4.2 Disposal of an of interest in a subsidiary without a loss of control

The Group holds a controlling interest in the APEF and therefore consolidates the APEF. The APEF's net equity position varies based on purchases and disposals of unit holders. The Group also disposed of 20 342 327 of its units in the APEF during the course of the reporting period at a consideration of R40 million. This resulted in a reduction in the percentage shareholding of the fund from 72,8% to 55,5%. The APEF was transferred during the reporting period between subsidiaries of the Group with the portion of the APEF attributable to other unit holders now being recognised in liabilities.

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

	Group			
	2012		2011[1]	
	Assets Rm	Liabilities and equity Rm	Assets Rm	Liabilities and equity Rm
Fair value through profit or loss	135 015	102 927	130 009	106 371
Designated at fair value	42 846	47 388	41 301	47 955
Cash, cash balances and balances with central banks	2 507	—	3 112	—
Statutory liquid asset portfolio	800	—	804	—
Loans and advances to banks	9 728	—	7 886	—
Other assets	16	—	17	—
Loans and advances to customers	11 941	—	10 198	—
Investment securities	17 854	—	19 284	—
Deposits from banks	—	11 132	—	9 673
Other liabilities	—	8	—	16
Deposits due to customers	—	18 663	—	20 500
Debt securities in issue	—	3 198	—	1 762
Liabilities under investment contracts	—	13 609	—	15 233
Borrowed funds	—	778	—	771
Held for trading	86 730	51 684	84 409	55 960
Trading portfolio assets	86 689	—	84 380	—
Investment securities	41	—	29	—
Trading portfolio liabilities	—	51 684	—	55 960
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	64 946	—	58 636	—
Designated as available-for-sale	37 773	—	35 294	—
Cash, cash balances and balances with central banks	537	—	523	—
Statutory liquid asset portfolio	35 047	—	33 327	—
Investment securities	2 189	—	1 444	—
Hedged items				
Statutory liquid asset portfolio	27 173	—	23 342	—
Amortised cost	585 902	620 806	579 170	602 998
Designated at amortised cost	579 092	606 912	573 824	586 717
Cash, cash balances and balances with central banks	22 442	—	22 832	—
Loans and advances to banks	34 921	—	49 613	—
Other assets	12 289	—	11 998	—
Loans and advances to customers	509 440	—	489 381	—
Deposits from banks	—	24 903	—	28 666
Other liabilities	—	15 164	—	12 092
Deposits due to customers	—	458 764	—	420 460
Debt securities in issue	—	94 959	—	117 726
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
Held-to-maturity	1 206	—	955	—
Cash, cash balances and balances with central banks	735	—	530	—
Investment securities	471	—	425	—
Non-financial assets and liabilities	20 870	11 412	17 949	8 945
Total equity	—	72 794	—	68 405
	807 939	807 939	786 719	786 719

Note

[1]Comparatives have been reclassified, refer to note 1.27.

58. Fair value of financial instruments

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

	Group			
	2012		2011[1, 2]	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with other central banks	1 250	1 250	1 201	1 201
Balances with the SARB	12 340	12 340	12 279	12 279
Coins and bank notes	8 816	8 816	7 893	7 893
Money market assets	771	771	1 989	1 989
Cash, cash balances and balances with central banks (refer to note 2)	23 177	23 177	23 362	23 362
Loans and advances to banks (refer to note 4)	34 921	34 921	49 613	49 613
Other assets (refer to note 6)	12 289	12 289	11 998	11 998
Retail Markets	328 684	336 447	318 734	319 277
Cheque accounts	1 993	1 993	2 561	2 561
Credit cards	31 543	31 543	19 836	19 836
Instalment credit agreements	41 100	42 553	37 554	37 826
Loans to associates and joint ventures	6 634	6 634	4 836	4 836
Microloans	1 681	2 121	1 579	1 681
Mortgages	231 356	237 226	237 977	238 146
Other	—	—	11	11
Personal and term loans	14 377	14 377	14 380	14 380
Business Markets	90 013	92 944	92 716	93 163
Cheque accounts	18 177	18 177	13 269	13 269
Commercial asset finance	19 539	20 444	17 975	18 004
Commercial property finance	36 208	38 234	39 889	40 307
Term loans	16 089	16 089	21 583	21 583
CIBW	90 369	90 369	77 690	77 690
Head office, inter-segment eliminations, Financial Services and Other	374	374	241	241
Loans and advances to customers – net of impairment losses (refer to note 9)	509 440	520 134	489 381	490 371
Investment securities (refer to note 12)	471	471	425	425
Total	580 298	590 992	574 779	575 769
Financial liabilities				
Deposits from banks (refer to note 18)	24 903	24 906	28 666	28 674
Other liabilities (refer to note 20)	15 164	15 164	12 092	12 092
Call deposits	56 667	56 667	55 783	55 783
Cheque account deposits	143 800	143 800	134 500	134 500
Credit card deposits	1 938	1 938	1 884	1 884
Fixed deposits	108 701	109 142	113 512	113 636
Foreign currency deposits	12 253	12 253	8 947	8 947
Notice deposits	55 728	55 935	28 500	28 506
Other deposits	1 707	1 707	2 771	2 771
Savings and transmission deposits	77 970	77 970	74 563	74 563
Deposits due to customers (refer to note 22)	458 764	459 412	420 460	420 590
Debt securities in issue (refer to note 23)	94 959	94 959	117 726	117 726
Borrowed funds (refer to note 26)	13 122	14 407	7 773	8 497
Total	606 912	608 848	586 717	587 579

Notes

[1]Comparatives have been reclassified, refer to note 1.27.

[2]Comparatives have been reclassified for structure changes made during the current reporting period, refer to note 59.1.

59. Segment report

59.1 Summary of segments

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

The following summary describes the operations in each of the Group'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.
  - Financial Services: comprises various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services and a variety of investment products.
  - Other: consists of various non-banking activities and includes investment income earned by the Group, as well as income earned by the London branch, Absa Manx Holdings and Corporate Real Estate Services (CRES).

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 Group'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 Group.

	Group			
	2012			
	South Africa Rm	Rest of Africa Rm	Other foreign countries Rm	Total Rm
59.2 Segment report per geographical segment				
Net interest income – external	**23 340**	**613**	**158**	**24 111**
Non-interest income – external	**22 122**	**585**	**34**	**22 741**
Total assets	**786 170**	**13 510**	**8 259**	**807 939**

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

59. Segment report *(continued)*

59.3 Segment report per market segment

	RBB		RBB Retail Markets		RBB Business Markets	
	2012 Rm	2011[2] Rm	**2012 Rm**	2011[2] Rm	**2012 Rm**	2011[2] Rm
Statement of comprehensive income						
Net interest income	**20 004**	19 598	**14 039**	13 517	**5 965**	6 081
Net interest income – external	**30 982**	31 943	**24 840**	25 068	**6 142**	6 875
Net interest income – internal	**(10 978)**	(12 345)	**(10 801)**	(11 551)	**(177)**	(794)
Impairment losses on loans and advances	**(8 153)**	(4 868)	**(6 061)**	(3 965)	**(2 092)**	(903)
Non-interest income	**13 849**	13 916	**10 816**	10 817	**3 033**	3 099
Non-interest income – external	**13 123**	13 298	**10 095**	10 201	**3 028**	3 097
Non-interest income – internal	**726**	618	**721**	616	**5**	2
Operating expenses	**(19 535)**	(18 920)	**(13 424)**	(13 518)	**(6 111)**	(5 402)
Depreciation and amortisation	**(624)**	(554)	**(552)**	(494)	**(72)**	(60)
Other operating expenses	**(18 911)**	(18 366)	**(12 872)**	(13 024)	**(6 039)**	(5 342)
Other	**(397)**	(451)	**(328)**	(348)	**(69)**	(103)
Other impairments	**(22)**	(47)	**0**	(20)	**(22)**	(27)
Indirect taxation	**(444)**	(438)	**(403)**	(397)	**(41)**	(41)
Share of post-tax results of associates and joint ventures	**69**	34	**75**	69	**(6)**	(35)
Operating profit before income tax	**5 768**	9 275	**5 042**	6 503	**726**	2 772
Taxation expense	**(1 765)**	(3 013)	**(1 470)**	(2 072)	**(295)**	(941)
Profit for the reporting period	**4 003**	6 262	**3 572**	4 431	**431**	1 831
Profit attributable to:						
Ordinary equity holders	**3 961**	6 053	**3 447**	4 243	**514**	1 810
Non-controlling interest – ordinary shares	**42**	208	**125**	187	**(83)**	21
Non-controlling interest – preference shares	**—**	1	**—**	1	**—**	—
	4 003	6 262	**3 572**	4 431	**431**	1 831
Headline earnings	**4 346**	6 106	**3 436**	4 243	**910**	1 863
Operating performance (%)						
Net interest margin on average interest-bearing assets[4]	**3,75**	3,68	**3,22**	3,16	**6,11**	6,61
Impairment losses on loans and advances as a percentage of average loans and advances to customers[4]	**1,98**	1,16	**1,89**	1,23	**2,28**	0,93
Non-interest income as a percentage of total operating income[5]	**40,9**	41,5	**43,5**	44,5	**33,7**	33,8
Revenue growth[5]	**1**	(3)	**2**	5	**(2)**	(20)
Cost growth[5]	**(3)**	3	**1**	(2)	**(13)**	13
Cost-to-income ratio[5]	**57,7**	56,5	**54,0**	55,6	**67,9**	58,8
Cost-to-assets ratio[4]	**3,3**	3,3	**2,8**	2,9	**5,5**	4,8
Statement of financial position						
Loans and advances to customers	**419 644**	412 595	**328 684**	318 734	**90 960**	93 861
Investment securities	**1 042**	1 647	**—**	—	**1 042**	1 647
Other assets	**194 313**	167 942	**172 777**	152 742	**21 536**	15 200
Total assets	**614 999**	582 184	**501 461**	471 476	**113 538**	110 708
Deposits due to customers	**216 309**	207 574	**131 714**	126 210	**84 595**	81 364
Debt securities in issue	**3 636**	4 256	**3 636**	4 256	**—**	—
Other liabilities	**387 612**	363 886	**360 472**	336 318	**27 140**	27 568
Total liabilities	**607 557**	575 716	**495 822**	466 784	**111 735**	108 932

Notes

[1]Head office and inter-segment eliminations does not represent a reportable segment, but the reconciliation to the Group 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 1.27 and 59.1 for additional information.

[3]Comparatives have been reclassified, refer to note 1.27.

[4]These ratios are unaudited.

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

CIBW		Financial Services		Other		Head office and inter-segment eliminations[1]		Group	
2012 Rm	2011[2] Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm	2012 Rm	2011[2] Rm	2012 Rm	2011[3] Rm
2 964	3 483	6	21	(88)	(14)	1 225	1 341	24 111	24 429
(10 219)	(10 895)	9	24	2 175	3 097	1 164	260	24 111	24 429
13 183	14 378	(3)	(3)	(2 263)	(3 111)	61	1 081	—	—
(117)	(39)	(24)	(4)	—	(2)	4	(168)	(8 290)	(5 081)
5 664	4 339	4 010	3 994	337	198	(1 119)	(1 044)	22 741	21 403
8 225	6 025	4 445	4 392	309	163	(3 361)	(2 475)	22 741	21 403
(2 561)	(1 686)	(435)	(398)	28	35	2 242	1 431	—	—
(4 666)	(4 597)	(2 027)	(2 020)	(71)	(253)	425	332	(25 874)	(25 458)
(58)	(158)	(70)	(81)	(175)	(154)	(632)	(602)	(1 559)	(1 549)
(4 608)	(4 439)	(1 957)	(1 939)	104	(99)	1 057	934	(24 315)	(23 909)
21	(104)	(118)	(107)	(97)	(100)	21	(321)	(570)	(1 083)
—	9	(24)	(2)	—	(2)	(67)	(10)	(113)	(52)
(95)	(107)	(104)	(105)	(97)	(98)	34	(323)	(706)	(1 071)
116	(6)	10	0	—	—	54	12	249	40
3 866	3 082	1 847	1 884	81	(171)	556	140	12 118	14 210
(1 027)	(833)	(526)	(511)	13	87	(72)	244	(3 377)	(4 026)
2 839	2 249	1 321	1 373	94	(84)	484	384	8 741	10 184
2 810	2 231	1 321	1 373	94	(84)	207	101	8 393	9 674
29	18	—	—	—	—	(18)	—	53	226
—	—	—	—	—	—	295	283	295	284
2 839	2 249	1 321	1 373	94	(84)	484	384	8 741	10 184
2 810	2 230	1 338	1 375	69	(96)	244	104	8 807	9 719
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,87	4,11
0,12	0,05	12,37	1,80	n/a	n/a	n/a	n/a	1,59	1,01
65,6	55,5	99,9	99,5	n/a	n/a	n/a	n/a	48,5	46,7
10	42	0	11	n/a	n/a	n/a	n/a	2	7
(2)	(52)	(0)	(12)	n/a	n/a	n/a	n/a	(2)	(6)
54,1	58,8	50,5	50,3	n/a	n/a	n/a	n/a	55,2	55,5
1,0	1,0	7,8	8,5	n/a	n/a	n/a	n/a	3,2	3,5
107 907	91 889	296	137	266	525	78	(221)	528 191	504 925
8 314	7 181	15 959	17 567	55	42	(4 815)	(5 255)	20 555	21 182
357 734	367 770	9 597	7 939	34 034	30 709	(336 485)	(313 748)	259 193	260 612
473 955	466 840	25 852	25 643	34 355	31 276	(341 222)	(319 224)	807 939	786 719
261 317	233 702	—	—	—	—	(199)	(316)	477 427	440 960
84 252	107 795	—	—	21 935	20 255	(1 779)	(2 044)	108 044	130 262
122 462	120 635	21 081	21 044	7 167	7 570	(388 648)	(366 043)	149 674	147 092
468 031	462 132	21 081	21 044	29 102	27 825	(390 626)	(368 403)	735 145	718 314

59. Segment report *(continued)*

59.3 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
Financial performance (%)[4]						
Return on average economic capital[4,5]	**16,4**	20,9	**20,8**	25,7	**9,1**	18,7
Return on average risk-weighted assets[4]	**1,52**	1,97	**1,82**	2,69	**0,84**	1,56
Return on average assets[4]	**0,74**	1,07	**0,72**	0,92	**0,80**	1,73
Other						
Banking customer base by segment (millions)[4,6]	**10,8**	11,22	**9,8**	0	**0,37**	0
Attributable income from the rest of Africa[4]	**301**	193	**148**	123	**153**	69

59.4 Retail Markets segment

	Retail Markets 2012 Rm	Retail Markets 2011[2] Rm
Statement of comprehensive income		
Net interest income	**14 039**	13 517
Net interest income – external	**24 840**	25 068
Net interest income – internal	**(10 801)**	(11 551)
Impairment losses on loans and advances	**(6 061)**	(3 965)
Non-interest income	**10 816**	10 817
Non-interest income – external	**10 095**	10 201
Non-interest income – internal	**721**	616
Operating expenses	**(13 424)**	(13 518)
Depreciation and amortisation	**(552)**	(494)
Other operating expenses	**(12 872)**	(13 024)
Other	**(328)**	(348)
Other impairments	**—**	(20)
Indirect taxation	**(403)**	(397)
Share of post-tax results of associates and joint ventures	**75**	69
Operating profit before income tax	**5 042**	6 503
Taxation expense	**(1 470)**	(2 072)
Profit for the reporting period	**3 572**	4 431
Profit attributable to:		
Ordinary equity holders	**3 447**	4 243
Non-controlling interest – ordinary shares	**125**	187
Non-controlling interest – preference shares	**—**	1
	3 572	4 431
Headline earnings	**3 436**	4 243
Statement of financial position		
Loans and advances to customers	**328 684**	318 734
Other assets	**172 777**	152 742
Total assets	**501 461**	471 476
Deposits due to customers	**131 714**	126 210
Debt securities in issue	**3 636**	4 256
Other liabilities	**360 472**	336 318
Total liabilities	**495 822**	466 784

Notes

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

[2] Comparatives have been reclassified for structure changes made during the reporting period, refer to notes 1.27 and 59.1.

[3] Comparatives have been reclassified, refer to note 1.27.

[4] These ratios and numbers are unaudited.

[5] The 'Financial Services' return on average equity (RoE) is **28,2%** (2011: 32,0%) and Absa Group's RoE is **13,6%** (2011: 16,4%).

[6] Includes African operations.

CIBW		Financial Services		Other		Head office and inter-segment eliminations[1]		Group	
2012 Rm	2011[2] Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm	2012 Rm	2011[2] Rm	2012 Rm	2011[3] Rm
22,4	19,7	76,9	72,8	n/a	n/a	n/a	n/a	20,8	23,0
2,06	1,80	n/a	n/a	n/a	n/a	n/a	n/a	2,07	2,35
0,52	0,48	5,16	5,78	n/a	n/a	n/a	n/a	1,09	1,32
0,1	0,1	n/a	n/a	n/a	n/a	n/a	n/a	10,9	12,1
270	220	17	(18)	—	—	45	(3)	633	392

Retail Markets				Total Card			
Retail Bank		Total Card		Card		Edcon	
2012 Rm	2011[2] Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm
11 155	11 106	2 884	2 411	2 579	2 411	305	—
21 062	21 908	3 778	3 160	3 432	3 160	346	—
(9 907)	(10 802)	(894)	(749)	(853)	(749)	(41)	—
(5 670)	(3 752)	(391)	(213)	(319)	(213)	(72)	—
7 973	8 258	2 843	2 559	2 859	2 559	(16)	—
7 401	7 758	2 694	2 443	2 710	2 443	(16)	—
572	500	149	116	149	116	—	—
(11 247)	(11 548)	(2 177)	(1 970)	(2 158)	(1 970)	(19)	—
(460)	(399)	(92)	(95)	(92)	(95)	—	—
(10 787)	(11 149)	(2 085)	(1 875)	(2 066)	(1 875)	(19)	—
(282)	(285)	(46)	(63)	(44)	(63)	(2)	—
—	(20)	—	—	—	—	—	—
(357)	(334)	(46)	(63)	(44)	(63)	(2)	—
75	69	—	—	—	—	—	—
1 929	3 779	3 113	2 724	2 917	2 724	196	—
(600)	(1 218)	(870)	(854)	(815)	(854)	(55)	—
1 329	2 561	2 243	1 870	2 102	1 870	141	—
1 359	2 485	2 088	1 758	1 947	1 758	141	—
(30)	75	155	112	155	112	—	—
—	1	—	—	—	—	—	—
1 329	2 561	2 243	1 870	2 102	1 870	141	—
1 348	2 486	2 088	1 757	1 947	1 757	141	—
295 882	297 701	32 802	21 033	23 444	21 033	9 358	—
161 848	144 319	10 929	8 423	10 262	8 423	667	—
457 730	442 021	43 731	29 456	33 706	29 456	10 025	—
129 778	124 327	1 936	1 883	1 936	1 883	—	—
3 636	4 256	—	—	—	—	—	—
321 436	310 408	39 036	25 910	29 152	25 910	9 884	—
454 850	438 991	40 972	27 793	31 088	27 793	9 884	—

60. Derivatives

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

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

60.1 Derivatives held for trading

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

60.2 Derivatives held for hedging

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

60.2.1 Derivatives designated as fair value hedges

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

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

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

	Group	
	2012 **Rm**	2011 Rm
Gains on hedged items (assets) (refer to note 30)	**1 953**	485
Losses on hedging instruments (assets) (refer to note 30)	**(1 591)**	(468)
Losses on hedged items (liabilities) (refer to note 31)	**(446)**	(179)
Gains on hedging instruments (liabilities) (refer to note 31)	**388**	142

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

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

	Group	
	2012 **Rm**	2011 Rm
Ineffectiveness (outside range) (refer to note 36)	**(23)**	(7)
Ineffectiveness (inside range)	**(21)**	(72)

60. Derivatives *(continued)*

60.2 Derivatives held for hedging *(continued)*

60.2.2 Derivatives designated as cash flow hedges

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

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

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

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

	Group						
	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

60. Derivatives *(continued)*

60.2 Derivatives held for hedging *(continued)*

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

The following net gains/(losses) on cash flow hedges were recycled from other comprehensive income to the profit and loss component of the statement of comprehensive income:

	Group	
	2012 Rm	2011 Rm
Interest and similar income (refer to note 30)	**1 990**	2 112
Interest expense and similar charges (refer to note 31)[1]	**79**	155
Gains and losses from banking and trading activities (refer to note 36)	**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:

	Group	
	2012 Rm	2011 Rm
Ineffectiveness (outside range) (refer to note 36)	**45**	33
Ineffectiveness (inside range)	**202**	66

60.3 Detailed breakdown of derivatives

The Group uses the following derivative instruments for both hedging and non-hedging purposes:

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (i.e. fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument, at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer.

Note
[1]These balances are shown before taxation.

	Group					
	2012				2011	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
60. Derivatives *(continued)*						
60.3 Detailed breakdown of derivatives *(continued)*						
Trading						
Foreign exchange derivatives						
Foreign exchange forwards	50 086	(392)	451	(843)	57 146	(516)
Currency swaps	534 509	437	4 960	(4 523)	500 436	(844)
Over-the-counter (OTC) foreign exchange options	35 237	160	401	(241)	26 737	131
OTC foreign exchange options purchased	18 820	401	401	—	15 602	617
OTC foreign exchange options written	16 417	(241)	—	(241)	11 135	(486)
Other OTC foreign exchange derivatives	247	(1)	2	(3)	5	0
Exchange-traded derivatives	97 174	1	1	—	248 545	0
Euro dollar 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	717 253	205	5 815	(5 610)	832 909	(1 228)
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)	1 058	(22)
Interest rate swaps	1 126 047	1 721	32 059	(30 338)	1 245 264	1 886
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	—	—	—	—	1 985	(35)
OTC bond options purchased	—	—	—	—	562	30
Other bond options written	—	—	—	—	1 423	(65)
Other OTC interest rate derivatives	12 319	(4)	39	(43)	2 553	15
Exchange-traded derivatives	7 635	—	—	—	4 681	0
Exchange-traded options on FRAs and swaps purchased	7 635	—	—	—	4 681	0
Embedded derivatives	11 790	(436)	533	(969)	8 984	(182)
Total interest rate derivatives	2 785 358	79	39 094	(39 015)	3 324 550	619
Balance carried forward	3 502 611	284	44 909	(44 625)	4 157 459	(609)

	Group					
	2012				2011	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
60. Derivatives *(continued)*						
60.3 Detailed breakdown of derivatives *(continued)*						
Trading *(continued)*						
Balance brought forward	3 502 611	284	44 909	(44 625)	4 157 459	(609)
Equity derivatives						
OTC options purchased	8 021	529	689	(160)	8 389	699
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	(871)
OTC equity derivatives	48 846	(680)	981	(1 661)	59 601	(2 087)
Exchange-traded derivatives	3 361	5	5	—	1 419	113
Exchange-traded options purchased	544	5	5	—	176	126
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	53 235	(796)	986	(1 782)	66 918	(2 173)
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
Balance carried forward	3 563 649	(81)	46 500	(46 581)	4 233 264	(2 638)

	Group					
	2012				2011	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
60. Derivatives *(continued)*						
60.3 Detailed breakdown of derivatives *(continued)*						
Trading *(continued)*						
Balance brought forward	3 563 649	(81)	46 500	(46 581)	4 233 264	(2 638)
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	3 591 042	(68)	46 695	(46 763)	4 259 833	(3 099)
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
Investments						
Interest rate derivatives						
Other OTC interest rate derivatives	233	7	7	—	—	—
Total interest rate derivatives	233	7	7	—	—	—
OTC bond options purchased	486	34	34	—	75	29
Equity futures	(12)	—	—	—	—	—
Total equity derivatives	474	34	34	—	75	29
Total investments	707	41	41	—	75	29
Total derivative instruments	3 878 891	1 557	52 175	(50 618)	4 561 779	(1 227)

Derivative assets and liabilities subject to counterparty netting agreements amounted to **R43 652 million** (2011: R41 778 million). Additionally, the Group 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 Group. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Group's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates on hand. The extent to which instruments are favourable or unfavourable and therefore the aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

Fair value

The amounts disclosed represent the fair value as at the reporting date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

61. Fair value hierarchy disclosures

61.1 Valuation methodology

The table below shows the Group's financial instruments that are recognised and subsequently measured at fair value and are analysed by valuation techniques. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out in the table below:

	Group			
	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	37 691	40	42	37 773
Cash, cash balances and balances with central banks (refer to note 2)	537	—	—	537
Statutory liquid asset portfolio (refer to note 3)	35 047	—	—	35 047
Investment securities (refer to note 12)	2 107	40	42	2 189
Available-for-sale financial assets in a 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	8 072	21 937	12 837	42 846
Cash, cash balances and balances with central banks (refer to note 2)	1 116	1 391	—	2 507
Statutory liquid asset portfolio (refer to note 3)	797	3	—	800
Loans and advances to banks (refer to note 4)	—	9 728	—	9 728
Other assets (refer to note 6)	—	—	16	16
Loans and advances to customers (refer to note 9)	—	5 522	6 419	11 941
Investment securities (refer to note 12)	6 159	5 293	6 402	17 854
Financial assets held for trading	31 453	59 764	952	92 169
Derivative assets (refer to note 5)	14	46 602	79	46 695
Trading assets (refer to note 5)	31 439	7 682	873	39 994
Hedging assets (refer to note 5)	—	5 439	—	5 439
Investment securities (refer to note 12)	—	41	—	41
Total financial assets	104 389	81 741	13 831	199 961
Financial liabilities designated at fair value through profit or loss	778	38 751	7 859	47 388
Deposits from banks (refer to note 18)	—	11 132	—	11 132
Other liabilities (refer to note 20)	—	8	—	8
Deposits due to customers (refer to note 22)	—	10 991	7 672	18 663
Debt securities in issue (refer to note 23)	—	3 011	187	3 198
Liabilities under investment contracts (refer to note 24)	—	13 609	—	13 609
Borrowed funds (refer to note 26)	778	—	—	778
Financial liabilities held for trading	4 926	50 539	74	55 539
Derivative liabilities (refer to note 19)	5	46 684	74	46 763
Trading liabilities (refer to note 19)	4 921	—	—	4 921
Hedging liabilities (refer to note 19)	—	3 855	—	3 855
Total financial liabilities	5 704	89 290	7 933	102 927

Notes

[1]The nature of the valuation techniques is summarised in note 61.2.

[2]The nature of the valuation techniques is summarised in note 61.3.

[3]Comparatives have been reclassified, refer to note 1.27.

Group

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
35 081	109	104	35 294
523	—	—	523
33 327	—	—	33 327
1 231	109	104	1 444
23 342	—	—	23 342
8 772	19 599	12 930	41 301
1 525	1 587	—	3 112
801	3	—	804
—	7 886	—	7 886
1	—	16	17
—	3 366	6 832	10 198
6 445	6 757	6 082	19 284
30 970	56 582	1 156	88 708
50	45 345	209	45 604
30 920	6 909	947	38 776
—	4 299	—	4 299
—	29	—	29
74 823	76 290	14 190	165 303
1 900	38 234	7 821	47 955
—	9 673	—	9 673
16	—	—	16
—	12 888	7 612	20 500
—	1 553	209	1 762
1 113	14 120	—	15 233
771	—	—	771
7 257	50 976	183	58 416
—	48 520	183	48 703
7 257	—	—	7 257
—	2 456	—	2 456
9 157	89 210	8 004	106 371

61. Fair value hierarchy disclosures *(continued)*

61.2 Valuations based on observable inputs

Valuations based on observable inputs include:

Level 1

Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes highly liquid government and other bonds, active listed equities, exchange-traded commodities and exchange-traded derivatives.

Level 2

Financial instruments valued using inputs other than quoted prices as described above for Level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

This category includes certain African government bills, private equity investments, loans and advances, investments in debt instruments, commodity derivatives, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

61.3 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.

61. Fair value hierarchy disclosures *(continued)*

61.3 Valuations based on unobservable inputs *(continued)*

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.

61. Fair value hierarchy disclosures *(continued)*

61.4 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:

Group

	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**	**6 832**	**6 082**	**947**
Net interest income	**—**	**—**	**11**	**33**	**—**
Gains and losses from banking and trading activities	**—**	**—**	**742**	**442**	**68**
Gains and losses from investment activities	**(1)**	**—**	**—**	**(215)**	**—**
Purchases	**1**	**—**	**631**	**116**	**—**
Sales	**—**	**—**	**(869)**	**(10)**	**(40)**
Issues	**—**	**—**	**154**	**—**	**—**
Settlements	**—**	**—**	**(1 082)**	**(108)**	**(102)**
Transferred to/(from) assets/liabilities	**(62)**	**—**	**—**	**62**	**—**
Movement in/(out) of Level 3[1]	**—**	**—**	**—**	**—**	**—**
Closing balance at the end of the reporting period	**42**	**16**	**6 419**	**6 402**	**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	—	5 778	5 195	966
Net interest income	—	—	16	20	—
Gains and losses from banking and trading activities	—	—	598	215	62
Gains and losses from investment activities	—	—	—	2	—
Other comprehensive income	5	—	—	—	—
Purchases	—	16	1 386	583	41
Sales	—	—	(646)	(901)	—
Issues	—	—	720	(7)	—
Settlements	4	—	(978)	(465)	(122)
Transferred to/(from) assets/liabilities	—	—	—	55	—
Movement in/(out) of Level 3[1]	—	—	(42)	1 385	—
Closing balance at the end of the reporting period	104	16	6 832	6 082	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.

Group

2012

Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss		Financial liabilities held for trading	Total financial liabilities including net derivatives Rm
	Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	
13 981	7 612	209	(26)	7 795
44	—	—	—	—
1 252	735	7	16	758
(216)	—	—	—	—
748	—	—	(4)	(4)
(919)	—	—	—	—
154	920	—	(34)	886
(1 292)	(1 595)	(29)	0	(1 624)
—	—	—	16	16
—	—	—	27	27
13 752	7 672	187	(5)	7 854

2011

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

61. Fair value hierarchy disclosures *(continued)*

61.5 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:

	Group		
	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**
Net interest income	**29**	**7**	**—**
Gains and losses from banking and trading activities	**437**	**584**	**24**
Gains and losses from investment activities	**—**	**(215)**	**—**
	466	**376**	**24**

	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
Net interest income	44	—	—
Gains and losses from banking and trading activities	587	57	62
	631	57	62

Group

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
	36	—	—	—	—
	1 045	(735)	0	4	(731)
	(215)	—	—	—	—
	866	**(735)**	**—**	**4**	**(731)**

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
	44	—	—	—	—
	706	(772)	14	151	(607)
	750	(772)	14	151	(607)

61. Fair value hierarchy disclosures *(continued)*

61.6 Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

A significant parameter has been deemed to be one which may result in a change in the fair value asset or liability of more than 10%. This is demonstrated by the following sensitivity analysis, which includes a reasonable range of possible outcomes:

Group

	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	5	2	—	—
		2 154	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	i, 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 61.3.

61. Fair value hierarchy disclosures *(continued)*

61.6 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 discount	15/(15)%
	Comparator multiples	
	Discount rates	
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100/(100) bps

62. 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:

	Group	
	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 reporting period	**(80)**	(78)
Closing balance at the end of the reporting period	**(93)**	(51)

63. Financial risks

All financial risk disclosures are included in the Group's risk management report.

63.1 Capital management

The disclosures marked as audited relating to capital are set out on pages 11 – 20 of the risk management report.

63.2 Credit risk

The disclosures marked as audited relating to credit risk are set out on pages 21 – 61 of the risk management report.

63.3 Market risk

The disclosures marked as audited relating to market risk are set out on pages 62 – 78 of the risk management report.

63.4 Liquidity risk

The disclosures marked as audited relating to liquidity risk are set out on pages 79 – 88 of the risk management report.

63.5 Insurance risk

The disclosures marked as audited relating to underwriting risk are set out on pages 92 – 101 of the risk management report.

64. Going concern

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

65. 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)).

Annexure A: Embedded value report of the life insurance entities (unaudited)

Scope of the embedded value report

This report deals with the embedded value of the life insurance entities (including Absa Life Limited, Absa Life Botswana Proprietary Limited and Barclays Life Zambia Limited and the value of new business written during the current reporting period.

The embedded value at 31 December 2012 has been calculated in accordance with the principles contained in APN 107: Embedded value reporting (APN 107) of the ASSA.

Embedded value

The present value of in-force business (PVIF) of the covered business is the discounted value of the projected stream of future after tax shareholder profits arising in the company's accounts from covered business in force at the valuation date. Covered business is taken to be all long-term insurance business written on the company's licence.

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

Value of new business

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

Embedded value and value of new business

	2012 Rm	2011[1] Rm
Free surplus[2]	628	634
Required capital	860	845
Covered business adjusted net worth (ANW)	1 488	1 479
Present value of in-force business (PVIF)	2 364	2 005
Cost of required capital (CoC)	(467)	(409)
Total embedded value (EV)	3 385	3 075
Value of new business (before CoC)	428	432
CoC	(66)	(62)
Value of new business (VNB)	362	370
Present value of future premiums	3 904	5 104
Value of new business as a percentage of the present value of future premiums		
All business (%)	9,3	7,2
Excluding investment business (%)	18,2	19,3

Assumptions

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

All discounted values are at a risk discount rate of 9,50**%** (2011: 11,00%). The risk discount rate was derived using a top-down approach in accordance with APN 107. The risk discount rate was set equal to the risk-free rate of return plus the beta of the Group multiplied by the assumed equity risk premium plus a further company risk specific margin of 0,75% for Absa Life Limited (South Africa) and 1% for Absa Life Botswana Proprietary Limited and Barclays Life Zambia Limited. The economic assumptions used were as follows (gross of tax where applicable):

	2012			2011
	Absa Life Limited (South Africa) %	Absa Life Botswana Proprietary Limited %	Barclays Life Zambia Limited %	%
Risk-free rate of return	6,25	7,00	13,00	7,75
Equity return – unhedged	9,61	n/a	n/a	11,25
Cash return	4,25	5,00	9,50	5,75
Overall investment return	5,81	7,00	13,00	7,31
Risk discount rate	9,50	10,50	16,50	11,00
Expense inflation	4,25	5,50	10,00	4,75

Notes

[1]Comparatives have been restated to include Africa.

[2]A dividend of **R410 million** (2011: R332 million) was proposed for the reporting period ended 31 December.

Annexure A: Embedded value report of the life insurance entities (unaudited)

The sensitivity and movement analysis of the embedded value outlined below only pertains to the business of Absa Life Limited (South Africa).

Sensitivities

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

Percentage change	Risk discount rate +1%	Interest rates –1%	Equity capital values x 0,9	Equity returns +1%	Mortality/ morbidity x 0,9	Mainte- nance expenses x 0,9	Lapse/ surrender x 0,9	Initial expenses x 0,9
ANW	0%	0%	0%	0%	0%	0%	0%	n/a
PVIF	(4%)	2%	(1%)	0%	3%	3%	4%	n/a
CoC	10%	11%	0%	(6%)	0%	0%	11%	n/a
EV	**(5%)**	**1%**	**0%**	**1%**	**3%**	**2%**	**2%**	**n/a**
VNB	**(7%)**	**1%**	**0%**	**1%**	**5%**	**3%**	**9%**	**2%**

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

	2012 Rm	2011 Rm
Embedded value at the end of the reporting period	**3 348**	3 080
Dividends accrued or paid	**655**	782
Embedded value at the beginning of the reporting period	**(3 080)**	(2 813)
Embedded value earnings	**923**	1 049
Components of embedded value earnings:		
Value of new business at point of sale	**343**	365
Adjustment to opening balance	**(51)**	—
Expected return on covered business (unwinding)	**243**	214
Operating experience variances	**49**	58
Operating assumption and model changes	**203**	219
Expected return on ANW	**—**	131
Exceptional non-recurring items	**84**	107
Embedded value operating return	**871**	1 094
Investment return variances on in-force covered business	**29**	13
Investment return variances on ANW	**(5)**	(56)
Effect of economic assumption changes	**28**	(2)
Embedded value earnings	**923**	1 049
Return on embedded value (%)	**30**	37,3

Review by the independent actuaries

The embedded value of the life insurance entities, and the value of new business written during the reporting period have been reviewed and agreed by the independent consulting actuaries, Deloitte.

Company statement of financial position

as at 31 December

	Note	Company 2012 Rm	2011 Rm
Assets			
Loans and advances to banks	2	**708**	220
Current tax assets	3	**10**	2
Investment securities	4	**138**	138
Subsidiaries	5	**18 554**	16 832
Deferred tax asset	6	**—**	4
Total assets		**19 410**	17 196
Liabilities			
Other liabilities	7	**255**	95
Total liabilities		**255**	95
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Share capital	8	**1 436**	1 436
Share premium	8	**5 652**	5 542
Retained earnings		**12 002**	9 954
Other reserves	9	**65**	169
Total equity		**19 155**	17 101
Total equity and liabilities		**19 410**	17 196

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2012 Rm	2011 Rm
Interest and similar income	10	**8**	8
Net interest income after impairment losses on loans and advances		**8**	8
Gains and losses from investment activities	11	**7 391**	3 849
Operating profit before operating expenditure		**7 399**	3 857
Operating expenditure	12	**(155)**	(5)
Other impairments	13	**(67)**	—
Operating profit before income tax		**7 177**	3 852
Taxation expense	14	**(52)**	(85)
Profit and total comprehensive income for the reporting period		**7 125**	3 767
Total profit and comprehensive income attributable to:			
Ordinary equity holders		**7 125**	3 767
Earnings per share:			
Basic earnings per share (cents)	15	**992,1**	524,5
Diluted earnings per share (cents)	15	**992,1**	524,5

Company statement of changes in equity

for the reporting period ended 31 December

	Company					
	2012					
	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at the beginning of the reporting period	**718 210**	**1 436**	**5 542**	**9 954**	**169**	**17 101**
Profit and total comprehensive income for the reporting period	—	—	—	7 125	—	7 125
Dividends paid during the reporting period	—	—	—	(5 077)	—	(5 077)
Movement in share-based payment reserve	—	—	110	—	(104)	6
Transfer from share-based payment reserve	—	—	110	—	(110)	—
Value of employee services	—	—	—	—	6	6
Balance at the end of the reporting period	**718 210**	**1 436**	**5 652**	**12 002**	**65**	**19 155**
Notes		8	8		9	

	2011					
	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at the beginning of the reporting period	718 210	1 436	5 368	9 937	285	17 026
Profit and total comprehensive income for the reporting period	—	—	—	3 767	—	3 767
Dividends paid during the reporting period	—	—	—	(3 750)	—	(3 750)
Movement in share-based payment reserve	—	—	174	—	(116)	58
Transfer from share-based payment reserve	—	—	174	—	(174)	—
Value of employee services	—	—	—	—	58	58
Balance at the end of the reporting period	718 210	1 436	5 542	9 954	169	17 101
Notes		8	8		9	

Company statement of cash flows

for the reporting period ended 31 December

	Note	Company 2012 Rm	2011 Rm
Cash flow from operating activities			
Interest and similar income	10	**8**	8
Cash payments to employees and suppliers	12	**(155)**	(5)
Dividends received from investments activities	11	**7 391**	3 849
Income taxes paid		**(56)**	(76)
Cash flow from operating profit before changes in operating assets and liabilities		**7 188**	3 776
Net increase in other liabilities		**160**	8
Net cash generated from operating activities		**7 348**	3 784
Cash flow from investing activities			
Investment in shares		**(1 783)**	(1)
Net decrease in investment securities		**0**	1
Net cash utilised in investing activities		**(1 783)**	0
Cash flow from financing activities			
Dividends paid		**(5 077)**	(3 750)
Net cash utilised in financing activities		**(5 077)**	(3 750)
Net increase in cash and cash equivalents		**488**	34
Cash and cash equivalents at the beginning of the reporting period		**220**	186
Cash and cash equivalents at the end of the reporting period	2	**708**	220

		Company 2012 Rm	Company 2011 Rm
1.	**Accounting policies**		
	The financial statements of Absa Group Limited (the Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Group. For detailed accounting policies, refer to the Group's financial statements.		
2.	**Loans and advances to banks**		
	Other	**708**	220
	Portfolio analysis		
	Loans and receivables	**708**	220
	Loans with variable rates are **R708 million** (2011: R220 million) and with fixed rates are **Rnil** (2011: Rnil).		
3.	**Current tax**		
	Amount due from revenue authorities	**10**	2
4.	**Investment securities**		
	Debt instruments	**138**	138
	Market value of debt instruments	**138**	138
	Portfolio analysis		
	Available-for-sale financial assets		
	Debt instruments	**138**	138
4.1	**Available-for-sale financial assets**		
	Cost plus fair value movements at the beginning of the reporting period	**138**	139
	Fair value movements and accrued interest income	**(0)**	(1)
	Cost plus fair value movements at the end of the reporting period	**138**	138

4. Investment securities *(continued)*

4.2 Fair value hierarchy disclosure

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

The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs, and valuations based on unobservable inputs, is set out in notes 61.2 and 61.3 of the Group's financial statements.

	Company			
	2012			
	Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
Available-for-sale financial assets				
Investment securities[1]	—	**138**	—	**138**

	2011			
	Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
Available-for-sale financial assets				
Investment securities[1]	—	138	—	138

	Company	
	2012 Rm	2011 Rm
5. Subsidiaries		
Shares at cost	**18 554**	16 832
Movement in shares at cost		
Balance at the beginning of the reporting period	**16 832**	16 773
Net movement resulting from acquisitions and impairments	**1 722**	59
Absa Bank Limited	**1 000**	—
Absa Capital Private Equity Proprietary Limited	**135**	—
Impairment of Absa Capital Private Equity Proprietary Limited	**(67)**	—
Blue Age Properties 60 Proprietary Limited	**102**	—
Barclays Bank Mozambique S.A.	**545**	—
Contribution from holding company	**7**	59
Balance at the end of the reporting period	**18 554**	16 832

The Company received a special dividend of R1 billion from the Bank. The Company used this dividend to purchase additional 'A' ordinary shares, with a par value of R0,01 in the Bank.

Note

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

		Company	
		2012 Rm	2011 Rm
6.	**Deferred tax**		
6.1	**Reconciliation of net deferred tax asset**		
	Balance at the beginning of the reporting period	4	—
	Deferred tax asset raised/(released) on STC credits (refer to note 6.3)	(4)	4
	Balance at the end of the reporting period	—	4
6.2	**Deferred tax asset**		
	Deferred tax asset – STC credits (refer to note 6.3)	—	4
6.3	**Secondary taxation on companies**		
	Accumulated STC credits	—	4
	Deferred tax asset raised (refer to note 6.2)	—	4
	Movement in deferred tax asset for the reporting period (refer to note 6.1)	(4)	4

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

		2012 Rm	2011 Rm
7.	**Other liabilities**		
	Creditors	**255**	95
	Portfolio analysis		
	Financial liabilities at amortised cost	**255**	95

	Company	
	2012 Rm	2011 Rm
8. Share capital and premium		
Ordinary share capital		
Authorised		
880 467 500 (2011: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
718 210 043 (2011: 718 210 043) ordinary shares of R2,00 each	**1 436**	1 436
Total issued capital		
Share capital	**1 436**	1 436
Share premium	**5 652**	5 542
	7 088	6 978

Authorised shares

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

Unissued shares

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

Shares issued during the current reporting period

There were no shares issued during the reporting period.

Shares issued during the previous reporting period

There were no shares issued during the previous reporting period.

9. Other reserves

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. Refer to note 55 of the Group's financial statements for the full disclosures of IFRS 2.

	Company 2012 Rm	2011 Rm
10. Interest and similar income		
Interest and similar income is earned from:		
Loans and advances to banks	1	1
Other – interest	7	7
	8	8
Portfolio analysis		
Interest on financial assets held at amortised cost and available-for-sale financial assets	8	8
11. Gains and losses from investment activities		
Dividends received from subsidiaries	7 391	3 849
12. Operating expenses		
Administrative expenses[1]	155	5
13. Other impairments		
Other		
Investments in subsidiaries	67	—
14. Taxation expense		
Current		
South African current tax	18	25
STC	34	64
	52	89
Deferred – STC credit		
Deferred tax – other temporary differences (refer to note 6.1)	—	(4)
	52	85
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	7 177	3 852
Tax calculated at a tax rate of 28%	2 010	1 079
Expenses not deductible for tax purposes	61	1
Income not subject to tax	(2 069)	(1 078)
Other	16	23
STC	34	60
	52	85

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, the 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.

Note

[1]Included in the current reporting period are transaction costs of **R150 million** relating to the proposed acquisition of the African operations of Barclays by the Company from the mutual parent company, Barclays Bank PLC.

	Company 2012 Rm	Company 2011 Rm
15. Earnings per share		
Basic and diluted earnings per share		
Basic earnings per share are calculated by dividing the profit attributable to ordinary equity holders, 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 per share are determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares, of which there are none.		
Basic and diluted earnings attributable to ordinary equity holders	**7 125**	3 767
Weighted average number of ordinary shares in issue (millions)		
Issued shares at the beginning of the reporting period	**718,2**	718,2
Basic earnings per share/diluted earnings per share (cents)	**992,1**	524,5

As part of the recent announcement of the proposed strategic combination of the African operations of Barclays with the operations of Absa Group Limited announced in December 2012, the Company anticipates the issue of 129 540 636 ordinary shares to Barclays representing a value of R18,3 billion for the interest in the African operations of Barclays. Under the transaction, Barclays stake in the Company will increase to 62,3% from 55,5% as at the reporting date. The share issuance is subject to approval by the Company's shareholders, excluding Barclays, by way of an ordinary resolution scheduled for 25 February 2013, and the fulfilment of other conditions precedent as set out in the circular to shareholders.

	Company			
	2012		2011	
	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm
16. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Company		**7 125**		3 767
Adjustments for:				
IAS 36 – Impairment of investment in subsidiary	**67**	**67**	—	—
Headline earnings/diluted headline earnings		**7 192**		3 767
Headline earnings per share/diluted headline earnings per share (cents)		**1 001,3**		524,5

Note
[1]The net amount is reflected after tax.

	Company	
	2012 Rm	2011 Rm
17. Dividends per share		
Ordinary dividend paid[1]		
Interim dividend (27 July 2012: 315 cents) (2 August 2011: 292 cents)	**2 262**	2 098
Final dividend (12 February 2013: 369 cents) (10 February 2012: 392 cents)	**2 650**	2 815
	4 912	4 913

18. Related parties

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

18.1 Balances and transactions with subsidiaries[2]

	Company	
	2012 Rm	2011 Rm
Balances		
Loans and advances to banks	**708**	220
Investment securities	**138**	138
Other liabilities	**(64)**	—
Transactions		
Interest and similar income	**(8)**	(8)
Dividends received	**(7 391)**	(3 849)

19. Financial guarantee contracts, contingencies and commitments

Disclosure in respect of financial guarantee contracts, commitments and contingencies can be found in notes 51, 52, and 53 respectively of the Group's financial statements.

20. Financial risks

Refer to note 63 of the Group's financial statements.

21. 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 financial statements are prepared on a going concern basis.

22. 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 financial statements (as defined per IAS 10).

Notes

[1]Included in the statement of changes in equity is the interim dividend paid during the current reporting period of R2 262 million (2011: R2 098 million) and the final dividend declared at the end of the previous reporting period of R2 815 million (2010: R1 652 million), attributed to the ordinary equity holders.

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