Absa Bank Limited

ABSA
Today, tomorrow, together.

Annual consolidated and separate financial statements

for the reporting period ended 31 December 2013

Member of BARCLAYS

Contents

Annual financial statements

Absa Bank Limited
(1986/004794/06)
Annual consolidated and separate financial statements for the reporting period ended 31 December 2013.

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

The Absa Bank Limited financial statements include the financial statements as well as the audited sections of the remuneration review marked as "audited". These financial statements should be read in conjunction with the audited sections of the remuneration review.

Group Audit and Compliance Committee report

The Group Audit and Compliance Committee ("GACC") is pleased to submit this report in respect of the current reporting period to the shareholders of Absa Bank Limited. This report includes the requirements of section 94(7)(f) of the Companies Act, No. 71 of 2008 (as amended) ("the Companies Act"), the King Code of Governance Principles for South Africa 2009 ("King III") and other regulatory requirements.

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

Information on the membership and composition of the GACC, its terms of reference and its procedures are set out in the Barclays Africa Group Limited ("the Group") corporate governance statement available on the Group's website[1]. As a major subsidiary of the Group, the Bank is included in the terms of reference of the GACC.

Activities of the GACC

The GACC's duties include its statutory duties in terms of the Companies Act as well as additional duties assigned to it by the Bank's board of directors in its terms of reference. During the current reporting period, the GACC undertook the following duties:

In respect of the external auditors and the external audit:

- nominated PricewaterhouseCoopers Inc. ("PwC") and Ernst & Young Inc. ("EY") as joint external auditors for the current reporting period;
- recommended to the board, for approval at the annual general meeting in terms of section 61 of the Companies Act, the appointment of PwC and EY as joint external auditors for the 2014 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, including receiving confirmation that there was no restriction on scope or access, and concluded that the process had been satisfactory;
- reviewed the external auditors' reports and obtained assurances from the external auditors that adequate accounting records were maintained at all times;
- reviewed and approved the Bank's policy on non-audit services to be provided by the external auditors during the reporting period;
- approved proposed contracts with the external auditors for the provision of non-audit services falling within the scope of the policy concerning non-audit services;
- reviewed and approved the fees charged by the external auditors relating to the provision of non-audit services;
- considered whether any reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act, No. 26 of 2005, and determined that there were no such reportable irregularities; and
- reviewed the findings and recommendations of the external auditors and confirmed that no unresolved issues of concern exist between the Bank and the external auditors in relation to the Bank or any of its business units and subsidiaries.

In respect of the financial statements and accounting practices:

- confirmed the use of the going-concern basis as appropriate for the preparation of the interim financial results and annual financial statements;
- reviewed the interim financial results and annual financial statements, prior to submission to and approval by the board, satisfied itself that they fairly present the consolidated financial position of the Bank and comply, in all material respects, with the relevant provisions of the Companies Act, International Financial Reporting Standards ("IFRS"), Interpretations of IFRS standards, and the South African Institute of Chartered Accountants ("SAICA") Reporting Guides;
- reviewed the interim, final and special dividend proposals for approval by the board;

Note
[1]The Barclays Africa Group Limited website can be accessed at www.barclaysafrica.com.

Activities of the GACC *(continued)*

- 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 of the control environment, significant judgemental areas, and recent professional and regulatory pronouncements, and ascertained their impact on the financial statements; and
- considered the accounting policies, practices and internal controls of the Bank and the GACC is satisfied that they are appropriate and comply in all material respects with the relevant provisions of the Companies Act, IFRS and the Interpretations of IFRS standards.

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

- approved updates to the internal audit charter;
- reviewed the current reporting period internal audit plan, including the adequacy of internal audit skills, resources and budget;
- reviewed the scope, nature and effectiveness of the work of Internal Audit ("IA") and the performance of IA against its objectives and the internal audit charter, including receiving confirmation that there was no restriction on scope or access, and noted the completion of the current reporting period internal audit plan;
- reviewed reports from IA 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 IA;
- considered a review by the external auditors, which concluded that there are adequate bases for external audit to place reliance on the work of IA; and
- considered the independent performance review in respect of the IA function, measured against international standards and conducted by KPMG, which confirmed a satisfactory level of conformance.

IA continues to review the Bank'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, IA confirmed that sound risk management and a robust framework of internal control is in place over financial, operational and compliance issues which supports the financial information. Where areas of improvement were identified by IA, management have completed corrective actions, or are in the process of implementing corrections. Progress is tracked to completion by IA.

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

- reviewed and approved the Bank compliance monitoring plan, the Bank compliance coverage plan and the Bank compliance charter;
- reviewed compliance practices and procedures for enabling the directors of the Bank to discharge their regulatory responsibilities;
- considered whether the Bank's systems and processes appropriately reflect the current legal and regulatory environment, and how changes in laws and regulations are monitored and operationalised in this context;
- recommended the Banks Act, No. 94 of 1990 ("the Banks Act"), section 64B(2)(e) statement to the Directors Affairs committee for review and to the board for approval;
- 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;
- reviewed and approved the regulatory compliance risk control framework and applicable compliance policies, which include the requirements for the Bank to comply with applicable laws, rules, codes and standards;
- satisfied itself that the functioning of Bank Compliance is in line with relevant regulatory requirements, including without limitation: section 60A and regulation 49 of the Banks Act, Financial Advisory and Intermediary Services Act, No. 37 of 2002 ("FAIS"), section 17 and regulation 4, regulation 5 and Board Notice 126 and 127, Financial Intelligence Centre Act, No. 38 of 2001 ("FICA"), section 42 and King III, Principle 6;

Activities of the GACC *(continued)*

- assessed the adequacy and effectiveness of Bank Compliance's performance, including receiving confirmation that there was no restriction on scope or access;
- ensured procedures are in place for receiving and treating complaints in terms of the Companies Act and other applicable acts regarding accounting practices, the internal audit of the Bank, the content or auditing of the Bank's financial statements, the internal financial controls of the Bank or any related matters (including internal, anonymous complaints from employees or any other person);
- considered any significant compliance risk matters reported by Bank Compliance and monitored progress in rectifying these matters;
- ensured procedures are in place for receiving reports from internal lawyers (and where relevant external lawyers) relating to breaches of securities law, fiduciary duties, other similar violations and claims against the Bank;
- reviewed and monitored the Bank's approach to, and compliance with, section 404 of the Sarbanes-Oxley Act ("SOX"), within the context of the materiality limits applicable to Barclays. The GACC also reviewed and monitored the Bank's approach to and compliance with Turnbull attestations;
- reviewed, on a regular basis, the SOX control environment and monitored its alignment with the risk and control assessments; and
- reviewed the Africa Compliance Plan and Resourcing Report, as well as the Africa Compliance Monitoring Plans.

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 Chief Risk Officer's report, including the key risk and combined assurance assessments, as well as the risk and control assessments;
- monitored the status and results of the key risks self-assessments, including the combined assurance assessments and the risk and control assessments;
- reviewed the new combined assurance framework and monitored governance around this, including the status and progress of the combined assurance model launch;
- reviewed reports issued in terms of the combined assurance framework for the Bank. The GACC determined that the process coordinating all assurance activities is appropriate to address the significant risks facing the Bank for each principal risk and business area. The framework is owned and managed by Group Risk with IA being an integral part of the process; and
- reviewed the Bank's business continuity management plans and processes.

Regulatory and corporate governance requirements

In accordance with the provisions of the Johannesburg Stock Exchange ("JSE") Listings Requirements, the GACC is satisfied that:

- the appointed external auditors are duly accredited as independent on the JSE's list of auditors; and
- the Bank's Financial Director, D W P Hodnett, has appropriate expertise and experience.

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

Group Audit and Compliance Committee report

Independence of the external auditors

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

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

Conclusion

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

The GACC is satisfied that, in all aspects, the financial and internal controls are adequate and that no material breakdowns took place that resulted in material loss to the Bank.

The GACC reviewed the financial statements and recommended them for approval to the board on 10 February 2014.

On behalf of the GACC

C Beggs
Chairman of the GACC

Johannesburg
10 February 2014

Directors' approval

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' responsibility statement set out on page 6, is made to distinguish, for the benefit of shareholders, the respective responsibilities of the directors and of the auditors in relation to the financial statements of the Bank.

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

To enable the directors to meet the following responsibilities:

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

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

The financial statements of the Bank and the Company have been prepared in accordance with the provisions of the Companies Act and the Banks Act, JSE Listings Requirements and the SAICA Financial Reporting Guides, and comply with the requirements of IFRS, and all applicable legislation.

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

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

The directors' report on pages 7 to 10, the financial statements of the Bank and the Company as well as the remuneration review were approved by the board of directors and are signed on their behalf by:

W E Lucas-Bull
Group Chairman

M Ramos
Chief Executive Officer (CEO)

Johannesburg
10 February 2014

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

In accordance with the provisions of the Companies Act, I certify that, in respect of the year ended 31 December 2013, 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
10 February 2014

Independent auditors' report to the shareholders of Absa Bank Limited

We have audited the consolidated and separate financial statements of Absa Bank Limited, set out on pages 11 to 239, which comprise statements of financial position as at 31 December 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information and those sections marked as "audited" in the remuneration review, but excludes the sections marked as "unaudited" in notes 53.3 and 58.

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 International Financial Reporting Standards and the requirements of the Companies Act of South Africa, 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 Absa Bank Limited as at 31 December 2013, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

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 2013, we have read the Directors' Report, the Group Audit and Compliance Committee's 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.

PricewaterhouseCoopers Inc.
Director: J P Bennett
Registered Auditor

2 Eglin Road, Sunninghill

Johannesburg
10 February 2014

Ernst & Young Inc.

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

102 Rivonia Road, Sandton

Directors' report

General information and nature of activities

Absa Bank Limited and its subsidiaries ("the Bank"), which has preference shares listed 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 Bank operates primarily in South Africa and employs 28 586 people. The address of the registered office of the Bank is 7th Floor, Barclays Towers West, 15 Troye Street, Johannesburg, 2001.

The Bank is a wholly-owned subsidiary of Barclays Africa Group Limited ("BAGL").

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

The Bank is one of South Africa's largest financial services organisations, serving retail, business and corporate customers and clients in South Africa. The Bank also provides products and services to selected markets in Nigeria.

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

The consolidated and separate financial statements were approved for issue by the Board Finance Committee, a committee of the BAGL board, on 10 February 2014.

The financial statements set out fully the financial positions, results of operations and cash flows for the Bank and the Company for the reporting period ended 31 December 2013.

Group Audit and Compliance Committee report

Refer to page 1.

Bank results

Main business and operations

The Bank recorded an increase of 12,4% in headline earnings to **R8 266 million** (2012: R7 356 million) for the reporting period. Headline earnings per share ("HEPS") and fully diluted HEPS both increased by 11,2% to **2 180,4 cents** (2012: 1 960,0 cents).

The reported results and comparative information contained throughout this set of financial statements has been restated. Refer to note 1.21 of the accounting policies for further details.

Headline earnings was derived from the following activities:

	Bank	
	2013 Rm	2012 Rm
Retail and Business Banking ("RBB")	**6 641**	4 338
Retail Banking South Africa	**4 879**	3 404
Home Loans	**1 005**	(1 078)
Vehicle and Asset Finance	**1 093**	820
Card	**1 802**	1 733
Personal Loans	**385**	587
Retail Bank	**594**	1 342
Business Banking South Africa	**1 762**	934
Corporate, Investment Bank and Wealth ("CIBW")	**2 492**	2 546
Head office, inter-segment eliminations and Other	**(791)**	545
Total Banking	**8 342**	7 429
Financial Services	**(76)**	(73)
Headline earnings (refer to note 38)	**8 266**	7 356

Directors

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

C Beggs[1]	
P A Clackson[3]	(retired 2 May 2013)
Y Z Cuba[1]	
T Dingaan[1]	(appointed 25 September 2013)
S A Fakie[1]	
G Griffin[1]	(retired 31 March 2013)
D W P Hodnett[2] (Financial Director/ Deputy Chief Executive Officer)	
M J Husain[1]	
A P Jenkins[1,3]	(resigned 28 February 2013)
R Le Blanc[3]	(retired 2 May 2013)
W E Lucas-Bull[6] (Chairman)	
P B Matlare[1]	(retired 2 May 2013)
T M Mokgosi-Mwantembe[1]	
E C Mondlane, Jr[1,5]	(retired 2 May 2013)
T S Munday[1,7]	
S G Pretorius[1]	(retired 2 May 2013)
M Ramos[2] (Chief Executive Officer)	
L L von Zeuner	(resigned 30 September 2013)
A V Vaswani[4]	(retired 2 May 2013)
B J Willemse[1]	(retired 2 May 2013)

Re-election of retiring directors

In line with international best practice, the Bank has 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"). Currently, no director is required to retire in terms of this requirement.

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' interests in the Company's preference shares

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

	Number of shares			
	2013		2012	
	Direct	**Indirect**	Direct	Indirect
Past directors				
G Griffin	n/a	n/a	562	—
L L von Zeuner	n/a	n/a	—	1 680
	n/a	n/a	562	1 680

No current director holds any preference shares in the company.

Notes

[1]Independent director.

[2]Executive director.

[3]British.

[4]Singaporean.

[5]Mozambican.

[6]Appointed as independent Chairman of the Bank with effect from 1 April 2013, and became non-executive Chairman on 19 September 2013, following her appointment as a non-executive director of Barclays PLC.

[7]Appointed as lead independent director with effect from 19 September 2013.

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.

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

Directors' and prescribed officers' emoluments

The emoluments and services of executive directors are determined by the BAGL 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 BAGL remuneration review.

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in notes 44.7, 44.8 and 44.9 to the consolidated financial statements.

Acquisitions and disposals

No significant acquisitions or disposals took place in the current reporting period.

Dividends

- On 12 February 2013, a final dividend of 605,5 cents per ordinary share was announced to the ordinary shareholder registered on 5 April 2013.
- On 12 February 2013, a final dividend of 2 950,5479 cents per preference share was announced to the preference shareholders registered on 5 April 2013.
- On 30 July 2013, a dividend of 2 233,4 cents per ordinary share was announced to the ordinary shareholder registered on 13 September 2013.
- On 30 July 2013, a dividend of 2 999,4521 cents per preference share was announced to preference shareholders registered on 13 September 2013.
- On 4 December 2013, a special dividend of 264,0 cents per ordinary share was announced to the ordinary shareholder.
- On 10 February 2014, a dividend of 754,3 cents per ordinary share was approved. The dividend was announced on 11 February 2014 to the ordinary shareholder registered on 4 April 2014. This dividend is payable on 7 April 2014.
- On 10 February 2014, a dividend of 2 979,3151 cents per preference share was approved. The dividend was announced on 11 February 2014 to preference shareholders registered on 4 April 2014. The dividend is payable on 7 April 2014.

Company Secretary

N R Drutman is the Company Secretary. Her contact details are as follows:

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

Telephone: (+27 11) 350 5347

Email: groupsec@barclaysafrica.com

Auditors

PricewaterhouseCoopers Inc. ("PWC") and Ernst & Young Inc. ("EY") continued in office as auditors of the Bank. At the AGM of 6 May 2014, shareholders will be requested to reappoint PwC and EY as auditors of the Bank for the 2014 reporting period. J P Bennett and E L Pera will be the individual registered auditors that will undertake the audit.

Authorised and issued share capital

Authorised

The authorised share capital of the Company of **R322 800 000** (2012: R322 800 000) consists of:

- **320 000 000** (2012: 320 000 000) ordinary shares of R1,00 each;
- **250 000 000** (2012: 250 000 000) 'A' ordinary shares of R0,01 each; and
- **30 000 000** (2012: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each.

Issued

An additional 4 358 817 'A' ordinary shares were issued during the current reporting period.

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

- **302 609 359** (2012: 302 609 359) ordinary shares of R1,00 each;
- **80 570 857** (2012: 76 149 040) 'A' ordinary shares of R0,01 each; and
- **4 944 839** (2012: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each.

Consolidated statement of financial position

as at 31 December

	Note	Bank 2013 Rm	2012[1] Rm	2011[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**21 087**	20 435	19 505
Statutory liquid asset portfolio	3	**62 055**	63 020	57 473
Loans and advances to banks	4	**45 302**	42 407	55 872
Trading portfolio assets	5	**77 137**	82 416	79 674
Hedging portfolio assets	5	**3 344**	5 439	4 299
Other assets	6	**9 299**	11 134	11 320
Current tax assets	7	**15**	34	84
Non-current assets held for sale	8	**1 857**	1 438	35
Loans and advances to customers	9, 10	**534 040**	510 316	487 344
Loans to Group companies	11	**19 247**	10 956	5 728
Investment securities	12	**5 220**	6 589	8 387
Investments in associates and joint ventures	13	**694**	562	412
Investment properties	14	**240**	331	1 840
Property and equipment	15	**8 504**	7 653	7 268
Goodwill and intangible assets	16	**1 303**	1 160	700
Deferred tax assets	17	**27**	30	61
Total assets		**789 371**	763 920	740 002
Liabilities				
Deposits from banks	18	**64 100**	43 085	44 769
Trading portfolio liabilities	19	**50 059**	47 889	49 232
Hedging portfolio liabilities	19	**2 391**	3 855	2 456
Other liabilities	20	**11 640**	14 569	10 503
Provisions	21	**1 362**	1 394	1 457
Current tax liabilities	7	**151**	58	255
Non-current liabilities held for sale	8	**175**	177	—
Deposits due to customers	22	**488 371**	467 744	432 269
Debt securities in issue	23	**97 179**	104 923	126 657
Borrowed funds	24	**15 762**	17 907	14 051
Deferred tax liabilities	17	**922**	1 407	1 064
Total liabilities		**732 112**	703 008	682 713
Equity				
Capital and reserves				
Attributable to equity holders:				
Ordinary share capital	25	**303**	303	303
Ordinary share premium	25	**13 465**	12 465	11 465
Preference share capital	25	**1**	1	1
Preference share premium	25	**4 643**	4 643	4 643
Retained earnings		**34 506**	38 011	37 114
Other reserves	26	**4 291**	5 441	3 605
		57 209	60 864	57 131
Non-controlling interest		**50**	48	158
Total equity		**57 259**	60 912	57 289
Total liabilities and equity		**789 371**	763 920	740 002

Note

[1]Restated, refer to note 1.21 for reporting changes.

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Bank 2013 Rm	Bank 2012[1] Rm
Net interest income		23 565	21 876
Interest and similar income	27	50 095	48 515
Interest expense and similar charges	28	(26 530)	(26 639)
Impairment losses on loans and advances	10.1	(5 881)	(8 022)
Net interest income after impairment losses on loans and advances		17 684	13 854
Non-interest income		18 557	17 889
Net fee and commission income		14 421	13 673
Fee and commission income	29	15 486	14 890
Fee and commission expense	29	(1 065)	(1 217)
Gains and losses from banking and trading activities	30	3 491	3 651
Gains and losses from investment activities	31	6	20
Other operating income	32	639	545
Operating income before operating expenditure		36 241	31 743
Operating expenditure		(24 354)	(21 858)
Operating expenses	33	(23 560)	(20 979)
Other impairments	34	1	(344)
Indirect taxation	35	(795)	(535)
Share of post-tax results of associates and joint ventures	13.1	132	240
Operating profit before income tax		12 019	10 125
Taxation expense	36	(3 284)	(2 643)
Profit for the reporting period		8 735	7 482
Profit attributable to:			
Ordinary equity holder		8 439	7 203
Preference equity holders		294	295
Non-controlling interest		2	(16)
		8 735	7 482
Earnings per share:			
Basic earnings per share (cents per share)	37	2 226,1	1 919,3
Diluted earnings per share (cents per share)	37	2 226,1	1 919,3

Note

[1]Restated, refer to note 1.21 for reporting changes.

Consolidated statement of comprehensive income

for the reporting period ended 31 December

		Bank	
	Note	2013 Rm	2012[1] Rm
Profit for the reporting period		**8 735**	7 482
Other comprehensive income			
Items that will not be reclassified to the profit or loss component of the statement of comprehensive income			
Movement in retirement benefit fund assets and liabilities		**(19)**	(43)
Decrease in retirement benefit surplus	39	**(26)**	(61)
Deferred tax	17	**7**	18
Total items that will not be reclassified to the profit or loss component of the statement of comprehensive income		**(19)**	(43)
Items that are or may be subsequently reclassified to the profit or loss component of the statement of comprehensive income			
Foreign exchange differences on translation of foreign operations		**488**	183
Movement in cash flow hedging reserve		**(1 826)**	405
Fair value (losses)/gains arising during the reporting period		**(907)**	2 650
Amount removed from other comprehensive income and recognised in the profit or loss component of the statement of comprehensive income		**(1 629)**	(2 088)
Deferred tax	17	**710**	(157)
Movement in available-for-sale reserve		**90**	1 101
Fair value gains arising during the reporting period		**112**	1 524
Amortisation of government bonds – release to the profit or loss component of the statement of comprehensive income	30	**10**	10
Deferred tax	17	**(32)**	(433)
Total items that are or may be subsequently reclassified to the profit or loss component of the statement of comprehensive income		**(1 248)**	1 689
Total comprehensive income for the reporting period		**7 468**	9 128
Total comprehensive income attributable to:			
Ordinary equity holder		**7 172**	8 849
Preference equity holders		**294**	295
Non-controlling interest		**2**	(16)
		7 468	9 128

Note

[1]Restated, refer to note 1.21 for reporting changes.

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of shares[1] '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the reporting period	378 758	303	12 465	1	4 643
Total comprehensive income for the reporting period	—	—	—	—	—
Profit for the reporting period	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	—
Shares issued	4 359	0	1 000	—	—
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment schemes	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—
Balance at the end of the reporting period	383 117	303	13 465	1	4 643
Note	25	25	25	25	25

	Number of shares[1] '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the reporting period as previously reported	374 112	303	11 465	1	4 643
Restatements[2]	—	—	—	—	—
Restated balance at the beginning of the reporting period	374 112	303	11 465	1	4 643
Total comprehensive income for the reporting period	—	—	—	—	—
Profit for the reporting period	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	—
Shares issued	4 646	0	1 000	—	—
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment schemes	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—
Increase in the interest of non-controlling equity holders	—	—	—	—	—
Release of non-controlling interest arising from disposal of business	—	—	—	—	—
Restated balance at the end of the reporting period	378 758	303	12 465	1	4 643
Note	25	25	25	25	25

Notes

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

[1]This includes ordinary shares, 'A' ordinary shares and preference shares.

[2]Restated, refer to note 1.21 for reporting changes.

Consolidated statement of changes in equity

for the reporting period ended 31 December

Bank

2013

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest Rm	Total equity Rm
38 011	5 441	884	2 430	112	1 422	59	534	60 864	48	60 912
8 714	(1 248)	90	(1 826)	488	—	—	—	7 466	2	7 468
8 733	—	—	—	—	—	—	—	8 733	2	8 735
(19)	(1 248)	90	(1 826)	488	—	—	—	(1 267)	—	(1 267)
(12 046)	—	—	—	—	—	—	—	(12 046)	—	(12 046)
—	—	—	—	—	—	—	—	1 000	—	1 000
(74)	—	—	—	—	—	—	—	(74)	—	(74)
33	(34)	—	—	—	—	(34)	—	(1)	—	(1)
33	(33)	—	—	—	—	(33)	—	—	—	—
—	(1)	—	—	—	—	(1)	—	(1)	—	(1)
(132)	132	—	—	—	—	—	132	—	—	—
34 506	4 291	974	604	600	1 422	25	666	57 209	50	57 259
		26	26	26	26	26	26			

2012

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest Rm	Total equity Rm
37 217	3 605	(217)	2 025	(71)	1 422	152	294	57 234	158	57 392
(103)	—	—	—	—	—	—	—	(103)	—	(103)
37 114	3 605	(217)	2 025	(71)	1 422	152	294	57 131	158	57 289
7 455	1 689	1 101	405	183	—	—	—	9 144	(16)	9 128
7 498	—	—	—	—	—	—	—	7 498	(16)	7 482
(43)	1 689	1 101	405	183	—	—	—	1 646	—	1 646
(6 217)	—	—	—	—	—	—	—	(6 217)	—	(6 217)
—	—							1 000	—	1 000
(211)	—	—	—	—	—	—	—	(211)	—	(211)
110	(93)	—	—	—	—	(93)	—	17	—	17
110	(110)	—	—	—	—	(110)	—	—	—	—
—	17	—	—	—	—	17	—	17	—	17
(240)	240	—	—	—	—	—	240	—	—	—
—	—	—	—	—	—	—	—	—	35	35
—	—	—	—	—	—	—	—	—	(129)	(129)
38 011	5 441	884	2 430	112	1 422	59	534	60 864	48	60 912
		26	26	26	26	26	26			

Consolidated statement of cash flows

for the reporting period ended 31 December

	Note	Bank 2013 Rm	2012[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**65 848**	63 693
Interest, fee and commission expense		**(26 230)**	(26 653)
Net trading and other income/(expense)		**192**	(2 264)
Cash payments to employees and suppliers		**(22 447)**	(20 270)
Dividends received from banking and trading activities		**(96)**	(117)
Income taxes paid		**(2 969)**	(2 797)
Cash flow from operating activities before changes in operating assets and liabilities		**14 298**	11 592
Net decrease in trading and hedging portfolio assets		**10 005**	1 893
Net increase in loans and advances to customers		**(30 355)**	(31 365)
Net (increase)/decrease in other assets		**(8 550)**	4 109
Net (decrease)/increase in trading and hedging portfolio liabilities		**(780)**	198
Net increase in amounts due to customers and banks		**42 127**	32 266
Net decrease in other liabilities		**(10 981)**	(16 909)
Net cash generated from operating activities		**15 764**	1 784
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale		**18**	35
Purchase of investment properties	14	**(4)**	—
Proceeds from disposal of investment properties		**—**	43
Purchase of property and equipment	15	**(2 339)**	(1 650)
Proceeds from disposal of property and equipment		**71**	170
Purchase of intangible assets	16	**(386)**	(688)
Proceeds from disposal of intangible assets		**33**	—
Acquisition of associates and joint ventures, net of cash	13.5	**—**	(1)
Acquisitions and disposals of businesses, net of cash	52	**—**	239
Net decrease in loans to associates and joint ventures	13.1	**—**	2
Dividends received from associates and joint ventures		**—**	78
Net decrease in investment securities		**1 574**	2 923
Dividends paid from investment activities		**(4)**	(19)
Net cash (utilised)/generated from investing activities		**(1 037)**	1 132
Cash flow from financing activities			
Issue of ordinary shares		**1 000**	1 000
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment schemes		**(74)**	(211)
Proceeds from borrowed funds		**—**	5 000
Repayment of borrowed funds		**(1 886)**	(1 500)
Dividends paid		**(12 046)**	(6 217)
Net cash utilised in financing activities		**(13 006)**	(1 928)
Net increase in cash and cash equivalents		**1 721**	988
Cash and cash equivalents at the beginning of the reporting period		**8 786**	7 798
Cash and cash equivalents at the end of the reporting period	50	**10 507**	8 786

Note

[1]Restated, refer to note 1.21 for reporting changes.

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 International Financial Reporting Standards ("IFRS"), interpretations issued by the IFRS Interpretations Committee ("IFRS-IC"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act.

Refer to note 1.22 for new standards and interpretations not yet adopted.

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

Offsetting of financial assets and financial liabilities (amendments to IFRS 7 Financial Instruments Disclosures ("IFRS 7")):

The amendments introduced additional disclosures to include information that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognised financial assets and recognised financial liabilities, on the statement of financial position.

The amendments have resulted in additional disclosure being presented in the Bank's consolidated financial statements. Refer to note 43.

Consolidated financial statements (IFRS 10 Consolidated Financial Statements ("IFRS 10")):

This standard 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 ("IAS 27") and SIC 12 Consolidation – Special Purpose Entities ("SIC 12"). The standard sets out how to apply the control principle inter alia to voting rights, circumstances involving agency relationships and circumstances when the investor has control over specified assets of the investee. The consolidation principles have remained unchanged and are now incorporated as part of IFRS 10.

Refer to notes 1.21, 44 and 45.

Joint arrangements (IFRS 11 Joint Arrangements ("IFRS 11")):

The new standard replaces IAS 31 Interests in Joint Ventures ("IAS 31") and SIC Interpretation 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers ("SIC 13") and 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 Bank already applies the equity method for investments in joint ventures and as a result IFRS 11 had no impact on the consolidated financial statements.

Disclosure of interests in other entities (IFRS 12 Disclosures of Interest in Other Entities ("IFRS 12")):

This standard requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates, jointly controlled entities and unconsolidated structured entities. Disclosures 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.

This standard has resulted in additional disclosure, refer to notes 44 and 45.

Fair value measurement (IFRS 13 Fair Value Measurement ("IFRS 13")):

This standard 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 adoption of IFRS 13 has resulted in additional disclosures. Refer to notes 56 and 57.

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

Standards, amendments to standards and circulars mandatory for the first time for the current reporting period *(continued)*

Presentation of items of other comprehensive income ("OCI") (amendments to IAS 1 Presentation of Financial Statements ("IAS 1")):

The amendments revise the way OCI is presented by preserving the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together or in a separate "statement of profit or loss" and a "statement of comprehensive income". In addition, items are presented in OCI based on whether or not they will be subsequently reclassified to profit or loss.

The amendment relating to the presentation of profit or loss and OCI to be presented together or in a separate "statement of profit or loss" and a "statement of other comprehensive income" is a voluntary amendment which the Bank has chosen not to apply. The amendment relating to the presentation of items of OCI has resulted in a change whereby the items in OCI are now split between those items that will subsequently be reclassified to profit or loss and those items which will not be subsequently reclassified to profit or loss.

Presentation of comparative information (amendments to IAS 1):

The amendments clarify that when an entity is required to provide comparative information that goes beyond the minimum requirements in the current period, that information need not be presented in the form of a complete set of financial statements. Where an entity changes accounting policies, or makes retrospective restatements or reclassifications, an opening statement of financial position would be required as at the beginning of the required comparative reporting period but related notes would not be required, except for those required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8").

As a result of the application of new standards during the current reporting period, the Bank has presented three statements of financial position and additional comparative information for the opening statement of financial position where required.

Employee benefits (amendments to IAS 19):

The amendments revise the 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.

Refer to notes 1.21 and 39.

Separate financial statements (amendments to IAS 27):

The revised IAS 27 now only deals with the requirements for separate financial statements; 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 Financial Instruments ("IFRS 9") (or IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), as applicable). The standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

The revised IAS 27 had no impact on the consolidated financial statements of the Bank or on the separate financial statements of the Company.

Investments in associates and joint ventures (amendments to IAS 28 Investments in Associates and Joint Ventures ("IAS 28")):

This standard supersedes IAS 28 Investments in Associates 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 Bank already applies the equity method for investments in joint ventures in accordance with the amendments in IAS 28 and as a result the amendment had no impact on the consolidated financial statements of the Bank.

Interim financial reporting (amendment to IAS 34 Interim Financial Reporting ("IAS 34")):

The amendment requires that total assets for a particular reportable segment needs to be disclosed only when the amounts are regularly provided to the chief operating decision maker ("CODM") 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 had no impact on the consolidated financial statements of the Bank as the total assets for reportable segments are already disclosed.

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

Standards, amendments to standards and circulars mandatory for the first time for the current reporting period *(continued)*

Headline Earnings Circular 2/2013:

The new headline earnings circular replaces circular 3/2012 and provides additional guidance on the calculation of headline earnings in relation to business combinations achieved in stages, consolidated and separate financial statements, investments in associates and joint ventures, non-current assets held for sale and discontinued operations, recoverability of deferred tax assets, property, plant and equipment, leases, employee benefits and investment properties.

The new circular has not had a significant impact on the calculation of headline earnings per share.

1.1 Basis of presentation

The consolidated and standalone financial statements of the Absa Bank Limited have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee, as published by the International Accounting Standards Board ("IASB"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act and JSE Listings Requirements. The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out below. These policies have been consistently applied. Refer to note 1.21 for details of accounting policy changes during the reporting period. The consolidated and separate financial statements have been prepared under the historical cost convention modified to include the fair valuation of investment property and particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies. They are stated in millions of rand ("Rm"), the presentation currency of the Bank.

1.2 Use of estimates, assumptions and judgements

The Bank prepares financial statements in accordance with IFRS. The Bank's significant accounting policies relating to specific financial statement items, together with a description of the accounting estimates and judgements that were critical to preparing them, are set out below.

1.2.1 Impairment of loans and advances

The Bank's accounting policy for losses arising from the impairment of company loans and advances is described in note 1.7.5.

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the reporting date.

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

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

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

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

In addition, the use of statistically assessed historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater than 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 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 are appropriate. Refer to note 10.1.

1.2.2 Goodwill impairment

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

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

- The future cash flows of the cash-generating units ("CGUs") are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects at the time of the assessment.
- The discount rate used to discount the future expected cash flows is based on the Bank's weighted average cost of capital. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free 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 goodwill in each of those CGUs for impairment.

1.2.3 Valuation of financial instruments

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. Refer to note 56 and 57.

1.2.4 Impairment of available-for-sale financial assets

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

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

Refer to note 12.1.

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

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

1.2.5 Consolidation of entities

The Bank consolidates an entity when it has control, which means that it is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to effect those returns through its power over the investee. In some cases, judgement has been required to determine whether the Bank controls entities. The key judgements are set out below:

Structured entities

The Bank consolidates certain structured entities ("SEs"), which may or may not be directly or indirectly owned subsidiaries. SEs are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. These SEs are consolidated when they are controlled by the Bank. Judgement is required in assessing whether an entity is an SE, as well as in determining whether the Bank controls the SE. Refer to note 1.3.3 where the factors considered when assessing whether an SE is to be consolidated are outlined.

Assessment of agent versus principal

Acting as an agent, the Bank is primarily engaged to act on behalf and for the benefit of other parties. When assessing whether the Bank is acting as a principal or as an agent for an investee the judgement is made based on the following factors:

- scope of our decision-making authority over the investee;
- any rights held by other parties such as kick out rights;
- exposure to variability from returns of an interest of more than 20%; and
- the remuneration to which the Bank is entitled.

Refer to notes 44 and 45.

1.2.6 Post-retirement benefits

The valuations of and 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. Refer to note 39 for the assumptions used and carrying amounts.

1.2.7 Provisions

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

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

1.2.8 Income taxes

The Bank is subject to income taxes in numerous jurisdictions and the calculation of the Bank's tax charge and worldwide provisions for income taxes necessarily involves a degree of estimation and judgement. There are many transactions and calculations for which the ultimate tax treatment is uncertain or in respect of which the relevant tax authorities may have indicated disagreement with the Bank's treatment and accordingly the financial tax charge cannot be determined until resolution has been reached with the relevant tax authority. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made. These risks are managed in accordance with the Bank's Tax Risk Framework.

Further information is included in notes 17, 36 and 49 around estimated tax positions where a high degree of judgement has been applied.

1.2.9 Share-based payments

Where the fair value of share awards relating to share-based payments is not based on the Bank'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 51. Refer to note 20 for the carrying amount of liabilities arising from cash-settled schemes.

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

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

1.2.10 Offsetting financial assets and financial liabilities

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

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

The above are considered to ensure the Bank's financial assets and liabilities are presented accurately in accordance with the characteristics of the items in question as resources or obligations of the entity. Refer to note 43.

1.3 Consolidation

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

1.3.1 Subsidiaries

Subsidiaries are all entities (including SEs) over which the Bank has control. The Bank controls and hence consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Bank will only consider potential voting rights that are substantive when assessing whether it controls another entity. In order for the right to be substantive, the holder must have the practical ability to exercise that right. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

The consolidation of SEs is considered at inception, based on the arrangements in place and the assessed risk exposures at that time.

The initial consolidation analysis is revisited at a later date if:

- the Bank acquires additional interests in the entity;
- the contractual arrangements of the entity are amended such that the relative exposures to risks and rewards change; and
- the Bank acquires control over the relevant activities of the entity.

There are a number of subsidiaries in which the Bank has less than half of the voting rights which are consolidated when the substance of the relationship between the Bank and the entity indicates that the entity is controlled by the Bank. Such entities are deemed to be controlled by the Bank when relationships with such entities give rise to benefits that are in substance no different from those that would arise were the entity a subsidiary.

Intragroup transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Bank for the purposes of the consolidation.

The Bank uses the acquisition method of accounting to account for business combinations in accordance with IFRS 3 Business Combinations ("IFRS 3").

Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

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

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

1.3 Consolidation *(continued)*

1.3.2 Investments in associates and joint ventures

The Bank applies IAS 28 and IFRS 11 in accounting for investments in associates and joint ventures. Associates are entities in which the Bank has significant influence, but not control, over its operating and financial policies. Generally the Bank holds more than 20%, but less than 50%, of their voting shares. A joint arrangement is a contractual agreement between two or more parties to undertake an economic activity that is under joint control. Joint ventures are joint arrangements whereby the joint venturers that have joint control of the arrangement have rights to the net assets of the entity,

The Bank's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each reporting period by the Bank's share of the post-acquisition profit (or loss). In some cases, investments in these entities may be held at fair value through profit or loss, for example, those held by private equity businesses.

Investments in associates and joint ventures are accounted for at cost less impairment in the standalone financial statements of the Company.

1.3.3 Structured entities and sponsored entities

An interest in a SE is any form of investment or arrangement which creates variability in returns arising from the performance of the structured entity for the Bank. Such interests include but are not limited to holdings of debt or equity securities, derivatives that transfer financial risks to the Bank, and in some cases financial guarantees and investment management fee agreements. At market, plain-vanilla interest rate swaps and derivatives that are determined to introduce risk to a structured entity are not considered to be an interest in an entity. Depending on the Bank's power over the activities of the entity and its exposure to and ability to influence its returns from it, it may consolidate the entity. SEs are therefore consolidated on the same basis as subsidiaries as set out in 1.3.1.

In addition to the unconsolidated SEs in which the Bank has an interest, it also sponsors some SEs in which it has no interest, generally to facilitate client transactions. For the purposes of these disclosures, the Bank sponsors an entity when:

- it is the majority user of the entity;
- its name appears in the name of the entity or on the products issued by the entity;
- it provides implicit or explicit guarantees of the entity's performances; or
- it led the formation of the entity.

1.3.4 Common control

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

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

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

1.4 Segment reporting

The Bank's segmental reporting is in accordance with IFRS 8 Operating Segments ("IFRS 8"). Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is responsible for allocating resources and assessing performance of the operating segments and has been identified as the CODM. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office and inter-segment eliminations. Income and expenses directly associated with each segment are included in determining business segment performance.

1.5 Foreign currencies

The Bank applies IAS 21 The Effects of Changes in Foreign Exchange Rates ("IAS 21").

1.5.1 Foreign currency translations

The Bank's foreign operations (including subsidiaries, SEs, joint ventures, associates and branches) based mainly outside South Africa may have different functional currencies. The functional currency of an operation is the currency of the main economy to which it is exposed. Prior to consolidation (or equity accounting) the assets and liabilities of non-rand operations are translated at the closing rate and items of income, expense and OCI are translated into rand at the rate on the date of the transactions. Exchange differences arising on the translation of foreign operations are included in currency translation reserves within equity through OCI. These are transferred to profit or loss when the Bank loses control, joint control or significant influence over the foreign operation or on partial disposal of the operation.

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

1.5 Foreign currencies *(continued)*

1.5.2 Foreign currency transactions

Transactions and balances in foreign currencies are translated into rand at the rate ruling on the date of the transaction. Foreign currency balances are translated into rand at the reporting period end exchange rates. Exchange gains and losses on such balances are taken to the profit or loss component of the statement of comprehensive income for the reporting period.

1.6 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent and the number of basic weighted average number of shares excluding treasury shares held in employee benefit trusts or held for trading. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

1.7 Financial instruments

The Bank applies IAS 39 for the recognition, classification and measurement and derecognition of financial assets and financial liabilities, for the impairment of financial assets and for hedge accounting. The Bank recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

1.7.1 Financial instruments at fair value through profit or loss

Financial instruments classified as held for trading

In accordance with IAS 39, all assets and liabilities held for trading purposes are held at fair value with gains and losses from changes in fair value are taken to the profit or loss component of the statement of comprehensive income in "gains and losses from banking and trading activities".

Financial instruments designated at fair value through profit or loss

In accordance with IAS 39, financial assets and financial liabilities may be designated at fair value, with gains and losses taken to the statement of comprehensive income in "gains and losses from banking and trading activities" and "gains and losses from investment activities" depending on the nature of the instrument. The Bank has the ability to make the fair value designation when holding the instruments at fair value reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by the Bank on the basis of its fair value, or includes terms that have substantive derivative characteristics.

Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Bank's net interest income, net trading income, net fee and commission income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the statement of financial position. Changes in the fair value of derivatives used to economically hedge the Bank's interest rate are recognised in "net interest income" in the proft or loss component of the statement of comprehensive income.

1.7.2 Available-for-sale financial assets

Available-for-sale financial assets include both debt and equity instruments normally held for an indefinite period, but that may be sold in response to needs to 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 or loss component of the statement of comprehensive income. However, interest on available-for-sale financial instruments calculated using the effective interest rate method is recognised in the profit or loss component of the statement of comprehensive income.

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

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

1.7 Financial instruments *(continued)*

1.7.2 Available-for-sale financial assets *(continued)*

If impairment is assessed to have occurred, the cumulative gain or loss that has previously been recognised directly in OCI is reclassified from OCI and is recognised in the profit or loss component of other 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 or loss component of the statement of comprehensive income, the impairment loss shall be reversed, with the amount of the reversal recognised in the profit or loss component of the statement of comprehensive income. Reversals of impairment of equity instruments are not recognised in the profit or 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.

1.7.3 Loans and advances to customers

Loans and advances to customers and banks, customer accounts and certain debt securities are held at amortised cost. That is, the initial fair value (which is normally the amount advanced) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the asset.

1.7.4 Embedded derivatives

Terms in contracts or other financial assets or liabilities ("the host") which had it been a standalone contract would have met the definition of a derivative are separated from the host and accounted for the same way as a derivative unless the entire contract is accounted for as a financial instrument at fair value through profit or loss.

1.7.5 Financial liabilities

Most financial liabilities are held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability.

1.7.6 Impairment of financial assets

Financial assets held at amortised cost

In accordance with IAS 39, the Bank assesses at each reporting date whether there is objective evidence that financial assets at amortised cost will not be recovered in full and, wherever necessary, recognises an impairment loss in the profit or loss component of the statement of comprehensive income.

An impairment loss is recognised if there is objective evidence of impairment as a result of events that have occurred and these have adversely impacted the estimated future cash flows from the assets. These events include:

- becoming aware of significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants a concession that it would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- observable data at a portfolio level indicating that there is a measurable decrease in the estimated future cash flows, although the decrease cannot yet be ascribed to individual financial assets in the portfolio – such as adverse changes in the payment status of borrowers in the portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment assessments are conducted individually for significant assets, which comprise all wholesale customer loans and larger retail business loans, and collectively for smaller loans and for portfolio level risks, such as country or sectoral risks. For the purposes of the assessment, loans with similar credit risk characteristics are grouped together, generally on the basis of their product type, industry, geographical location, collateral type, past due status and other factors relevant to the evaluation of expected future cash flows.

The impairment assessment includes estimating the expected future cash flows from the asset, or the group of assets, which are then discounted using the original effective interest rate calculated for the asset. If this is lower than the carrying value of the asset or the portfolio, an impairment allowance is raised.

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

1.7 Financial instruments *(continued)*

1.7.6 Impairment of financial assets *(continued)*

If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss component of the statement of comprehensive income.

Following impairment, interest income continues to be recognised at the original effective interest rate on the restated carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans. Uncollectable loans are written off against the related allowance for loan impairment on completion of the Bank's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the profit or loss component of the statement of comprehensive income.

Identified impairment

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

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

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

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

Unidentified impairment

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

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

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

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

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

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

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

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

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

1.7 Financial instruments *(continued)*

1.7.6 Impairment of financial assets (continued)

Available-for-sale debt instruments

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in equity (through OCI) is removed from equity (through OCI) and recognised in the profit or loss component of the statement of comprehensive income. This may be reversed if there is evidence that the circumstances of the issuer have improved.

Available-for-sale equity instruments

Where there has been a prolonged or significant decline in the fair value of an equity instrument below its acquisition cost, it is deemed to be impaired. The cumulative net loss that has been previously recognised directly in equity (through OCI) is removed from equity (through OCI) and recognised in the profit or loss component of the statement of comprehensive income. Increases in the fair value of equity instruments after impairment are recognised directly in OCI. Further declines in the fair value of equity instruments after impairment are recognised in the profit or loss component of the statement of comprehensive income.

1.7.7 Subordinated debt

Subordinated debt is measured at amortised cost using the effective interest method under IAS 39.

1.7.8 Offsetting of financial assets and financial liabilities

In accordance with IAS 32, the Bank reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.7.9 Derecognition of financial assets

In the course of its normal banking activities, the Bank makes transfers of financial assets, either legally (where legal rights to the cash flows from the asset are passed to the counterparty) or beneficial (where the Bank retains the rights to the cash flows but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer.

Full derecognition only occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Bank transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Bank may retain an interest in it (continuing involvement) requiring the Bank to repurchase it in certain circumstances for other than its fair value on that date.

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 or 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

All financial instruments are initially recognised at fair value on the date of initial recognition and, depending on the classification of the asset, may continue to be held at fair value either through profit or loss or OCI. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

1.7 Financial instruments *(continued)*

1.7.11 Fair value (continued)

Wherever possible, fair value is determined by reference to a quoted market price for that instrument. For many of the Bank's financial assets and liabilities, especially derivatives, quoted prices are not available, and valuation models are used to estimate fair value. The models calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates.

For financial liabilities held at fair value, the carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data, such as spreads on the Bank's issued bonds or credit default swaps. Most market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data.

For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price ("Day One profit") is recognised in the profit or loss component of the statement of comprehensive income either on a straight-line basis over the term of the transaction, or over the period until all model inputs will become observable where appropriate, or released in full when previously unobservable inputs become observable.

Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the marketplace, the maturity of market modelling and the nature of the transaction (bespoke or generic). To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation. Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities or other analytical techniques.

1.7.12 Hedge accounting

The Bank applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its interest and currency risk management strategies. Derivatives are used to hedge interest rate, exchange rate, commodity, and equity exposures and exposures to certain indices such as house price indices and retail price indices related to non-trading positions.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the Bank applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate to the risks being hedged.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the profit or loss component of the statement of comprehensive income, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The fair value changes adjust the carrying value of the hedged asset or liability held at amortised cost.

If hedge relationships no longer meet the criteria for hedge accounting, hedge accounting is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to profit or loss over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the profit or loss component of the statement of comprehensive income.

Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss on the hedging instrument associated with the effective portion of the cash flow hedge is recognised initially in OCI, and then recycled to the profit or loss component of the statement of comprehensive income in the reporting periods when the hedged item will affect profit or loss.

Any ineffective portion of the gain or loss on the hedging instrument is recognised in the profit or loss component of the statement of comprehensive income immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in the profit or loss component of the statement of comprehensive income.

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

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

1.7 Financial instruments *(continued)*

1.7.13 Repurchase and reverse repurchase agreements

Reverse repurchase agreements (and stock borrowing or similar transactions) are a form of secured lending whereby the Bank provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are where the Bank obtains such loans or cash collateral, in exchange for the transfer of collateral.

The Bank purchases (a reverse repurchase agreement) or borrows securities subject to a commitment to resell or return them. The securities are not included on the statement of financial position as the Bank does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan asset at fair value or at amortised cost. The Bank may also sell (a repurchase agreement) or lend securities subject to a commitment to repurchase or redeem them. The securities are retained on the statement of financial position at either fair value or amortised cost as the Bank retains substantially all the risks and rewards of ownership. Consideration received (or cash collateral provided) is accounted for as a financial liability at either fair value or amortised cost.

1.7.14 Compound financial instruments

The Bank applies IAS 32 to determine whether funding is either a financial liability (debt) or equity.

Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in the Bank having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument, if this is not the case, the instrument is generally an equity instrument.

Where issued financial instruments contain both liability and equity components, these are accounted for separately. The fair value of the debt is estimated first and the balance of the proceeds is included within equity.

1.7.15 Loan commitments

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

1.7.16 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 the debt instrument.

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

Any increase in the liability relating to guarantees is recognised in the profit or loss component of the statement of comprehensive income. Any liability remaining is recognised in the profit or 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

Proceeds are included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when paid or declared by the members at the annual general meeting and treated 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 or loss component of the statement of comprehensive income.

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

1.9 Revenue recognition

1.9.1 Net interest income

The Bank applies IAS 18 Revenue ("IAS 18") and IAS 39. Interest income on loans and advances at amortised cost, available-for-sale debt investments, and interest expense on financial liabilities held at amortised cost, are calculated using the effective interest method which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest method requires the Bank to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), there are no individual estimates that are material to the results or financial position.

1.9.2 Net trading income

In accordance with IAS 39, trading positions are held at fair value and the resulting gains and losses are included in the profit or loss component of the statement of comprehensive income, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables.

Own credit gains/losses arise from the fair valuation of financial liabilities designated at fair value through the profit or loss component of the statement of comprehensive income.

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".

1.9.3 Net fee and commission income

The Bank applies IAS 18. Fees and commissions charged for services provided or received by the Bank are recognised as the services are provided, for example on completion of an underlying transaction.

1.9.4 Net investment income

Dividends are recognised when the right to receive the dividend has been established. Dividends received are disclosed in "gains and losses from investment activities".

1.9.5 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 or loss component of the statement of comprehensive income over the terms of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

1.10 Commodities

Commodities where the Bank has shorter-term trading intention are carried at fair value less costs 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 markets on which the underlying commodities are traded.

1.11 Intangible assets

1.11.1 Goodwill

The carrying value of goodwill is determined in accordance with IFRS 3 and IAS 36 Impairment of Assets ("IAS 36").

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures, and represents the excess of the fair value of the purchase consideration over the fair value of the Bank's share of the assets acquired and the liabilities and contingent liabilities assumed on the date of the acquisition.

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

1.11 Intangible assets *(continued)*

1.11.1 Goodwill (continued)

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. The test involves comparing the carrying value of goodwill with the present value of the pre-tax cash flows, discounted at a rate of interest that reflects the inherent risks, of the cash-generating unit to which the goodwill relates, or the cash-generating unit's fair value less costs to sell if this is higher.

Any goodwill resulting from the acquisition of an associate or joint venture is included in the carrying value of the associate or joint venture.

1.11.2 Intangible assets other than goodwill

The accounting standard that the Bank applies in accounting for intangible assets other than goodwill is IAS 38 Intangible Assets ("IAS 38"). Intangible assets include brands, customer lists, internally generated software, licences and other contracts and core deposit intangibles. They 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.

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

Intangible assets are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less amortisation and provision for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, as set out in the table below.

Intangible assets are reviewed for impairment when there are indicators that impairment may have occurred.

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

1.12 Property and equipment

1.12.1 Property and equipment not subject to lease agreements

The Bank applies IAS 16 Property Plant and Equipment ("IAS 16") and IAS 40 Investment Properties ("IAS 40"). Property and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset. Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line basis over their estimated useful economic lives. Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property and equipment are kept under review to take account of any change in circumstances. The Bank uses the following annual rates in calculating depreciation:

Item	Annual depreciation rate (%)
Computer equipment	16 – 25
Freehold property	2
Furniture and other equipment	10 – 15
Motor vehicles	25

During the reporting period, there was a reassessment of the useful lives of computer equipment – refer to note 1.20.

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

1.12 Property and equipment *(continued)*

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

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

1.12.2 Property and equipment subject to lease agreements

The Bank applies IAS 17 Leases ("IAS 17") in accounting for leases.

Finance leases

A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. Where the Bank is the lessor, the leased asset is not held on the statement of financial position; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Where the Bank is the lessee, the leased asset is recognised in property and equipment and a finance lease liability is recognised, representing the minimum lease payments payable under the lease, discounted at the rate of interest implicit in the lease.

Interest income or expense is recognised in interest receivable or payable, allocated to accounting periods to reflect a constant periodic rate of return.

Operating leases

An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor. Where the Bank is the lessor, lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Bank recognises leased assets on the statement of financial position within property and equipment.

Where the Bank is the lessee, rentals payable are recognised as an expense in the profit or loss component of the statement of comprehensive income on a straight-line basis over the lease term unless another systematic basis is more appropriate.

1.12.3 Investment properties

The Bank initially recognises investment properties at cost, and subsequently at fair value at each reporting date reflecting market conditions at the reporting date. Gains and losses on remeasurement are included in the profit or loss component of the statement of comprehensive income.

1.13 Repossessed properties

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

The properties acquired are initially recorded at cost, which is the lower of their fair value (less costs to sell) and the carrying amount of the loan (net of impairment allowance) at the date of exchange. They are subsequently measured at the lower of the carrying amount or 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 net realisable value, to the extent that it does not exceed the cumulative write-down, is also recognised in "other impairments'".

Gains or losses on disposal of repossessed properties are reported in "other operating income" or "operating expenses".

1.14 Non-current assets held for sale

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

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the profit or 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. Summary of significant accounting policies *(continued)*

1.15 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. Repurchase and reverse repurchase agreements are not considered to be part of cash equivalents.

1.16 Provisions, contingent liabilities and commitments

The Bank applies IAS 37 in accounting for non-financial liabilities.

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated. Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists; for example, when the Bank has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by announcing its main features or starting to implement the plan.

Provision is made for undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

1.17 Employee benefits

1.17.1 Post-retirement benefits

Defined benefit scheme

The Bank applies IAS 19 in accounting for its defined benefit scheme.

The Bank recognises its obligation (determined using the projected unit credit method) to members of the scheme at the period end, less the fair value of the scheme assets. Scheme assets are stated at fair value as at the reporting period end.

All actuarial gains and losses are recognised immediately through OCI in order for the net defined benefit scheme asset or liability recognised in the statement of financial position to reflect the full value of the plan surplus or deficit, taking into account the asset ceiling.

Interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Gains and losses on curtailments are recognised when the curtailment occurs, which may be when a demonstrable commitment to a reduction in benefits, or reduction in eligible employees, occurs. The gain or loss comprises any change in the present value of the obligation and the fair value of the assets. Where a scheme's assets exceed its obligation, an asset is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

Post-employment benefits

The cost of providing healthcare benefits to retired employees is accrued as a liability in the financial statements over the reporting period that the employees provide services to the Bank, using a methodology similar to that for its defined benefit pension scheme.

Staff costs

The Bank applies IAS 19 in its accounting for most of the components of staff costs.

Short-term employee benefits, including salaries, accrued performance costs, salary deductions and taxes are recognised over the reporting period in which the employees provide the services to which the payments relate. Performance costs are recognised to the extent that the Bank has a present obligation to its employees that can be measured reliably and are recognised on an undiscounted basis over the period of service that employees are required to work to qualify for the services.

1.17.2 Share-based payments

The Bank applies IFRS 2 Share-Based Payments ("IFRS 2"). The Bank operates equity-settled and cash-settled share-based payment plans.

Employee services settled in equity instruments

The cost of the employee services received in respect of the shares or share options granted is recognised in the profit or loss component of the statement of comprehensive income over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet the non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the employee services.

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

1.17 Employee benefits *(continued)*

1.17.2 Share-based payments *(continued)*

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions, such as continuing to make payments into a share-based savings scheme.

Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff cost in the profit or 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.

1.18 Tax

The Bank applies IAS 12 Income Taxes ("IAS 12") in accounting for taxes on income.

1.18.1 Current tax

Income tax payable on taxable profits ("current tax") is recognised as an expense in the reporting period in which the profits arise. Withholding taxes are also treated as income taxes. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

1.18.2 Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the reporting date which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

1.18.3 Dividends withholding tax

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

1.18.4 Value added tax ("VAT")

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

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

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

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

1.19 Treasury shares

Treasury shares are deducted from shareholders' equity within other reserves and treasury shares. A transfer is made to retained earnings in line with the vesting of treasury shares held for the purposes of share-based payments.

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

1.20 Change in accounting estimate

During the current reporting period, the Bank revised the estimated useful lives of computer equipment from three to five years to four to six years. This revision was done as a result of the requirement of IAS 16 to reassess the useful lives of property and equipment on an annual basis. This change in useful lives has brought the Bank's estimated useful lives of computer equipment in line with the Barclays PLC estimated useful lives for computer equipment. The change in accounting estimate has been accounted for prospectively in accordance with IAS 8.

1.21 Reporting changes

The financial reporting changes that impact the comparative reporting periods of the Bank's results for the reporting period ended 31 December 2013 are driven by:

- The implementation of new International Financial Reporting Standards, specifically IFRS 10 and IAS 19R. All other amendments to IFRS effective for the current reporting period have had no significant impact on the Bank's reported results, however, disclosures have been updated to reflect the impact of the amendments.
- Certain changes in internal accounting policies.
- Business portfolio changes between operating segments including the allocation of elements of the Head office segment to business segments.

All reported results and comparative information contained throughout this set of annual financial statements have been restated.

The implementation of new IFRS impacts the net financial results of the Bank. The changes in the Bank's internal accounting policies impact the individual lines on which the income or costs are accounted for but not the net financial results of the Bank. The inter-segmental changes for Head office allocations and portfolio changes affect the reported results of the individual businesses in the segment report, but have no impact on the Bank's primary statements.

1.21.1 Accounting policy changes due to new IFRS

IFRS 10 and IAS 19R became effective for reporting periods beginning on or after 1 January 2013 and result in restatement of the Bank's results for the reporting periods ended 31 December 2011 and 2012.

IFRS 10 replaces the requirements of IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The standard introduces new criteria to determine whether entities in which the Bank has interests should be consolidated. Implementation of this new standard results in the Bank consolidating a small number of entities that were previously not consolidated and deconsolidating a small number of entities that were previously consolidated.

IAS 19R amends the requirements of IAS 19 Employee Benefits. The standard introduces a number of changes relating to defined benefit plans. For the Bank, the main impacts of implementing IAS 19R were the removal of the recognition of expected returns on plan assets within profit or loss in favour of interest income on plan assets being recognised in profit or loss at the rate used to discount the pension fund obligation and the recognition of interest cost on reserves owing to members in profit or loss. In addition, some benefits previously classified as short-term benefits are reclassified as long-term benefits. In addition to the above certain amounts disclosed in respect of the Absa Pension Fund have been restated. For further details on these changes, refer to note 39.

1.21.2 Internal accounting policy changes

The Bank elected to make internal accounting policy changes set out below, involving classification of items between income statement lines. These have no impact on the net earnings of the Bank. To ensure comparability, the comparative reporting periods have been restated.

- The Bank elected to change its accounting policy in terms of best practice and to better align with Barclays' internal accounting policies in terms of:
  - "Collection costs" – costs incurred in the follow up and collection of outstanding and overdue balances, previously recognised as part of "operating expenses" and fee expenses, within "net fee and commission income", have been reclassified to recoveries within the "impairment losses on loans and advances" line in the statement of comprehensive income.
  - "Association costs" – defined as costs incurred through the Bank's association with leading inter-change agents resulting in a reclassification of certain costs from "operating expenses" to "net fee and commission income".

The impact of the above changes on the Bank's consolidated statement of financial position and statement of comprehensive income is illustrated in the tables that follow.

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

1.21 Reporting changes *(continued)*

1.21.3 Impact of reporting changes on the Bank's results

Consolidated statement of financial position as at 31 December 2012

	Bank			
	As previously reported[1] Rm	IFRS accounting policy changes Rm	Consolidation adjustments[2] Rm	Restated Rm
Assets				
Cash, cash balances and balances with central banks	20 435	—	—	20 435
Statutory liquid asset portfolio	63 020	—	—	63 020
Loans and advances to banks	42 405	2	—	42 407
Trading portfolio assets	82 302	114	—	82 416
Hedging portfolio assets	5 439	—	—	5 439
Other assets	11 362	—	(228)	11 134
Current tax assets	35	(1)	—	34
Non-current assets held for sale	1 438	—	—	1 438
Loans and advances to customers	511 179	(863)	—	510 316
Loans to Group companies	10 777	(49)	228	10 956
Investment securities	6 363	226	—	6 589
Investments in associates and joint ventures	562	—	—	562
Investment properties	331	—	—	331
Property and equipment	7 653	—	—	7 653
Goodwill and intangible assets	1 160	—	—	1 160
Deferred tax assets	30	—	—	30
Total assets	764 491	(571)	—	763 920
Liabilities				
Deposits from banks	42 936	149	—	43 085
Trading portfolio liabilities	47 889	—	—	47 889
Hedging portfolio liabilities	3 855	—	—	3 855
Other liabilities	14 431	187	(49)	14 569
Provisions	1 394	—	—	1 394
Current tax liabilities	59	(1)	—	58
Non-current liabilities held for sale	177	—	—	177
Deposits due to customers	467 318	426	—	467 744
Debt securities in issue	106 188	(1 265)	—	104 923
Loans from Group companies	—	(49)	49	—
Borrowed funds	17 907	—	—	17 907
Deferred tax liabilities	1 411	(4)	—	1 407
Total liabilities	703 565	(557)	—	703 008
Equity				
Capital and reserves				
Attributable to ordinary equity holder:				
Ordinary share capital	303	—	—	303
Ordinary share premium	12 465	—	—	12 465
Preference share capital	1	—	—	1
Preference share premium	4 643	—	—	4 643
Retained earnings	38 025	(14)	—	38 011
Other reserves	5 441	—	—	5 441
	60 878	(14)	—	60 864
Non-controlling interest	48	—	—	48
Total equity	60 926	(14)	—	60 912
Total liabilities and equity	764 491	(571)	—	763 920

Notes

[1]Column refers to the amounts published on 12 February 2013.

[2]Adjustments to bring certain balances in Absa Bank Limited in line with fellow subsidiaries of Barclays Africa Group Limited as a result of the combination of Absa Group Limited and Barclays Africa operations.

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

1.21 Reporting changes *(continued)*

1.21.3 Impact of reporting changes on the Bank's results *(continued)*

Consolidated statement of comprehensive income for the reporting period ended 31 December 2012

	Bank			
	As previously reported[1] Rm	IFRS accounting policy changes[2] Rm	Accounting policy changes Rm	Restated Rm
Net interest income	21 995	(119)	—	21 876
Interest and similar income	48 682	(167)	—	48 515
Interest expense and similar charges	(26 687)	48	—	(26 639)
Impairments losses on loans and advances	(7 918)	—	(104)	(8 022)
Net interest income after impairment losses on loans and advances	14 077	(119)	(104)	13 854
Non-interest income	17 870	105	(86)	17 889
Net fee and commission income	13 759	—	(86)	13 673
Fee and commission income	14 890	—	—	14 890
Fee and commission expense	(1 131)	—	(86)	(1 217)
Gains and losses from banking and trading activities	3 543	108	—	3 651
Gains and losses from investment activities	20	—	—	20
Other operating income	548	(3)	—	545
Operating income before operating expenditure	31 947	(14)	(190)	31 743
Operating expenditure	(21 967)	(81)	190	(21 858)
Operating expenses	(21 088)	(81)	190	(20 979)
Other impairments	(344)	—	—	(344)
Indirect taxation	(535)	—	—	(535)
Share of post-tax results of associates and joint ventures	240	—	—	240
Operating profit before income tax	10 220	(95)	—	10 125
Taxation expense	(2 669)	26	—	(2 643)
Profit for the reporting period	7 551	(69)	—	7 482

Notes

[1]Column refers to the amounts published on 12 February 2013.

[2]Included in these adjustments is the impact of IAS 19, reflecting a debit on "operating expenses" of R88 million, a credit on "taxation expense" of R22 million and a net credit on "movements in retirement benefit fund assets and liabilities" within other comprehensive income of R158 million. The remaining adjustments relate to the implementation of IFRS 10.

1.21 Reporting changes *(continued)*

1.21.3 Impact of reporting changes on the Bank's results *(continued)*

Consolidated statement of comprehensive income for the reporting period ended 31 December 2012

	Bank			
	As previously reported[1] Rm	IFRS accounting policy changes[2] Rm	Accounting policy changes Rm	Restated Rm
Profit for the reporting period	7 551	(69)	—	7 482
Other comprehensive income				
Items that will not be reclassified to the profit or loss component of the statement of comprehensive income				
Movement in retirement benefit asset and liabilities	(201)	158	—	(43)
Decrease in retirement benefit surplus	(279)	218	—	(61)
Deferred tax	78	(60)	—	18
Total items that will not be reclassified to the profit or loss component of the statement of comprehensive income	(201)	158	—	(43)
Items that will or may be subsequently reclassified to the profit or loss component of the statement of comprehensive income				
Foreign exchange differences on translation of foreign operations	183	—	—	183
Movement in cash flow hedging reserve	405	—	—	405
Fair value gains arising during the reporting period	2 650	—		2 650
Amount removed from other comprehensive income and recognised in the profit or loss component of the statement of comprehensive income	(2 088)	—	—	(2 088)
Deferred tax	(157)	—	—	(157)
Movement in available-for-sale reserve	1 101	—	—	1 101
Fair value gains arising during the reporting period	1 524	—	—	1 524
Amortisation of goverment bonds – released to the profit or loss component of the statement of comprehensive income	10	—	—	10
Deferred tax	(433)	—	—	(433)
Total items that will or may be subsequently reclassified to the profit or loss component of the statement of comprehensive income	1 689	—	—	1 689
Total comprehensive income for the reporting period	9 039	89	—	9 128
Profit attributable to:				
Ordinary equity holder	7 272	(69)	—	7 203
Preference equity holders	295	—	—	295
Non-controlling interest	(16)	—	—	(16)
	7 551	(69)	—	7 482
Total comprehensive income attributable to:				
Ordinary equity holder	8 760	89	—	8 849
Preference equity holders	295	—	—	295
Non-controlling interest	(16)	—	—	(16)
	9 039	89	—	9 128

Notes

[1]Column refers to the amounts published on 12 February 2013.

[2]Included in these adjustments is the impact of IAS 19, reflecting a debit on "operating expenses" of R88 million, a credit on "taxation expense" of R22 million and a net credit on "movements in retirement benefit fund assets and liabilities" within other comprehensive income of R158 million. The remaining adjustments relate to the implementation of IFRS 10.

1.21 Reporting changes *(continued)*

1.21.3 Impact of reporting changes on the Bank's results *(continued)*

Consolidated statement of financial position as at 31 December 2011[1]

	Bank		
	As previously reported[2] Rm	IFRS accounting policy changes[3] Rm	Restated Rm
Assets			
Cash, cash balances and balances with central banks	19 505	—	19 505
Statutory liquid asset portfolio	57 473	—	57 473
Loans and advances to banks	55 870	2	55 872
Trading portfolio assets	79 603	71	79 674
Hedging portfolio assets	4 299	—	4 299
Other assets	11 459	(139)	11 320
Current tax assets	84	—	84
Non-current assets held for sale	35	—	35
Loans and advances to customers	488 332	(988)	487 344
Loans to Group companies	7 164	(1 436)	5 728
Investment securities	8 331	56	8 387
Investments in associates and joint ventures	412	—	412
Investment properties	1 840	—	1 840
Property and equipment	7 268	—	7 268
Goodwill and intangible assets	700	—	700
Deferred tax assets	61	—	61
Total assets	742 436	(2 434)	740 002
Liabilities			
Deposits from banks	44 702	67	44 769
Trading portfolio liabilities	49 232	—	49 232
Hedging portfolio liabilities	2 456	—	2 456
Other liabilities	10 536	(33)	10 503
Provisions	1 457	—	1 457
Current tax liabilities	255	—	255
Deposits due to customers	431 762	507	432 269
Debt securities in issue	128 051	(1 394)	126 657
Loans from Group companies	1 438	(1 438)	—
Borrowed funds	14 051	—	14 051
Deferred tax liabilities	1 104	(40)	1 064
Total liabilities	685 044	(2 331)	682 713
Equity			
Capital and reserves			
Attributable to ordinary equity holder:			
Ordinary share capital	303	—	303
Ordinary share premium	11 465	—	11 465
Preference share capital	1	—	1
Preference share premium	4 643	—	4 643
Retained earnings	37 217	(103)	37 114
Other reserves	3 605	—	3 605
	57 234	(103)	57 131
Non-controlling interest	158	—	158
Total equity	57 392	(103)	57 289
Total liabilities and equity	742 436	(2 434)	740 002

Notes

[1]In accordance with International Accounting Standards 1 – *Presentation of Financial Statements* ("IAS 1"), the condensed consolidated statement of comprehensive income for the reporting period ended 31 December 2011 has not been restated.

[2]Column refers to the amounts published on 12 February 2013.

[3]Included in these adjustments is the impact of IAS 19, reflecting a credit to "other assets" of R138 million, a debit to "deferred tax liabilities" of R39 million and a debit to retained earnings of R99 million. The remaining adjustments relate to the implementation of IFRS 10.

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

1.22 New standards and interpretations not yet adopted

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

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 and the hedge accounting requirements in November 2013.

The effective date of IFRS 9 was 1 January 2015. However, in July 2013, the IASB issued a tentative decision to defer the effective date of IFRS 9 as the classification and measurement and impairment of financial assets requirements have not yet been finalised.

The Bank is currently in the process of assessing IFRS 9's full impact and initial indications are that it is likely to affect the Bank's accounting for certain types of financial assets. Investments in certain listed debt instruments currently classified as financial assets designated at fair value through profit or loss will be permitted to be measured at amortised cost. Investments in structured notes currently accounted for as host debt instruments (measured at amortised cost) and embedded derivatives (measured at fair value) are required to be measured at fair value in their entirety, with fair value gains and losses being recognised in profit or loss. IFRS 9 will also impact the measurement of financial liabilities currently classified as financial liabilities designated at fair value through profit or loss, as changes in fair value resulting from changes in the Bank's credit risk will be recognised in OCI and not in profit or loss.

IFRS 7 (amendments) relating to disclosures for the first time adoption of IFRS 9 are effective for periods beginning on or after 1 January 2015.

The Bank is currently in the process of assessing IFRS 9's full impact and the related disclosures which will need to be given on first time adoption of IFRS 9.

IFRS 10, IFRS 12, IAS 27 and IAS 28 (amendments) apply to investments in subsidiaries, joint ventures and associates held by 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 IAS 39 (or IFRS 9, 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, is retained. The amendments will be applied retrospectively, subject to certain transition reliefs and will first be applicable to reporting periods beginning on or after 1 January 2014.

The Bank is in the process of assessing the impact.

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

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

IAS 32 (amendments) provides more application guidance on when the criterion for offsetting would be considered to be met. The amendments will be applied retrospectively and will first be applicable to reporting periods beginning on or after 1 January 2014.

The Bank is in the process of assessing the impact.

IAS 36 (amendments) has amended the disclosure requirements for the measurement of the recoverable amount of impaired assets. The amendment requires the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are applied retrospectively; however an entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply IFRS 13. The amendments will first be applicable to reporting periods beginning on or after 1 January 2014.

The Bank is in the process of assessing the impact.

IAS 39 (amendments) allows for the novation of a hedging instrument not to be considered an expiration or termination giving rise to the discontinuance of hedge accounting when a hedging derivative is novated as a consequence of laws and regulations or one or more clearing counterparties replaces the original counterparty and any changes in the terms of the novated derivative are limited to those necessary to effect the replacement of the counterparty. Any changes to the derivative's fair value arising from the novation are reflected in its measurement and therefore the measurement and assessment of hedge effectiveness. The amendments are required to be applied retrospectively and will first be applicable to reporting periods beginning on or after 1 January 2014.

The Bank is in the process of assessing the impact.

IFRIC 21 Levies ("IFRIC 21") clarifies that an entity recognises a liability for a levy when the activity that triggers the payment as identified by the relevant legislation occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognised before the specified minimum threshold is reached. The interpretation will first be applicable to reporting periods beginning on or after 1 January 2014.

The Bank is in the process of assessing the impact.

Annual improvements for both the 2010 – 2012 and 2011 – 2013 cycles were issued in December 2013. These improvements affect various standards and are effective for periods beginning on or after 1 July 2014.

The Bank is in the process of assessing the impact.

	Bank 2013 Rm	Bank 2012 Rm
2. Cash, cash balances and balances with central banks		
Balances with the South African Reserve Bank ("SARB")	**12 417**	12 338
Coins and bank notes	**8 665**	8 094
Money market assets	**5**	3
	21 087	20 435
Portfolio analysis		
Loans and receivables		
Balances with the SARB	**12 417**	12 338
Coins and bank notes	**8 665**	8 094
Money market assets	**5**	3
	21 087	20 435
3. Statutory liquid asset portfolio		
Republic of South Africa ("RSA") government bonds	**41 536**	51 853
Reverse repurchase agreements (refer to note 41)	**—**	3
Treasury bills	**20 519**	11 164
	62 055	63 020
Portfolio analysis		
Available-for-sale financial assets	**36 577**	35 047
RSA government bonds	**16 058**	23 883
Treasury bills	**20 519**	11 164
Available-for-sale financial assets in a fair value hedging relationship		
RSA government bonds	**25 478**	27 173
Financial assets designated at fair value through profit or loss	**—**	800
RSA government bonds	**—**	797
Reverse repurchase agreements	**—**	3
	62 055	63 020

RSA government bonds, SARB debentures and treasury bills valued at **R7 055 million** (2012: R2 592 million) have been pledged with the SARB, refer to note 41.

	Bank 2013 Rm	Bank 2012 Rm
4. Loans and advances to banks		
Loans and advances to banks	**45 302**	42 407
Portfolio analysis		
Financial assets designated at fair value through profit or loss	**6 140**	9 729
Loans and receivables	**39 162**	32 678
	45 302	42 407

Loans with variable rates are **R26 033 million** (2012: R25 217 million) and fixed rates are **R19 270 million** (2012: R17 190 million).

Included above are loans and advances to banks with a carrying value of **R3 597 million** (2012: R2 668 million) that have been pledged as security, including collateralised loans of **R1 098 million** (2012: R6 037 million) relating to securities borrowed (refer to note 41), which excludes reverse repurchase agreements as disclosed in note 41. 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.

Included above are reverse repurchase agreements of **R15 541 million** (2012: R9 134 million), refer to note 41.

	Bank 2013 Rm	Bank 2012 Rm
5. Trading and hedging portfolio assets		
Commodities	**1 080**	514
Debt instruments	**24 975**	24 615
Derivative assets (refer to note 54.3)	**43 545**	46 810
Commodity derivatives	**242**	605
Credit derivatives	**269**	195
Equity derivatives	**729**	969
Foreign exchange derivatives	**7 055**	5 814
Interest rate derivatives	**35 250**	39 227
Equity instruments	**531**	503
Money market assets	**7 006**	9 974
Total trading portfolio assets	**77 137**	82 416
Hedging portfolio assets (refer to note 54.3)	**3 344**	5 439
	80 481	87 855
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**1 595**	3 859
Derivatives designated as fair value hedging instruments	**1 749**	1 580
Financial assets held for trading	**76 057**	81 902
Debt instruments	**24 975**	24 615
Derivative assets	**43 545**	46 810
Equity instruments	**531**	503
Money market assets	**7 006**	9 974
Non-financial instruments	**1 080**	514
	80 481	87 855

Included above are financial instruments related to the Bank's interest rate economic hedging programme with a notional value of **R3 941 million** (2012: R5 560 million) and a fair value of **R293 million** (2012: R655 million).

Trading portfolio assets with a carrying value of **R10 484 million** (2012: R12 063 million) were pledged as security for repurchase agreements (refer to note 41). In addition, trading portfolio assets with a carrying value of **Rnil** (2012: R645 million) were pledged as security for deposits. These assets are pledged for the duration of the respective agreements.

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

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

		Bank 2013 Rm	Bank 2012 Rm
6.	**Other assets**		
	Accounts receivable and prepayments	6 476	6 538
	Deferred costs	129	95
	Inventories	110	442
	Cost	178	506
	Write-down	(68)	(64)
	Retirement benefit fund surplus (refer to note 39)	466	466
	Settlement accounts	2 118	3 593
		9 299	11 134
	Portfolio analysis		
	Loans and receivables	8 080	9 873
	Accounts receivable	5 962	6 280
	Settlement accounts	2 118	3 593
	Financial assets designated at fair value through profit or loss	16	16
	Non-financial assets	1 203	1 245
		9 299	11 134

		Bank 2013 Rm	Bank 2012 Rm
7.	**Current tax**		
	Current tax assets		
	Amount due from revenue authorities	15	34
	Current tax liabilities		
	Amount due to revenue authorities	151	58
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	1 438	35
	Disposal of assets previously disclosed under non-current assets held for sale	(20)	(35)
	Transfer from loans and advances to banks	—	(4)
	Transfer from other assets	—	41
	Transfer from investment securities	4	30
	Transfer from investments in associates and joint ventures (refer to note 13.5)	—	36
	Transfer from investment properties (refer to note 14)	193	1 312
	Transfer from property and equipment (refer to note 15)	209	23
	Fair value adjustment – Investment securities[1]	15	—
	Movements on non-current assets held for sale during the reporting period[1]	18	—
	Balance at the end of the reporting period	1 857	1 438

Note

[1]The movements on non-current assets and liabilities held for sale relate to three subsidiaries of the Bank which were classified as held for sale during the previous reporting period. As at the reporting date, these subsidiaries remain classified as such, however there have been movements in the underlying assets and liabilities both as a result of continued trading as well as a fair value adjustment. The retained classification of the component assets, as non-current assets held for sale, is considered appropriate on the basis that the delay in disposal is as a consequence of events outside of the Bank's control. Management remains committed to effecting the disposals, and they are expected to take place in 2014.

	Bank 2013 Rm	Bank 2012 Rm
8. Non-current assets and non-current liabilities held for sale *(continued)*		
8.2 Non-current liabilities held for sale		
Balance at the beginning of the reporting period	**177**	—
Transfer (to)/from other liabilities	**(2)**	25
Transfer from deferred tax liabilities (refer to note 17)	**—**	152
Balance at the end of the reporting period	**175**	177

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

- Through the Retail and Business Banking ("RBB") segment:
  - In the Commercial Property Finance Equity ("CPF Equity") division, investment properties in two of its wholly-owned subsidiaries, with a total carrying value of R193 million, were transferred to non-current assets held for sale. The disposal of these properties is expected to take place during the 2014 reporting period.
- Through the Head office and Other segment:
  - A number of assets classified as property and equipment within Corporate Real Estate Services have been identified as held for sale. These assets have a total carrying value of R209 million. The disposal of the property and equipment is due to take place during 2014.

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

- Through the RBB segment:
  - In the CPF Equity division, net assets of one of its subsidiaries, which have a carrying value as at 31 December 2013 of **R1 233 million** (2012: R1 209 million).

	Bank 2013 Rm	Bank 2012 Rm
9. Loans and advances to customers		
Cheque accounts	**31 179**	31 619
Corporate overdrafts and specialised finance loans	**5 729**	5 121
Credit cards	**30 178**	27 051
Foreign currency loans	**21 076**	12 152
Instalment credit agreements (refer to note 9.1)	**65 836**	60 364
Gross advances	**80 235**	72 999
Unearned finance charges	**(14 399)**	(12 635)
Reverse repurchase agreements with non-banks (refer to note 41)	**3 893**	4 698
Loans to associates and joint ventures (refer to note 44.9)	**12 039**	10 094
Microloans	**1 962**	1 846
Mortgages	**272 163**	278 200
Other advances[1]	**2 895**	3 231
Overnight finance	**14 082**	18 862
Personal and term loans	**29 037**	29 638
Preference shares	**8 955**	6 352
Wholesale overdrafts	**47 772**	34 086
Gross loans and advances to customers	**546 796**	523 314
Impairment losses on loans and advances (refer to note 10)	**(12 756)**	(12 998)
	534 040	510 316

Note

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

	Bank 2013 Rm	Bank 2012 Rm
9. Loans and advances to customers *(continued)*		
Portfolio analysis		
Amortised cost items in fair value hedging relationship	**4 412**	4 971
Corporate overdrafts and specialised finance loans	**10**	194
Wholesale overdrafts	**4 402**	4 777
Financial assets designated at fair value through profit or loss	**10 546**	11 937
Foreign currency loans	**1 157**	950
Mortgages	**708**	1 019
Preference shares	**785**	1 175
Reverse repurchase agreements	**3 893**	4 698
Wholesale overdrafts	**4 003**	4 095
Loans and receivables	**531 838**	506 406
	546 796	523 314

The Bank has securitised certain loans and advances to customers, the total carrying value of these securitised assets is **R4 068 million** (2012: R6 444 million), refer to note 42.

Included above are loans and advances to customers with a carrying value of **R3 659 million** (2012: R3 936 million) that have been pledged as security, including collateralised loans of **R3 024 million** (2012: R2 474 million) relating to securities borrowed, refer to note 41. Included above are reverse repurchase agreements of **R3 893 million** (2012: R4 698 million), refer to note 41. 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.

	Bank 2013 Gross advances Rm	Bank 2013 Unearned finance charges Rm	Bank 2013 Net advances Rm
9.1 Instalment credit agreements			
Maturity analysis			
Less than one year	**25 140**	**(4 330)**	**20 810**
Between one and five years	**52 688**	**(9 574)**	**43 114**
More than five years	**2 407**	**(495)**	**1 912**
	80 235	**(14 399)**	**65 836**

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

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

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 533 million** (2012: R4 290 million).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R1 232 million** (2012: R1 758 million).

		Bank 2013 Rm	Bank 2012 Rm
10.	**Impairment losses on loans and advances**		
	Balance at the beginning of the reporting period	**12 998**	11 388
	Amounts written off during the reporting period	**(6 198)**	(6 084)
	Foreign exchange differences	**—**	3
	Interest on impaired assets (refer to note 27)	**(851)**	(1 020)
	Impairments raised during the reporting period (refer to note 10.1)	**6 807**	8 711
	Balance at the end of the reporting period (refer to note 9)	**12 756**	12 998
	Comprising:		
	Identified impairments	**11 572**	12 089
	Unidentified impairments	**1 184**	909
		12 756	12 998
10.1	**Statement of comprehensive income charge**		
	Impairments raised during the reporting period	**6 807**	8 711
	Identified impairments	**6 521**	8 560
	Unidentified impairments	**286**	151
	Recoveries of loans and advances previously written off	**(926)**	(689)
		5 881	8 022
11.	**Loans to Group companies**		
	Fellow subsidiaries	**19 247**	10 956
	Portfolio analysis		
	Loans and receivables	**19 247**	10 956
12.	**Investment securities**		
	Debt instruments	**3 178**	3 175
	Listed equity instruments	**299**	640
	Unlisted equity and hybrid instruments	**1 743**	2 774
		5 220	6 589
	Market value		
	Directors' valuation of unlisted equity and hybrid instruments	**1 743**	2 774
	Market value of debt instruments	**3 178**	3 175
	Market value of listed equity instruments	**299**	640
		5 220	6 589

		Bank 2013 Rm	Bank 2012 Rm
12.	**Investment securities** *(continued)*		
	Portfolio analysis		
	Available-for-sale financial assets (refer to note 12.1)	**2 545**	1 872
	Debt instruments	**2 379**	1 737
	Listed equity instruments	**58**	51
	Unlisted equity and hybrid instruments	**108**	84
	Financial instruments designated at fair value through profit or loss	**2 675**	4 717
	Debt instruments	**799**	1 438
	Listed equity instruments	**241**	589
	Unlisted equity and hybrid instruments	**1 635**	2 690
		5 220	6 589
12.1	**Available-for-sale financial assets**		
	Carrying value at the beginning of the reporting period	**1 872**	1 151
	Cost plus fair value movements	**1 911**	1 203
	Impairments[1]	**(39)**	(52)
	Movement in investment securities	**674**	721
	Net acquisitions	**530**	726
	Transferred to investments in associates and joint ventures (refer to note 13.5)	**—**	(25)
	Fair value movements and accrued interest income	**144**	20
	Carrying value at the end of the reporting period	**2 545**	1 872
	Cost plus fair value movements	**2 584**	1 911
	Impairments[1]	**(39)**	(39)
13.	**Investments in associates and joint ventures**		
	Unlisted investments	**694**	562
13.1	**Movement in carrying value of associates and joint ventures accounted for under the equity method**		
	Balance at the beginning of the reporting period	**562**	412
	Share of current reporting period post-tax results	**132**	240
	Share of current reporting period results before taxation	**185**	330
	Taxation on current reporting period results	**(53)**	(90)
	Net movement resulting from acquisitions, disposals and transfers (refer to note 13.5)	**—**	(10)
	Dividends received	**—**	(78)
	Decrease in loans and receivables	**—**	(2)
	Balance at the end of the reporting period	**694**	562

Note
[1]All impairments relate to equity instruments.

	Bank 2013 Rm	Bank 2012 Rm
13. Investments in associates and joint ventures *(continued)*		
13.2 Analysis of carrying value of associates and joint ventures accounted for under the equity method		
Unlisted investments		
Shares at cost	**102**	102
Share of post-acquisition reserves	**592**	460
	694	562

	Bank 2013			Bank 2012		
	Associates Rm	**Joint ventures Rm**	**Total Rm**	Associates Rm	Joint ventures Rm	Total Rm
13.3 Carrying value of associates and joint ventures						
Equity accounted	**219**	**475**	**694**	200	369	569
Held at fair value through profit or loss[1]	**90**	**735**	**825**	117	814	931
	309	**1 210**	**1 519**	317	1 183	1 500

13.4 Associates and joint ventures

The following information is presented in respect of associates and joint ventures accounted for under the equity method:

Group share	Associates 2013 Rm	Associates 2012 Rm	Joint ventures 2013 Rm	Joint ventures 2012 Rm
Post-tax profit from continuing operations	**26**	170	**106**	69
Total comprehensive income	**26**	**170**	**106**	69

The unrecognised share of the losses of associates was **Rnil** (2012: Rnil million) in the reporting period and **Rnil** (2012: Rnil) cumulatively.

The unrecognised share of the losses of joint ventures was **Rnil** (2012: Rnil) in the reporting period and **Rnil** (2012: Rnil) cumulatively.

Note

[1]The investments in associates and joint ventures designated at fair value through profit or loss are disclosed in note 12.

	Bank 2013 Effective holding (%)	Bank 2013 Movement Rm	Bank 2012 Effective holding (%)	Bank 2012 Movement Rm
13. Investments in associates and joint ventures *(continued)*				
13.5 Net movement resulting from acquisitions, disposals and transfers				
Acquired during the previous reporting period, at cost:				
The Document Exchange Association	—	—	33	1
Transferred from investment securities during the previous reporting period (refer to note 12.1):		—		25
SBV Services Proprietary Limited	—	—	25	25
The South African Bankers Services Company Proprietary Limited	—	—	23	—
Transferred to non-current assets held for sale during the previous reporting period (refer to note 8):		—		(36)
Kilkishen Investments Proprietary Limited	—	—	50	(29)
Stand 1135 Houghton Proprietary Limited	—	—	50	(7)
		—		(10)

	Bank 2013 Rm	Bank 2012 Rm
13.6 Details of the purchase consideration on net assets acquired		
Cash consideration	—	1
Transfer from investment securities	—	25
	—	26
13.7 Details of transfers and consideration received on net assets disposed		
Cash consideration on disposal	—	—
Transfer to non-current assets held for sale (refer to note 8)	—	(36)
Transfer from investment securities (refer to note 12.1)	—	25
	—	(11)

Refer to note 44.9 for additional disclosure of the Bank's investments in associates and joint ventures.

	Bank 2013 Rm	Bank 2012 Rm
14. Investment properties		
Balance at the beginning of the reporting period	**331**	1 840
Additions	**4**	—
Change in fair value (refer to notes 32 and 33)	**60**	(162)
Disposals	—	(43)
Foreign exchange movements	**38**	8
Transfer to non-current assets held for sale (refer to note 8)	**(193)**	(1 312)
Balance at the end of the reporting period	**240**	331

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

	Bank					
	2013			2012		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
15. Property and equipment						
Computer equipment	**4 512**	**(2 823)**	**1 689**	5 308	(3 936)	1 372
Freehold property	**4 439**	**(320)**	**4 119**	3 940	(327)	3 613
Furniture and other equipment	**5 079**	**(2 383)**	**2 696**	5 792	(3 144)	2 648
Leasehold property	**41**	**(41)**	**—**	386	(366)	20
Motor vehicles	**4**	**(4)**	**—**	4	(4)	—
	14 075	**(5 571)**	**8 504**	15 430	(7 777)	7 653

	Bank 2013						
	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	**1 372**	**940**	**(30)**	**—**	**—**	**(593)**	**1 689**
Freehold property	**3 613**	**635**	**(22)**	**(98)**	**3**	**(12)**	**4 119**
Furniture and other equipment	**2 648**	**764**	**(35)**	**(111)**	**—**	**(570)**	**2 696**
Leasehold property	**20**	**—**	**(4)**	**—**	**—**	**(16)**	**—**
	7 653	**2 339**	**(91)**	**(209)**	**3**	**(1 191)**	**8 504**
Note				8		33	

	Bank 2012						
	Opening balance Rm	Additions Rm	Disposals Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Closing balance Rm
Reconciliation of property and equipment							
Computer equipment	1 518	510	(80)	(1)	—	(575)	1 372
Freehold property	3 399	253	—	(22)	3	(20)	3 613
Furniture and other equipment	2 310	887	(10)	—	—	(539)	2 648
Leasehold property	41	—	—	—	—	(21)	20
	7 268	1 650	(90)	(23)	3	(1 155)	7 653
Note				8		33	

Leasehold property and computer equipment with a carrying value of **R103 million** (2012: R116 million) are encumbered under finance leases (refer to note 20).

Included in the above additions is **R488 million** (2012: R185 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 **R571 million** (2012: R209 million) was transferred from assets under construction and brought into use.

16. Goodwill and intangible assets

	Bank 2013 Cost Rm	2013 Accumulated amortisation and/or impairments Rm	2013 Carrying value Rm	2012 Cost Rm	2012 Accumulated amortisation and/or impairments Rm	2012 Carrying value Rm
Computer software development costs	1 781	(1 016)	765	1 474	(833)	641
Customer lists and relationships	413	(28)	385	387	(1)	386
Goodwill	200	(87)	113	200	(87)	113
Other	53	(13)	40	22	(2)	20
	2 447	(1 144)	1 303	2 083	(923)	1 160

Bank

2013

	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of goodwill and intangible assets							
Computer software development costs	641	333	—	(33)	(176)	—	765
Customer lists and relationships	386	22	—	—	(23)	—	385
Goodwill	113	—	—	—	—	—	113
Other	20	31	—	—	(11)	—	40
	1 160	386	—	(33)	(210)	—	1 303
Note			52		33	34	

Bank

2012

	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of goodwill and intangible assets							
Computer software development costs	570	282	—	—	(143)	(68)	641
Customer lists and relationships	—	386	—	—	—	—	386
Goodwill	130	—	1	—	—	(18)	113
Other	—	20	—	—	—	—	20
	700	688	1	—	(143)	(86)	1 160
Note			52		33	34	

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

Included in computer software development costs is **R375 million** (2012: R156 million) relating to assets under construction.

	Bank 2013 Rm	Bank 2012 Rm
16. Goodwill and intangible assets *(continued)*		
Composition of goodwill		
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
NewFunds Proprietary Limited	**1**	1
	113	113

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%** (2012: 14%). Growth rates used in the impairment calculations range from **5% to 6%** (2012: 4% to 6%). A change in the discount rate and the growth rate by 2% will not have a significant impact on the resultant impairment calculation.

	Bank 2013 Rm	Bank 2012 Rm
17. Deferred tax		
17.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the reporting period	**1 377**	1 003
Deferred tax asset released on STC credits	**—**	27
Deferred tax on amounts charged directly to other comprehensive income	**(685)**	572
Available-for-sale investments	**32**	433
Fair value measurement	**29**	430
Transfer to the profit or loss component of the statement of comprehensive income	**3**	3
Cash flow hedges	**(710)**	157
Fair value measurement	**(254)**	741
Transfer to the profit or loss component of the statement of comprehensive income	**(456)**	(584)
Retirement benefit fund assets and liabilities	**(7)**	(18)
Charge to the profit or loss component of the statement of comprehensive income (refer to note 36)	**196**	(51)
Tax effect of translation and other differences	**7**	(22)
Transfer to non-current assets held for sale (refer to note 8)	**—**	(152)
Balance at the end of the reporting period	**895**	1 377

	Bank 2013 Rm	Bank 2012 Rm
17. Deferred tax *(continued)*		
17.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**1 455**	1 469
Fair value adjustments on financial instruments	**(400)**	(174)
Impairment of loans and advances	**(268)**	(146)
Lease and rental debtor allowances	**(84)**	(20)
Other differences	**12**	—
Property allowances	**60**	(23)
Retirement benefit fund assets and liabilities	**—**	130
Actuarial gains/(losses)	**147**	171
Deferred tax liability	**922**	1 407
Deferred tax asset	**(27)**	(30)
Accruals and provisions	**—**	(9)
Assessed losses	**—**	(7)
Impairment of loans and advances	**—**	(8)
Other differences	**(27)**	(6)
Net deferred tax liability	**895**	1 377
17.3 Future tax relief		
Balance at the beginning of the reporting period	**60**	—
Losses incurred	**—**	203
Movement in temporary differences	**(46)**	(143)
Operating losses utilised	**—**	—
Balance at the end of the reporting period	**14**	60

	Bank 2013 Rm	Bank 2012 Rm
18. Deposits from banks		
Call deposits	**8 134**	10 163
Fixed deposits	**15 492**	7 777
Foreign currency deposits	**14 807**	5 668
Notice deposits	**702**	—
Other	**8 634**	6 408
Repurchase agreements (refer to note 41)	**16 331**	13 069
	64 100	43 085
Portfolio analysis		
Financial liabilities at amortised cost	**51 833**	28 109
Financial liabilities designated at fair value through profit or loss	**12 267**	14 976
Fixed deposits	**2 954**	4 383
Foreign currency deposits	**37**	35
Repurchase agreements	**9 276**	10 558
	64 100	43 085

Deposits with variable rates are **R34 838 million** (2012: R21 758 million) and fixed rates are **R29 262 million** (2012: R21 327 million).

	Bank 2013 Rm	Bank 2012 Rm
19. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 54.3)	**47 587**	46 763
Commodity derivatives	**143**	174
Credit derivatives	**395**	182
Equity derivatives	**1 913**	1 782
Foreign exchange derivatives	**7 781**	5 610
Interest rate derivatives	**37 355**	39 015
Short positions	**2 472**	1 126
Total trading portfolio liabilities	**50 059**	47 889
Hedging portfolio liabilities (refer to note 54.3)	**2 391**	3 855
	52 450	51 744
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**434**	14
Derivatives designated as fair value hedging instruments	**1 957**	3 841
Financial liabilities held for trading	**50 059**	47 889
Derivative liabilities	**47 587**	46 763
Short positions	**2 472**	1 126
	52 450	51 744

Included above are financial instruments related to the Bank's interest rate economic hedging programme with a notional value of **R1 290 million** (2012: R1 119 million) and a fair value of **R51 million** (2012: R76 million).

	Bank 2013 Rm	Bank 2012 Rm
20. Other liabilities		
Accruals	**1 061**	1 040
Audit fee accrual	**68**	57
Creditors	**4 811**	4 807
Deferred income	**487**	340
Liabilities under finance leases (refer to note 20.1)	**106**	289
Settlement balances	**4 640**	7 426
Share-based payment liability (refer to note 51)	**467**	610
	11 640	14 569
Portfolio analysis		
Financial liabilities at amortised cost	**9 557**	12 522
Creditors	**4 811**	4 807
Liabilities under finance leases	**106**	289
Settlement balances	**4 640**	7 426
Non-financial liabilities	**2 083**	2 047
	11 640	14 569

	Bank 2013 Minimum lease payments due Rm	Interest Rm	Principal Rm
20.1 Liabilities under finance leases			
Less than one year	**93**	**(2)**	**91**
Between one and two years	**15**	**(0)**	**15**
	108	**(2)**	**106**

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

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
Roggebaai	31 Lower Long Street, Cape Town	Original term of 20 years with negotiable escalation clauses and a renewal date of 28 February 2014.
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.

	Bank 2013 Rm	Bank 2012 Rm
20.1.2 Minimum future income receivable from subleasing		
Receivable within one year	**1**	1
Receivable within two to five years	**—**	—
	1	1

21. Provisions

	Bank 2013 Staff bonuses and incentive provisions Rm	Bank 2013 Sundry provisions Rm	Bank 2013 Total Rm
Balance at the beginning of the reporting period	**844**	**550**	**1 394**
Additions	**1 096**	**106**	**1 202**
Amounts used	**(690)**	**(418)**	**(1 108)**
Reversals	**(110)**	**(16)**	**(126)**
Balance at the end of the reporting period	**1 140**	**222**	**1 362**

	2012 Staff bonuses and incentive provisions Rm	2012 Sundry provisions Rm	2012 Total Rm
Balance at the beginning of the reporting period	972	485	1 457
Additions	844	231	1 075
Amounts used	(948)	(81)	(1 029)
Reversals	(24)	(85)	(109)
Balance at the end of the reporting period	844	550	1 394

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R1 252 million** (2012: R1 016 million).

Sundry provisions are made with respect to fraud cases, litigation and onerous contracts.

	Bank 2013 Rm	Bank 2012 Rm
22. Deposits due to customers		
Call deposits	**52 829**	56 648
Cheque account deposits	**139 226**	139 857
Credit card deposits	**1 914**	1 938
Fixed deposits	**132 678**	124 832
Foreign currency deposits	**14 108**	9 723
Notice deposits	**56 349**	55 728
Other[1]	**2 194**	1 983
Repurchase agreements with non-banks (refer to note 41)	**1 208**	1 503
Saving and transmission deposits	**87 865**	75 532
	488 371	467 744
Portfolio analysis		
Financial liabilities at amortised cost	**470 508**	448 655
Financial liabilities designated at fair value through profit or loss	**17 863**	19 089
Cheque account deposits	**80**	61
Fixed deposits	**16 258**	17 099
Other	**317**	426
Repurchase agreements with non-banks	**1 208**	1 503
	488 371	467 744
23. Debt securities in issue		
Credit linked notes	**8 155**	9 800
Floating rate notes	**44 718**	52 639
Negotiable certificates of deposit	**20 821**	17 926
Other	**11**	7
Promissory notes	**935**	1 561
Structured notes and bonds	**1 006**	1 098
Senior notes	**21 533**	21 892
	97 179	104 923
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**12 079**	11 988
Negotiable certificates of deposit	**2 791**	2 145
Senior notes	**9 288**	9 843
Financial liabilities at amortised cost	**81 516**	89 494
Financial liabilities designated at fair value through profit or loss	**3 584**	3 441
Credit linked notes	**2 245**	1 572
Negotiable certificates of deposit	**41**	59
Promissory notes	**292**	712
Structured notes and bonds	**1 006**	1 098
	97 179	104 923

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

24. 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	Bank 2013 Rm	Bank 2012 Rm
8,80%	7 March 2019	i	**1 725**	1 725
8,10%	27 March 2020	ii	**2 000**	2 000
10,28%	3 May 2022	iii	**600**	600
8,295%	21 November 2023	iv	**1 188**	1 188
Three-month JIBAR + 2,10%	3 May 2022	v	**400**	400
Three-month JIBAR + 1,95%	21 November 2022	vi	**1 805**	1 805
Three-month JIBAR + 2,05%	21 November 2023	vii	**2 007**	2 007
CPI-linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	viii	**—**	1 886
6,00%	20 September 2019	ix	**3 000**	3 000
5,50%	7 December 2028	x	**1 500**	1 500
Accrued interest			**1 472**	1 462
Fair value adjustment			**65**	334
			15 762	17 907

Portfolio analysis

	Bank 2013 Rm	Bank 2012 Rm
Amortised cost financial liabilities held in a fair value hedging relationship	**5 080**	5 206
Financial liabilities designated at fair value through profit or loss	**—**	778
Financial liabilities held at amortised cost	**10 682**	11 923
	15 762	17 907

24. Borrowed funds *(continued)*

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

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

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

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

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

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

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

viii The 6,25% Consumer Price Index-linked ("CPI-linked") notes were redeemed in full at the option of the Company on 31 March 2013. Interest was payable semi-annually in arrears on 31 March and 30 September each year.

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

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

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

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

	Bank 2013 Rm	Bank 2012 Rm
25. Share capital and premium		
25.1 Ordinary share capital		
Authorised		
320 000 000 (2012: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2012: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2012: 302 609 359) ordinary shares of R1,00 each	**303**	303
80 507 857 (2012: 76 149 040) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**13 465**	12 465
	13 768	12 768

Authorised shares

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

Unissued shares

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

Shares issued during the current reporting period

An additional 4 358 817 'A' ordinary shares were issued during the current reporting period.

Shares issued during the previous reporting period

An additional 4 646 408 'A' ordinary shares were issued in the previous reporting period to Barclays Africa Group Limited.

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

	Bank 2013 Rm	Bank 2012 Rm
25.2 Preference share capital and premium		
Authorised		
30 000 000 (2012: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2012: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

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

26. Other reserves

26.1 Available-for-sale reserve

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

26.2 Cash flow hedging reserve

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

26.3 Foreign currency translation reserve

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

26.4 Capital reserve

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

26.5 Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. The standard requires that the expense be charged to the profit or 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 or loss component of the statement of comprehensive income.

26.6 Associates' and joint ventures' reserve

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

27. Interest and similar income

	Bank 2013 Rm	Bank 2012 Rm
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	12	19
Fair value adjustments on hedging instruments	3 803	(185)
Investment securities	47	117
Loans and advances to banks	785	839
Loans and advances to customers	42 580	41 126
Cheque accounts	2 633	2 677
Corporate overdrafts and specialised finance loans	123	484
Credit cards	4 649	2 660
Foreign currency loans	363	218
Instalment credit agreements	5 804	5 536
Interest on impaired financial assets (refer to note 10)	851	1 020
Loans to associates and joint ventures	657	494
Microloans	454	477
Mortgages	19 255	20 611
Other advances[1]	718	220
Overnight finance	786	814
Personal loans and term loans	3 097	3 228
Preference shares	484	485
Wholesale overdrafts	2 706	2 202
Other interest[2]	1 130	1 015
Statutory liquid asset portfolio	1 738	5 584
	50 095	48 515
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale financial assets held in a fair value hedging relationship (refer to note 54.2)	(2 450)	1 780
Loans and advances to customers	164	431
Statutory liquid asset portfolio	(2 614)	1 349
Fair value adjustments on hedging instruments	4 549	390
Cash flow hedges (refer to note 54.2)	1 730	1 990
Economic hedges	1	(9)
Fair value hedges (refer to note 54.2)	2 818	(1 591)
Interest on financial assets held at amortised cost	46 064	43 991
Interest on financial assets held as available-for-sale	2 291	2 242
Interest on financial assets designated at fair value through profit or loss	(359)	112
Hedging instruments	(747)	(574)
Investment securities	8	68
Loans and advances to customers	351	549
Statutory liquid asset portfolio	29	69
	50 095	48 515

Notes

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

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

	Bank 2013 Rm	Bank 2012 Rm
28. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 316**	1 352
Debt securities in issue	**5 733**	8 234
Deposits due to customers	**20 104**	17 834
Call deposits	**2 799**	2 863
Cheque account deposits	**3 065**	3 172
Credit cards deposits	**8**	9
Fixed deposits	**8 486**	6 884
Foreign currency deposits	**348**	73
Notice deposits	**2 913**	2 469
Other	**195**	219
Savings and transmission deposits	**2 290**	2 145
Deposits from banks	**1 012**	1 227
Call deposits	**363**	677
Fixed deposits	**649**	517
Other	**—**	33
Fair value adjustments on hedging instruments	**500**	(998)
Interest incurred on finance leases	**19**	51
Other[1]	**(2 154)**	(1 061)
	26 530	26 639
Portfolio analysis		
Fair value adjustments on amortised cost financial liabilities held in a fair value hedging relationship (refer to note 54.2)	**(820)**	446
Borrowed funds	**(126)**	44
Debt securities in issue	**(694)**	402
Fair value adjustments on hedging instruments	**893**	(652)
Cash flow hedges (refer to note 54.2)	**(52)**	(79)
Economic hedges	**46**	(185)
Fair value hedges (refer to note 54.2)	**899**	(388)
Interest on financial liabilities designated at fair value through profit or loss	**495**	724
Borrowed funds	**17**	70
Debt securities in issue	**156**	366
Deposits due to customers	**714**	634
Hedging instruments	**(392)**	(346)
Interest on financial liabilities held at amortised cost	**25 962**	26 121
	26 530	26 639

Note

[1]Includes items such as inter-segment eliminations between "interest and similar income", "interest expense and similar charges", "gains and losses from banking and trading activities" and "gains and losses from investment activities".

	Bank 2013 Rm	Bank 2012 Rm
29. Net fee and commission income		
Asset management and other related fees	**97**	62
Consulting and administration fees	**171**	136
Credit-related fees and commissions	**12 414**	12 021
Cheque accounts	**3 546**	3 539
Credit cards[1]	**929**	428
Electronic banking	**4 099**	4 068
Other[2]	**1 556**	1 516
Savings accounts	**2 284**	2 470
Insurance commission received	**485**	465
Investment banking fees	**255**	252
Merchant income	**1 973**	1 843
Other	**50**	81
Trust and other fiduciary service fees	**41**	30
Portfolio and other management fees	**22**	20
Trust and estate income	**19**	10
Fee and commission income	**15 486**	14 890
Fee and commission expense	**(1 065)**	(1 217)
Cheque processing fees	**(150)**	(161)
Other	**(658)**	(670)
Transaction-based legal fees	**(115)**	(206)
Trust and other fiduciary services fees	**—**	(56)
Valuation fees	**(142)**	(124)
	14 421	13 673

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

	Bank 2013 Rm	Bank 2012 Rm
29.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	**3 546**	3 539
Credit cards	**929**	428
Other	**1 032**	981
Savings accounts	**2 284**	2 470
Fee and commission income	**7 791**	7 418
Fee and commission expense	**(892)**	(992)
	6 899	6 426

Notes

[1]Includes acquiring and issuing fees.

[2]Includes service and credit-related fees and commissions on mortgage loans and foreign exchange transactions.

	Bank 2013 Rm	Bank 2012 Rm
30. Gains and losses from banking and trading activities		
Net gains on investments	320	192
Debt instruments designated at fair value through profit or loss	163	179
Equity instruments designated at fair value through profit or loss	167	23
Available-for-sale unwind from reserves	(10)	(10)
Net trading result	3 031	3 537
Net trading income excluding the impact of hedge accounting	3 269	3 515
Ineffective portion of hedges	(238)	22
Cash flow hedges (refer to note 54.2.2)	(234)	45
Fair value hedges (refer to note 54.2.1)	(4)	(23)
Other gains/(losses)	140	(78)
	3 491	3 651
Net trading income excluding the impact of hedge accounting	3 269	3 515
Gains/(losses) on financial instruments designated at fair value through profit or loss	1 326	(750)
Net gains on financial assets designated at fair value through profit or loss	142	1 292
Net gains/(losses) on financial liabilities designated at fair value through profit or loss	1 184	(2 042)
Gains on financial instruments held for trading	1 943	4 265
Other gains/(losses)	140	(78)
Gains/(losses) on financial instruments designated at fair value through profit or loss	7	(142)
Gains on financial instruments held for trading	133	64
31. Gains and losses from investment activities		
Available-for-sale unwind from reserves	4	2
Net losses on investments	(1)	—
Other gains	3	18
	6	20
32. Other operating income		
Foreign exchange differences	45	39
Income from investment properties	60	30
Change in fair value (refer to note 14)	60	—
Rentals	—	30
Income from maintenance contracts	16	25
(Loss)/profit on disposal of property and equipment	(20)	80
Profit on sale of repossessed properties	14	15
Gross sales	356	551
Cost of sales	(342)	(536)
Rental income	216	230
Sundry income[1]	308	126
	639	545

Note

[1]Includes service fees levied on as well as the profit on disposal of sundry non-core business activities.

	Bank 2013 Rm	Bank 2012 Rm
33. Operating expenses		
Amortisation on intangible assets (refer to note 16)	**210**	143
Auditors' remuneration	**189**	148
Audit fees – current reporting period	**113**	102
Audit fees – underprovision	**8**	9
Audit-related fees[1]	**44**	31
Other services	**24**	6
Cash transportation	**597**	591
Depreciation (refer to note 15)	**1 191**	1 155
Equipment costs	**175**	177
Rentals	**101**	105
Maintenance	**74**	72
Information technology[2]	**1 760**	1 930
Investment properties charges – change in fair value (refer to note 14)	**—**	162
Marketing costs	**1 125**	958
Operating lease expenses on properties	**887**	916
Other[3]	**1 812**	675
Printing and stationery	**212**	185
Professional fees[2]	**1 257**	677
Property costs	**1 216**	1 435
Staff costs	**12 248**	11 190
Bonuses	**1 180**	824
Other[4]	**526**	385
Salaries and current service costs on post-retirement benefits	**9 913**	9 367
Share-based payments (refer to note 51)	**387**	431
Training costs	**242**	183
Telephone and postage	**681**	637
	23 560	20 979
34. Other impairments		
Financial instruments[5]	**(4)**	258
Other	**3**	86
Computer software development costs (refer to note 16)	**—**	68
Goodwill (refer to note 16)	**—**	18
Repossessed properties	**3**	—
	(1)	344

The current and previous reporting periods' impairment losses reported by segment are disclosed in note 53.

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 **R246 million** (2012: R113 million).
[3]Includes fraud losses, travel and entertainment costs as well as administration fees related to the Edcon portfolio.
[4]Includes recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.
[5]In the previous reporting period, the impairments related to impairment of loans and advances by Absa Bank to CPF Equity subsidiaries.

	Bank 2013 Rm	Bank 2012 Rm
35. Indirect taxation		
Training levy	99	90
VAT net of input credits	696	445
	795	535
36. Taxation expense		
Current		
Foreign taxation	48	44
South African current tax	3 417	2 840
South African current tax – previous reporting period	(377)	(235)
STC	—	45
	3 088	2 694
Deferred		
Deferred tax (refer to note 17.1)	196	(51)
Accelerated tax depreciation	58	(38)
Allowances for loan losses	(109)	(19)
Other provisions	6	8
Other temporary differences	234	(9)
Retirement benefit fund assets and liabilities	7	7
	3 284	2 643
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	12 019	10 126
Share of post-tax results of associates and joint ventures (refer to note 13)	(132)	(240)
	11 887	9 886
Tax calculated at a tax rate of 28%	3 328	2 768
Effect of different tax rates in other countries	6	(7)
Expenses not deductible for tax purposes	99	87
Income not subject to tax	(255)	(288)
Other	106	38
STC	—	45
	3 284	2 643

	Bank 2013 Rm	Bank 2012 Rm
37. Earnings per share		
Basic and diluted earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holder, obtained from the profit or loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the reporting period.		
Diluted earnings are determined by adjusting the profit or loss attributable to the ordinary equity holder and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares. There are currently no instruments in issue that would have a dilutive impact.		
Basic and diluted earnings attributable to the ordinary equity holder of the Bank	**8 439**	7 203
Weighted average number of ordinary shares in issue (millions)	**379,1**	375,3
Issued shares at the beginning of the reporting period	**378,8**	374,1
Effect of shares issued during the reporting period (weighted)	**0,3**	1,2
Basic earnings per share/diluted earnings per share (cents)	**2 226,1**	1 919,3

	Bank 2013 Gross Rm	Bank 2013 Net[1] Rm	Bank 2012 Gross Rm	Bank 2012 Net[1] Rm
38. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to the ordinary equity holder:		**8 439**		7 203
Total headline earnings adjustment:		**(173)**		153
IFRS 3 – Goodwill impairment (refer to note 34)	**—**	**—**	18	18
IFRS 5 – Gains and losses on disposal of non-current assets held for sale	**(171)**	**(138)**	—	—
IAS 16 and IAS 36 – Loss/(profit) on disposal and impairment of property and equipment (refer to note 32)	**20**	**14**	(80)	(62)
IAS 28 and IFRS 11 – Headline earnings component of share of post-tax results of associates and joint ventures	**—**	**—**	(1)	(1)
IAS 36 – Impairment of intangible assets (refer to note 34)	**—**	**—**	68	49
IAS 39 – Release of available-for-sale reserves (refer to note 30)	**10**	**7**	10	7
IAS 39 – Disposal and impairment of available-for-sale assets	**(3)**	**(2)**	—	—
IAS 40 – Change in fair value of investment properties (refer to notes 32 and 33)	**(60)**	**(54)**	162	142
Headline earning/diluted headline earnings		**8 266**		7 356
Headline earnings per share (cents)		**2 180,4**		1 960,0
Diluted headline earnings per share (cents)		**2 180,4**		1 960,0

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

39. Retirement benefit fund obligations

39.1 Absa Pension Fund[1]

During the current reporting period, the Bank has reassessed the accounting treatment of the Absa Pension Fund ("the fund"). The rules of the fund provide retiring defined contribution members with an option to receive either a living annuity or a conventional annuity post-retirement. Should a retiree elect a conventional annuity, the employer is thereafter exposed to longevity and other actuarial risk. However, the conventional annuity is calculated based on the defined contribution plan assets available at the point of retirement. The employer is not exposed to any asset return risk prior to the election of this option. The classification rules within IAS 19 require that, where the employer is exposed to any actuarial risk, the entire fund[2] be classified as a defined benefit plan. This change in classification had no impact on the statement of financial position and the statement of comprehensive income; however it has resulted in the disclosures being re-presented. Accordingly, this has been shown in both the current and previous reporting period as the "defined contribution portion" of the fund. This accounting classification seeks to provide additional disclosure and does not create any legal or constructive obligations. In terms of the definitions provided in the Pensions Act of 1956, the fund will remain to distinguish between the different types of members based on the benefits associated with each of the different types of members. The valuation of the option is included as part of the defined benefit obligation and the assets and liabilities related to the defined contribution active members are clearly highlighted. Details of the different types of members are shown in the table below:

	Bank Absa Pension Fund	
	2013	2012
Membership		
Defined benefit active members	**29**	35
Defined benefit deferred pensioners	**3**	3
Defined benefit pensioners	**8 692**	8 225
Defined contribution active members	**31 666**	32 823
Defined contribution pensioners[2]	**2 219**	2 463
Duration of the scheme (years)[3]	**10**	10

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

While the fund as a whole has been classified as a defined benefit fund for IAS 19 purposes, the defined contribution portion of the fund provides its members with an asset-based return, i.e. the pension benefits accruing to these members is based on their share of the plan's assets. In measuring the defined benefit obligation for plans with an asset-based return, the Bank has measured the liability for the defined contribution portion of the plan at the fair value of the assets upon which the benefits are based.

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

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of the fund be carried out at least every three years. The most recent statutory valuation of the fund was effected on 31 March 2013 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 PF Act"). The PF Act facilitates the determination of the surplus apportionment to members, while avoiding the inappropriate distribution of surpluses. The PF 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 credit method in respect of the defined benefit portion.

Notes

[1]The Absa Group Pension Fund was renamed the Absa Pension Fund during the current reporting period.

[2]Pensioners who have elected to receive a living annuity have been excluded from the IAS 19 disclosures as the employer is not exposed to any longevity or other actuarial risk in respect of these members. Plan assets/liabilities relating to these pensioners amount to **R2 693 million** (2012: R2 264 million).

[3]This relates to the defined benefit portion of the fund.

39. Retirement benefit fund obligations *(continued)*

39.1 Absa Pension Fund *(continued)*

39.1.1 Defined benefit plan reconciliations

	Bank 2013 Rm	Bank 2012 Rm
Reconciliation of the net surplus		
Present value of funded defined benefit obligations	**(21 846)**	(18 483)
Defined benefit portion	**(7 347)**	(6 150)
Defined contribution portion	**(14 499)**	(12 333)
Fair value of the defined benefit plan assets	**22 868**	19 868
Defined benefit portion	**8 369**	7 535
Defined contribution portion	**14 499**	12 333
Funded defined benefit status	**1 022**	1 385
Irrecoverable surplus (effect of asset ceiling)	**(556)**	(919)
Net surplus arising from the defined benefit obligation	**466**	466
Reconciliation of movement in the defined benefit obligation		
Balance at the beginning of the reporting period	**(18 483)**	(16 934)
Defined benefit portion	**(6 150)**	(5 538)
Defined contribution portion	**(12 333)**	(11 396)
Reconciling items – defined benefit portion	**(1 197)**	(612)
Actuarial losses – experience adjustments	**(665)**	(430)
Benefits paid	**464**	448
Current service costs	**(8)**	(7)
Interest expense	**(429)**	(447)
Employee contributions[1]	**—**	1
Increase as result of defined contribution member transfers	**(559)**	(177)
Reconciling items – defined contribution portion	**(2 166)**	(937)
Increase in obligation linked to plan assets return	**(1 878)**	(985)
Employer contributions[1]	**(764)**	(741)
Employee contributions[1]	**(496)**	(430)
Disbursements and member transfers	**972**	1 219
Balance at the end of the reporting period	**(21 846)**	(18 483)
Reconciliation of movement in the plan assets		
Balance at the beginning of the reporting period	**19 868**	18 008
Defined benefit portion	**7 535**	6 612
Defined contribution portion	**12 333**	11 396
Reconciling items – defined benefit portion	**834**	923
Benefits paid	**(464)**	(448)
Employer contributions	**1**	3
Interest income on the plan assets	**527**	537
Remeasurement – return on plan assets in excess of interest	**211**	654
Increase as result of defined contribution member transfers	**559**	177
Reconciling items – defined contribution portion	**2 166**	937
Return on plan assets	**1 878**	985
Employer contributions	**764**	741
Employee contributions	**496**	430
Disbursements and member transfers	**(972)**	(1 219)
Balance at the end of the reporting period	**22 868**	19 868

Note
[1]Included in staff costs.

39. Retirement benefit fund obligations *(continued)*

39.1 Absa Pension Fund *(continued)*

39.1.1 Defined benefit plan reconciliations *(continued)*

	Bank 2013 Rm	Bank 2012 Rm
Reconciliation of movement in the irrecoverable surplus		
Balance at the beginning of the reporting period	**(919)**	(585)
Interest on irrecoverable surplus	**(65)**	(49)
Changes in the irrecoverable surplus in excess of interest	**428**	(285)
Balance at the end of the reporting period	**(556)**	(919)

39.1.2 Nature of the pension fund assets

	Bank 2013 Fair value of plan assets Debt instruments Rm	Bank 2013 Fair value of plan assets Equity instruments Rm	Bank 2013 Fair value of plan assets Other instruments Rm
Plan assets relating to the defined benefit plan			
Defined benefit portion	**2 281**	**4 927**	**1 161**
Quoted fair value	**1 588**	**4 834**	**788**
Unquoted fair value	**—**	**6**	**70**
Own transferable financial instruments	**693**	**87**	**—**
Own occupied or used property	**—**	**—**	**303**
Defined contribution portion	**2 877**	**7 468**	**4 154**
Quoted fair value	**2 829**	**5 111**	**3 440**
Unquoted fair value	**—**	**9**	**—**
Own transferable financial instruments	**48**	**2 348**	**714**
	5 158	**12 395**	**5 315**

	2012 Fair value of plan assets Debt instruments Rm	2012 Fair value of plan assets Equity instruments Rm	2012 Fair value of plan assets Other instruments Rm
Plan assets relating to the defined benefit plan			
Defined benefit portion	2 054	4 436	1 045
Quoted fair value	1 430	4 352	710
Unquoted fair value	—	5	62
Own transferable financial instruments	624	79	—
Own occupied or used property	—	—	273
Defined contribution portion	2 448	6 352	3 533
Quoted fair value	2 407	4 347	2 926
Unquoted fair value	—	8	—
Own transferable financial instruments	41	1 997	607
	4 502	10 788	4 578

	Bank 2013 Rm	Bank 2012 Rm
39. Retirement benefit fund obligations *(continued)*		
39.1 Absa Pension Fund *(continued)*		
39.1.3 Movements in the defined benefit plan presented in statement of comprehensive income		
The profit and loss portion:		
Net interest income	(32)	(41)
Current service cost	8	7
	(24)	(34)
Recognised in other comprehensive income:		
Actuarial losses – experience adjustments	665	430
Remeasurement – return on the plan assets in excess of interest	(211)	(654)
Changes in the irrecoverable surplus in excess of interest	(428)	285
	26	61
39.1.4 The principal actuarial assumptions		
Discount rate (%)	8,5	7,5
Inflation rate (%)	6,1	5,9
Expected rate on the plan assets (%)	10,6	9,9
Future salary increases (%)	7,1	6,9
Average life expectancy in years of pensioner retiring at 60 – Male	21,0	17,2
Average life expectancy in years of pensioner retiring at 60 – Female	25,9	21,0

	Bank	
	2013[1]	
	Reasonable possible change	Impact on defined benefit obligation increase/ (decrease) Rm
39. Retirement benefit fund obligations *(continued)*		
39.1 Absa Pension Fund *(continued)*		
39.1.5 Sensitivity analysis of the key principal assumptions		
Key principal actuarial assumption		
Increase in discount rate (%)	0,5	(530)
Increase in inflation (%)	0,5	503
Increase in life expectancy (years)	1	298

39.1.6 Sensitivity analysis of the key principal assumptions

Sensitivity analysis

The sensitivity analysis shows how the defined benefit obligation would have been affected by changes in actuarial assumptions. The defined contribution obligation of R14 499 million does not give rise to any actuarial risks as the measurement is derived from the defined contribution plan assets. Thus the sensitivity analysis relates to the defined benefit portion of R7 347 million. The sensitivities may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. For the purpose of the sensitivity analysis, it is assumed that any change in inflation impacts other inflation-dependent assumptions, i.e. certain pension increases and salary growth.

39.2 Exposure to actuarial risks

The defined benefit fund exposes the Bank to the risk that the benefits promised in the fund cost more than the accumulated assets set aside to meet such benefits, and ultimately will require additional funding from the Bank (or its subsidiaries).

This risk can be categorised into a number of actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk

The actuarial funding valuations make assumptions about the returns that may be available on invested assets. If the return on plan assets is below this rate, it may lead to a strain on the fund, which over time, may result in a plan deficit. Typically the fund has a relatively balanced investment in equity security, debt security and real estate to mitigate any concentration risk. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to improve the return generated by the fund. This may in turn result in improved discretionary benefits to members or reduced costs for the sponsoring entity.

Inflation/Pension increase risk

Benefits in the plan are to some extent tied to inflation, so increased inflation levels represent a risk that could increase the costs of paying the fund's promised benefits. However the risk is mitigated by ceilings on mandatory benefit increases in most cases and subject to affordability in cases where the mandatory ceiling does not apply.

Longevity risk

If pensioners live longer than expected then that will, all else equal, increase the fund's liabilities as benefits are paid for a longer term.

Salary risk

An increase in the salary of the plan participants will increase the plan's liability. This risk has been limited with the closure of a number of the defined benefit plans and the introduction of defined contribution plans. There are now a limited number of active defined benefit members.

Note

[1]In accordance with IAS 19, no comparative information is required for the sensitivity analysis on the key principal actuarial assumptions for periods beginning before 1 January 2014.

39. Retirement benefit fund obligations *(continued)*

39.2 Exposure to actuarial risks *(continued)*

Measurement risk

The IAS 19 liabilities are determined using various assumptions about future experience.

One of the most important assumptions is the discount rate derived from prevailing bond yields where these are available (where these are not available, the inflation rate plus a reasonable risk free real return is used as a proxy). A decrease in the discount rate will, all else equal, increases the plan liability; this may be partially offset by an increase in the value of assets, to the extent that the fund's investments are matched against its liabilities.

Other important assumptions are the inflation assumption, pension increase assumption and the longevity assumption and changes in those could affect the measured value of liabilities significantly. Changes in other assumptions used could also affect the measured liabilities.

Regulatory risk

The fund's benefits are governed by the rules of the fund, operating within the relevant regulatory framework. To the extent that the government can change that regulatory framework, the Bank is exposed to a risk. In particular, regulations introducing issues like minimum benefits or minimum pension increases may result in higher benefits to members and a higher associated cost.

	Bank	
	2013 Rm	2012 Rm
40. Dividends per share		
40.1 Dividends declared		
Dividends declared to ordinary equity holder		
Interim dividend (30 July 2013: **2 233,4 cents**) (27 July 2012: 695,5 cents)	**8 459**	2 602
Special dividend (4 December 2013: **264,0 cents**) (27 September 2012: 267,3 cents)	**1 000**	1 000
Final dividend (11 February 2014: **754,3 cents**) (12 February 2013: 605,5 cents)	**2 890**	2 293
	12 349	5 895
Dividends declared to preference equity holders		
Interim dividend (30 July 2013: **2 999,4521 cents**) (27 July 2012: 3 134,6575 cents)	**148**	155
Final dividend (11 February 2014: **2 979,3151 cents**) (12 February 2013: 2 950,5479 cents)	**147**	146
	295	301
40.2 Dividends paid		
Dividends paid to ordinary equity holder		
Final dividend (12 February 2013: **605,5 cents**) (10 February 2012: 620,1 cents)	**2 293**	2 320
Interim dividend (30 July 2013: **2 233,4 cents**) (27 July 2012: 695,5 cents)	**8 459**	2 602
Special dividend (4 December 2013: **264,0 cents**) (27 September 2012: 267,3 cents)	**1 000**	1 000
Dividends paid to preference equity holders		
Final dividend (12 February 2013: **2 950,5479 cents**) (10 February 2012: 2 827,2329 cents)	**146**	140
Interim dividend (30 July 2013: **2 999,4521 cents**) (27 July 2012: 3 134,6575 cents)	**148**	155
	12 046	6 217

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

41.1 Reverse repurchase agreements and cash collateral on securities borrowed

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

	Bank			
	2013		2012	
	Cash collateral on securities borrowed Rm	Reverse repurchase agreements Rm	Cash collateral on securities borrowed Rm	Reverse repurchase agreements Rm
Assets				
Statutory liquid assets portfolio (refer to note 3)	—	—	—	3
Loans and advances to banks (refer to note 4)	1 098	15 541	6 037	9 134
Loans and advances to customers (refer to note 9)	2 862	3 893	2 474	4 698
	3 960	19 434	8 511	13 835

As part of the reverse repurchase agreements, the Bank has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **R19 434 million** (2012: R13 832 million) of which **Rnil** (2012: Rnil) have been sold or repledged.

41.2 Repurchase agreements and cash collateral on securities lent

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

	Bank			
	2013		2012	
	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)	352	16 331	307	13 069
Deposits due to customers (refer to note 22)	313	1 208	371	1 503
	665	17 539	678	14 572

The assets transferred and not derecognised in the above repurchase agreements are valued at **R10 484 million** (2012: R12 063 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 **R7 055 million** (2012: R2 592 million), refer to note 3.

42. Transfer of financial assets

42.1 Assets transferred, but not derecognised

In the ordinary course of business, the Bank enters into transactions that result in the transfer of assets to third parties or SEs that are not derecognised.

Where the holders of the associated liabilities only have recourse to the transferred assets, the fair value of the transferred assets, the fair value of the liabilities and the net asset or liability were as follows:

	Bank			
	2013		2012	
	Carrying amount of assets Rm	Associated liabilities Rm	Carrying amount of assets Rm	Associated liabilities Rm
Loans and advances to customers				
Commissioner Street 1	300	(271)	383	(381)

	Bank					
	2013			2012		
	Fair value of assets Rm	Fair value of liabilities Rm	Net asset/ (liabilities) Rm	Fair value of assets Rm	Fair value of liabilities Rm	Net asset/ (liabilities) Rm
Loans and advances to customers						
Commissioner Street 1	316	(284)	32	383	(381)	2

Details of the Bank's current securitisations are described below:

Commissioner Street No. 1 Proprietary Limited (Commissioner Street 1)

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

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

The Bank invested in 100% of the B notes. External investors invested in 100% of the A1 notes and A2 notes. Due to the Bank being exposed to the majority of risks and rewards of Commissioner Street 1, the Bank failed to derecognise the exposures in terms of IAS 39. The Bank therefore continues to recognise the exposures. The loans are included in the statement of financial position under 'Loans and advances to customers'.

42. Transfer of financial assets *(continued)*

42.2 Assets recognised to the extent of continuing involvement

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

	Bank					
	2013			2012		
	Carrying amount of assets before transfer Rm	Current carrying amount of assets Rm	Associated liabilities Rm	Carrying amount of assets before transfer Rm	Current carrying amount of assets Rm	Associated liabilities Rm
Loans and advances to customers						
Corporate overdrafts and specialised finance loans	**1 185**	**1 188**	—	1 185	1 146	—

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

Commissioner Street No. 3 Proprietary Limited (Commissioner Street 3)

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

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

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

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

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

Commissioner Street No. 4 Proprietary Limited (Commissioner Street 4)

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

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

The Bank invested in 67% of the A3 floating rate notes, 100% of the A4 floating rate notes and 100% of the A6 notes. External investors invested in 100% of the A1, A2, A3 fixed rate notes, A4 fixed rate notes and A5 notes, as well as 33% of the A3 floating rate notes.

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

42.3 Securities lending and repurchase agreements

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

	Bank			
	2013		2012	
	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	**1 197**	**(1 257)**	1 149	(1 405)
Debt instruments	**20 504**	**(20 504)**	14 572	(14 572)
	21 701	**(21 761)**	15 721	(15 977)

43. Offsetting financial assets and financial liabilities

In accordance with IAS 32, the Bank reports financial assets and financial liabilities, on a net basis on the statement of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Where relevant the Bank reports derivative financial instruments and reverse repurchase and repurchase agreements and other similar secured lending and borrowing agreements on a net basis.

The following table shows the impact of netting arrangements on the statement of financial position for recognised financial assets and liabilities that are reported net on the statement of financial position and those derivative financial instruments and reverse repurchase and repurchase agreements and other similar lending and borrowing agreements that are subject to enforceable master netting arrangements or similar agreements which did not qualify for presentation on a net basis. The table also shows potential netting not recognised on the statement of financial position that results from arrangements that do not meet all the IAS 32 netting criteria, because there is no intention to net settle or realise simultaneously, and related financial collateral that mitigates credit risk.

The net amounts presented are not intended to represent the Bank's actual credit exposure as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

	Bank							
	2013							
	Amounts subject to enforceable netting arrangements							
	Effects of netting on statement of financial position			Related amounts not set off				
	Gross amounts Rm	Amounts set off[1] Rm	Net amounts reported on the statement of financial position[2] Rm	Offsetting financial instruments Rm	Financial collateral[3] Rm	Net amount Rm	Amounts not subject to enforceable netting arrange-ments[4] Rm	Total per statement of financial position[5] Rm
Derivative financial assets	46 278	(1 667)	44 611	(37 580)	(3 981)	3 050	2 278	46 889
Reverse repurchase agreements and other similar secured lending	37 031	(14 419)	22 612	—	(22 612)	—	—	22 612
Total assets	83 309	(16 086)	67 223	(37 580)	(26 593)	3 050	2 278	69 501
Derivative financial liabilities	(46 835)	550	(46 285)	37 580	256	(8 449)	(3 693)	(49 978)
Repurchase agreements and other similar secured borrowing	(18 204)	—	(18 204)	—	18 204	—	—	(18 204)
Total liabilities	(65 039)	550	(64 489)	37 580	18 460	(8 449)	(3 693)	(68 182)

Notes

[1]Amounts offset for derivative financial liabilities includes cash collateral netted of **R1 117 million** (2012: R2 332 million). Amounts offset for reverse repurchase agreements relates to a short sale financial liability of **R14 419 million** (2012: R11 424 million). No other significant recognised financial assets and liabilities were offset in the statement of financial position.

[2]Net amounts reported on the statement of financial position comprises exposure that has been netted on the statement of financial position in compliance with IAS 32 (net exposure) and exposures that are subject to legally enforceable netting arrangements but have not been netted on the statement of financial position.

[3]Financial collateral excludes over collateralisation and amounts, which are measured at fair value and are in excess of the net statement of financial position exposure.

[4]In certain jurisdictions a contractual right of set-off is subject to uncertainty under laws of the jurisdiction and therefore netting is not applied and the amounts are classed as not subject to legally enforceable netting arrangements.

[5]Total per statement of financial position is the sum of "net amounts reported on the statement of financial position" which are subject to enforceable netting arrangements and "amounts not subject to enforceable netting arrangements".

43. Offsetting financial assets and financial liabilities *(continued)*

	Bank 2012							
	Amounts subject to enforceable netting arrangements							
	Effects of netting on statement of financial position			Related amounts not set off				
	Gross amounts Rm	Amounts set off[1] Rm	Net amounts reported on the statement of financial position[2] Rm	Offsetting financial instruments Rm	Financial collateral[3] Rm	Net amount Rm	Amounts not subject to enforceable netting arrange-ments[4] Rm	Total per statement of financial position[5] Rm
Derivative financial assets	53 962	(3 997)	49 965	(43 678)	(3 152)	3 135	2 284	52 249
Reverse repurchase agreements and other similar secured lending	30 055	(11 424)	18 631	—	(18 631)	—	—	18 631
Total assets	84 017	(15 421)	68 596	(43 678)	(21 783)	3 135	2 284	70 880
Derivative financial liabilities	(49 153)	1 666	(47 487)	43 678	169	(3 640)	(3 131)	(50 618)
Repurchase agreements and other similar secured borrowing	(15 180)	—	(15 180)	—	15 180	—	—	(15 180)
Total liabilities	(64 333)	1 666	(62 667)	43 678	15 349	(3 640)	(3 131)	(65 798)

Offsetting and collateral arrangements

Derivative assets and liabilities

Credit risk is mitigated where possible through netting arrangements, such as the International Swaps and Derivative Association ("ISDA") Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral (cash and non-cash) is also obtained, often daily, for the net exposure between counterparties where possible to further mitigate credit risk.

Repurchase and reverse repurchase agreements and other similar secured lending and borrowing

Credit risk is mitigated where possible through netting arrangements such as global master repurchase agreements and global master securities lending agreements whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral is obtained and typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default. These offsetting and collateral arrangements and the credit risk mitigation strategies used by the Bank are further explained in the credit risk mitigation, collateral and other credit enhancements section, refer to note 58.2.

44. Related parties

The Bank's ultimate parent company is Barclays Bank PLC, which owns **62,3%** (2012: 55,5%) of the ordinary shares in Barclays Africa Group Limited. The remaining **37,7%** (2012: 44,5%) of the shares are widely held on the JSE.

The following are defined as related parties of the Bank:

- key management personnel (refer to notes 44.1 and 44.2);
- the ultimate parent company (refer to note 44.3);
- fellow subsidiaries, associates and joint ventures of the ultimate parent company (refer to note 44.4);
- the parent company (refer to note 44.5);
- fellow subsidiaries, associates and joint ventures of the parent company (refer to note 44.6);
- subsidiaries and consolidated structured entities (refer to note 44.7);

Notes

[1]Amounts offset for derivative financial liabilities includes cash collateral netted of R2 332 million. Amounts offset for reverse repurchase agreements relates to a short sale financial liability of R11 424 million. No other significant recognised financial assets and liabilities were offset in the statement of financial position.

[2]Net amounts reported on the statement of financial position comprises exposure that has been netted on the statement of financial position in compliance with IAS 32 (net exposure) and exposures that are subject to legally enforceable netting arrangements but have not been netted on the statement of financial position.

[3]Financial collateral excludes over collateralisation and amounts, which are measured at fair value and are in excess of the net statement of financial position exposure.

[4]In certain jurisdictions a contractual right of set-off is subject to uncertainty under laws of the jurisdiction and therefore netting is not applied and the amounts are classed as not subject to legally enforceable netting arrangements.

[5]Total per statement of financial position is the sum of "net amounts reported on the statement of financial position" which are subject to enforceable netting arrangements and "amounts not subject to enforceable netting arrangements".

44. Related parties *(continued)*

- associates, joint ventures and retirement benefit fund (refer to note 44.8);
- an entity controlled/jointly controlled or significantly influenced by any individual referred to above;
- post-employment benefit plans for the benefit of employees or any entity that is a related party of the Bank;
- children and/or dependants and spouses or partners of the individuals referred to above; and

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

44.1 Transactions with key management personnel

IAS 24 Related Party Disclosures ("IAS 24"), requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Executive Committee ("Exco"). Entities controlled by key management personnel are also considered to be related parties. A number of banking and insurance transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with third parties. These include loans, deposits and foreign currency transactions. The related party transactions, outstanding balances at the reporting date, and related expenses and income with related parties for the reporting period are as follows:

	Bank			
	2013		2012	
	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	**27**	**428**	14	666
Inception/(discontinuance) of related party relationships and other[1]	**(1)**	**(407)**	(4)	(3)
Loans issued[2]	**39**	**10**	42	84
Loans repaid	**(40)**	**(19)**	(25)	(319)
Balance at the end of the reporting period	**25**	**12**	27	428
Interest income	**2**	**2**	1	44

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

Loans to key management personnel of **Rnil** (2012: Rnil) were written off as irrecoverable. Loans to entities controlled by key management personnel of **Rnil** (2012: Rnil) were written off as irrecoverable.

	Bank			
	2013		2012	
	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	**12**	**3**	31	3
Inception/(discontinuance) of related party relationships and other[1]	**(17)**	**(1)**	(19)	1
Deposits received	**291**	**11**	217	13
Deposits repaid[3]	**(276)**	**(12)**	(217)	(14)
Balance at the end of the reporting period	**10**	**1**	12	3
Interest expense	**1**	**0**	1	0
Guarantees issued by the Bank	**52**	**32**	53	50

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

Notes

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

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

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

	Bank			
	2013		2012	
	Transactions with key management Rm	Transactions with entities controlled by key management Rm	Transactions with key management Rm	Transactions with entities controlled by key management Rm
44. Related parties *(continued)*				
44.1 Transactions with key management personnel *(continued)*				
Other investments				
Balance at the beginning of the reporting period	22	18	40	41
Discontinuance of related party relationships and other[1]	(6)	(0)	(11)	(0)
Value of new investments/contributions	55	6	40	0
Value of withdrawals/disinvestments	(56)	(10)	(46)	(23)
Fees and charges	(0)	(0)	(0)	(0)
Investment return	12	(7)	(1)	0
Balance at the end of the reporting period	27	7	22	18

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R0,19 million** (2012: R0,41 million). Key management personnel received claims of **Rnil** (2012: R0,17 million).

	Bank	
	2013 Rm	2012 Rm
44.2 Key management personnel compensation		
Directors		
Post-employment benefit contributions	1	1
Salaries and other short-term benefits	28	30
Share-based payments	26	32
Termination benefits	—	12
	55	75
Other key management personnel		
Post-employment benefit contributions	3	2
Salaries and other short-term benefits	77	65
Share-based payments	50	49
Termination benefits	—	0
	130	116
44.3 Balances and transactions with the ultimate parent company[2]		
Balances		
Loans and advances to bank	13 720	20 698
Derivative assets	19 040	14 310
Nominal value of derivative assets	1 227 157	1 399 103
Other assets	1 244	896
Investment securities	534	584
Deposits from banks	(18 986)	(8 963)
Derivative liabilities	(17 232)	(13 842)
Nominal value of derivative liabilities	(997 710)	(1 213 065)
Other liabilities	(102)	(59)
Transactions		
Interest and similar income	(215)	(204)
Interest expense and similar charges	50	106
Net fee and commission income	—	(18)
Gains and losses from banking and trading activities	274	(158)
Other operating income	(70)	(36)
Operating expenditure	40	12

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

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

Notes

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

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

44. Related parties *(continued)*

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

Fellow subsidiaries, associates and joint ventures are those entities of Barclays Bank PLC. Balances between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed.

	Bank 2013 Rm	Bank 2012 Rm
Balances		
Loans and advances to banks	**207**	221
Derivative assets	**—**	37
Nominal value of derivative assets	**2 650**	947
Other assets	**157**	74
Deposits from banks	**(939)**	(1 016)
Derivative liabilities	**(18)**	5
Nominal value of derivative liabilities	**(2 132)**	(521)
Other liabilities	**(318)**	61
Transactions		
Interest and similar income	**—**	—
Net fee and commission income	**(25)**	(7)
Other operating income	**—**	(3)
Operating expenditure/recovered expenses	**(12)**	100

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 of the ultimate parent company.

44.5 Balances and transactions with the parent company[1]

	Bank 2013 Rm	Bank 2012 Rm
Balances		
Other assets	**—**	64
Deposits from banks	**(507)**	(708)
Transactions		
Dividends paid	**11 752**	5 921

44.6 Balances and transactions with fellow subsidiaries[1]

	Bank 2013 Rm	Bank 2012 Rm
Balances		
Cash, cash balances and balances with central banks	**(1)**	—
Loans and advances to banks	**196**	82
Trading and hedging portfolio assets	**2 476**	27
Loans to Group companies	**19 247**	10 956
Deposits from banks	**(3 921)**	(3 455)
Debt securities in issue	**(41)**	(242)
Transactions		
Interest and similar income	**(773)**	(476)
Interest expense and similar charges	**439**	615
Net fee and commission income	**(458)**	(418)
Gains and losses form banking and trading activities	**(1 115)**	1 905
Gains and losses from investing activities	**1**	—
Other operating income	**(19)**	(32)
Operating expenditure	**57**	412

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

44. Related parties *(continued)*

44.7 Subsidiaries and consolidated structured entities[1]

The information provided below is in respect of the Bank's main subsidiaries. The main subsidiaries are those entities whose results or financial position, in the opinion of the directors, had the most significant impact, relative to all the Bank's subsidiaries, on the figures shown in the consolidated financial statements. The significance of this impact is judged from both a qualitative and a quantitative perspective and is assessed on a half yearly basis.

Name	Nature of business	Country of incorporation	Bank 2013 % holding	Bank 2012 % holding
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 Technology Finance Solutions Proprietary Limited	Financial broker/executive finance company.	South Africa	**100**	100
Absa Vehicle and Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	**100**	100
Alberton Industrial Properties Proprietary Limited[2]	Obtains loans from the Bank to finance Devco subsidiaries.	South Africa	**100**	100
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	**100**	100
Structured entities				
Absa Benefit Fund	Cell captive.	South Africa	**n/a**	n/a
Absa Bond Fund	Fund used to invest in unit trusts.	South Africa	**n/a**	n/a
Absa Foundation Trust	Provides funding for community upliftment. It receives a percentage of the Bank's dividends which it distributes to identified community-related projects.	South Africa	**n/a**	n/a
Absa General Fund	Fund used to invest in unit trusts.	South Africa	**n/a**	n/a
Home Obligator Mortgages Enhanced Securities Proprietary Limited	Securitisation vehicle for Absa Home Loans division.	South Africa	**n/a**	n/a
Maravedi Financial Services – Life Cell	Credit life insurance.	South Africa	**n/a**	n/a
NewFunds eRafi overall SA index ETF Portfolio	Exchange-traded fund.	South Africa	**n/a**	n/a
New Rand Trust	Exchange-traded fund.	South Africa	**n/a**	n/a

Notes

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

[2] The entity was not considered to be material in the previous reporting period.

44. Related parties *(continued)*

44.8 Nature and extent of significant restrictions relating to investments in subsidiaries

There are significant restrictions on the ability of the Bank to require distributions of capital, access the assets, or repay the liabilities of members of its group arising from statutory and contractual requirements.

Statutory requirements

The Bank's subsidiaries are subject to statutory requirements to not make distributions of capital and unrealised profits so as to maintain solvency. These requirements restrict the ability of subsidiaries to make remittances of dividends to Absa Bank Limited, the ultimate parent, except in the event of a legal capital reduction or liquidation.

Contractual requirements

Certain of the Bank's securitisation and structured entities hold assets or interests in assets that are only available to meet the liabilities of those entities and have issued public debt securities. The Bank has the ability to wind up these structures and repay the notes, but only on the occurrence of certain contingencies, such as changes in tax laws or regulatory requirements. The carrying amount of the assets and liabilities of the entities to which these restrictions apply as at 31 December 2013 was **R5 072 million** and **R3 446 million** respectively (2012: R5 303 million and R4 160 million respectively).

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

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

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

	Bank		
	2013		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund investments managed by the Bank	—	8 369	8 369
Value of Absa defined contribution fund	—	14 499	14 499
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	87	87
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	693	693
Statement of financial position			
Other assets	—	466	466
Loans and advances to customer (refer to note 9)	12 039	—	12 039
Statement of comprehensive income			
Interest and similar income	(657)	(527)	(1 184)
Interest expense and similar charges	—	494	494
Fee and commission income	(86)	—	(86)
Fee and commission expense	150	—	150
Current service costs (refer to note 33)	—	8	8
Employer and employee contributions to Absa contribution pension fund	—	1 260	1 260

Note

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

44. Related parties *(continued)*

44.9 Associates, joint ventures and retirement benefit fund *(continued)*

	Bank 2012 Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund investments managed by the Bank	—	7535	7 535
Value of defined contribution pension fund investments managed by the Bank	—	12 333	12 333
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	79	79
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	624	624
Statement of financial position			
Other assets	—	466	466
Loans and advances to customer (refer to note 9)	10 094	—	10 094
Statement of comprehensive income			
Interest and similar income	(607)	(537)	(1 144)
Interest expense and similar charges	—	496	496
Fee and commission income	(79)	—	(79)
Fee and commission expense	160	—	160
Current service costs (refer to note 33)	—	7	7
Employer and employee contributions to Absa defined contribution pension fund	—	1 171	1 171

44. Related parties *(continued)*

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

The information provided below is in respect of the Bank's main associates and joint ventures. The main associates and joint ventures are those arrangements whose results or financial position, in the opinion of the directors, had the most significant impact, relative to all the Bank's associates and joint ventures, on the Bank's consolidated financial statements. Despite these investments having the most significant impact relative to all the Bank's associates and joint ventures, none of the Bank's associates or joint ventures are considered to have an impact that is individually material. Materiality and the relative significance of the Bank's associates and joint ventures are judged from a qualitative and quantitative perspective and is assessed half-yearly.

			Bank	
Name	Nature of business	Country of incorporation	2013 Ownership %	2012 Ownership %
Equity-accounted associates				
SBV Services Proprietary Limited[2]	Cash transportation services.	South Africa	**25**	25
The Document Exchange Association	Facilitates the electronic exchange of documents between the banks.	South Africa	**33**	33
The South African Bankers Services Company Proprietary Limited[2]	Automatic clearing house.	South Africa	**23**	23
Equity-accounted joint ventures				
FFS Finance South Africa Proprietary Limited	Provides financing solutions to Ford Motor Company customers.	South Africa	**50**	50
Integrated Processing Solutions Proprietary Limited	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	South Africa	**50**	50
MAN Financial Services (S.A.) Proprietary Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	South Africa	**50**	50
Associates and joint ventures designated at fair value through profit or loss	Various.	South Africa	**Various**	Various

45. Structured entities

Exchange traded funds

Exchange traded funds ("ETFs") are passively managed index funds that are listed and traded on a securities exchange. An ETF tracks the performance of and/or gains a broad exposure to a particular index, sector or commodity for individual and institutional investors. All ETFs have a market maker to ensure that liquidity is always maintained, and in many instances, the Bank will act in this capacity. The Bank may therefore hold a direct interest in the fund, but the magnitude of such interest will vary with sufficient regularity. Whether the Bank consolidates any of the funds depends on the magnitude of the interest held therein, as well as on the Bank's ability to direct the relevant activities of the fund, either directly or indirectly. The Bank, through its contractual undertaking to act as market maker, ensures that liquidity is always maintained. The Bank earns management fee income from its involvement in the funds. To the extent that the Bank holds participatory units in the funds, the Bank will receive distributions recognised as investment income, as well as unrealised gains and losses on the revaluations thereof.

ETFs are regulated by the Financial Services Board and the Collective Investment Schemes Control Act. No. 45 of 2002.

Securitisation vehicles

The Bank has used structured entities in order to securitise loans that were originated by the Bank. These entities have minimal equity and therefore rely on funding in the form of notes in order to acquire the underlying loans. The Bank transfers the contractual right to receive cash flows on the underlying loans, but in many instances, does not relinquish exposure to substantially all the risks and rewards of ownership. Exposures to credit risk, prepayment risk and/or interest rate risk are retained when the Bank purchases either senior notes or junior notes and sells derivatives to the entity. When the securitisation vehicles are established to run entirely on autopilot or when the only relevant activity of the entity constitutes recovery of the securitised loans in the event of default, then provided such activity is not directed by the Bank, the Bank will not have power over the relevant activities of the vehicle. The Bank earns interest income on the notes issued by the vehicles, together with management fees from the Bank's ongoing involvement. To the extent that the notes are fair valued, unrealised gains and losses are generated, which are recognised by the Bank in profit or loss.

Note

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

[2]SBV Services Proprietary Limited and The South African Bankers Services Company Proprietary Limited have a reporting date of 30 June 2013.

45. Structured entities *(continued)*

Structured investment vehicles

The Bank holds investments in a number of vehicles which were established and are managed by third-party fund managers. These vehicles are generally not consolidated by the Bank on the basis that the relevant activities of the vehicles are directed by the fund manager, and no substantive kick-out rights exist. The investments held in the vehicles are measured at fair value with changes therein being recognised in profit or loss. Distributions made by the vehicles will be recognised as investment income in profit or loss. The vehicles are funded through the commitment and provision of capital by investors.

Preference share funding vehicles

The Bank provides financing to a number of structured entities, established and managed by clients, in the form of a subscription for cumulative redeemable preference shares. These instruments typically have the economic characteristics of vanilla debt instruments, and as such the Bank recognises interest income from its investments. Often the Bank subscribes for preference shares in these vehicles together with other financial institutions on a syndicated basis. The Bank does not have the ability to direct the relevant business activities in these vehicles and therefore in the absence of control, the vehicles are not consolidated.

An entity which forms part of the same group of companies as the preference share funding vehicle, most commonly the parent company, writes the Bank a financial guarantee or a put option, so as to provide security in the event of default.

Funding vehicles

The Bank provides funding in the form of loans to bankruptcy remote structured entities to enable them to purchase fixed assets, such as property. The loans are fully collateralised by the underlying asset, and the repayment of principal and interest is met through the receipt of lease income. The loans are subject to guarantees received from the parent company, or from other trading entities within the same group of companies. The Bank earns interest on the loans. The loans are either measured at amortised cost, or are designated as at fair value through profit or loss.

45.1 Consolidated structured entities

During the reporting period the Bank provided financial or other support to the following consolidated structured entities despite not being contractually obliged to do so:

			Bank	
Name	Nature of support	Reason for providing support	2013 Support provided Rm	2012 Support provided Rm
The Absa Foundation Trust	Donation	The trust was constituted to fund community upliftment and social welfare programmes.	—	52

The Bank has consolidated The Absa Foundation Trust since 2006.

The Bank does not intend to provide financial or other support to any of the Bank's consolidated structured entities.

45. Structured entities *(continued)*

45.2 Unconsolidated structured entities

The level of risk that the Bank is exposed to is determined by the nature and purpose of it holding an interest in the entity.

Owing to the large number of structured entities in which the Bank holds an interest, information about such entities has been aggregated according to the purpose for which the entity was established.

	Bank 2013 Preference funding vehicles Rm	Structured investment vehicles Rm	Securi-tisation vehicles Rm	Exchange-traded funds Rm	Funding vehicles Rm	Total Rm
Assets						
Trading portfolio assets	—	—	873	—	—	873
Investment securities	—	215	591	9	—	815
Debt securities	—	—	584	3	—	587
Equity securities	—	215	7	6	—	228
Loans and advances to customers	5 106	1	1 433	—	745	7 285
Derivatives held for trading	—	—	15	—	—	15
Interest rate derivatives (carrying value)	—	—	15	—	—	15
Interest rate derivatives (notional value)	—	—	1 520	—	—	1 520
Undrawn liquidity facilities (notional value)[1]	—	—	460	—	133	593
Other assets	—	—	—	—	—	—
	5 106	216	3 372	9	878	9 581
Liabilities						
Deposits due to customers	302	2	986	32	1	1 323
	302	2	986	32	1	1 323
Maximum exposure to loss[2]	5 106	216	3 372	9	878	9 581
Total size of entities[3]	26 602	480	6 574	29 906	746	64 308

The following presents the Bank's losses recognised in profit or loss from the Bank's interests in unconsolidated structured entities:

	Bank 2013 Losses recognised in profit or loss Derivatives Rm	Investment securities Rm
Securitisation vehicles	87	—

Notes

[1]There are no liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in unconsolidated structured entities.

[2]The Bank's maximum exposure to loss has been calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance. The actual loss, due to the collateral held by the entities, the availability of netting and credit protection held is likely to be less in most cases.

[3]Total size of entities is measured relative to total assets.

45. Structured entities *(continued)*

45.2 Unconsolidated structured entities *(continued)*

Financial support provided or to be provided to unconsolidated structured entities

During the current reporting period, the Bank provided a loan of R0,6 million to one of the Bank's unconsolidated structured entities. This funding was provided as a short-term liquidity facility, so that the entity could settle its short-term obligations to an external supplier. As at the reporting date, the Bank has no intention to provide financial or other support to any of the unconsolidated structured entities.

45.3 Sponsored entities

In addition to the unconsolidated structured entities in which the Bank has an interest, it also sponsors some structured entities in which it has no interest. The Bank did not earn material income from its involvement in the unconsolidated structured entities which it sponsors.

Assets transferred to unconsolidated sponsored structured entities

Particulars of assets transferred to these entities, at their carrying amount on the date of transfer, were as follows. The amounts presented represent the total assets transferred to the entities by all parties, not those transferred solely by the Bank:

	Bank	
	2013 Rm	2012 Rm
Loans and advances	**—**	2 000
Other	**85**	—
46. Assets under management and administration		
Alternative asset management and exchange-traded funds	**29 934**	20 665
Portfolio management	**6 147**	5 942
Unit trusts	**1 297**	551
	37 378	27 158
47. Financial guarantee contracts		
Financial guarantee contracts	**3 790**	176

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

	Bank 2013 Rm	Bank 2012 Rm
48. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**175**	208

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

	Bank 2013 Rm	Bank 2012 Rm
Operating lease payments due		
No later than one year	**820**	893
Later than one year and no later than five years	**1 417**	1 816
Later than five years	**230**	303
	2 467	3 012

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

	Bank 2013 Rm	Bank 2012 Rm
Sponsorship payments due		
No later than one year	**272**	289
Later than one year and no later than five years	**541**	884
	813	1 173

The Bank has sponsorship commitments in respect of sports, arts and culture sponsorships.

	Bank 2013 Rm	Bank 2012 Rm
49. Contingencies		
Guarantees	**15 862**	15 540
Irrecoverable debt facilities	**46 679**	46 191
Irrecoverable equity facilities	**0**	543
Letters of credit	**5 666**	5 894
Other	**3**	6
	68 210	68 174

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

Guarantees include performance guarantee contracts and payment guarantee contracts.

49. Contingencies *(continued)*

Legal proceedings

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

- Pinnacle Point Holdings Proprietary Limited ("PPG"): New Port Finance Company and the trustees of the Winifred Trust ("the plaintiffs") allege a local bank conducted itself unlawfully, and that the Company was privy to such conduct. They have instituted proceedings against the Company for damages in an amount of R1 387 million. The Company has entered an appearance to defend the claim. The matter has not progressed from the previous reporting period.
- Ayanda Collective Investment Scheme ("the Scheme"): Absa Capital Investor Services was the trustee of Ayanda Collective Investment Scheme. CMM (Corporate Money Managers) managed a portfolio of assets within the Scheme under the terms of a white label agreement with Ayanda, the authorised manager of the Scheme. CMM further acted as an investment adviser in accordance with the statutory definition of the Collective Investment Scheme Act. As such, CMM procured discretionary mandates from investors and invested funds in segregated assets held in safe custody by the Company. The plaintiffs are the joint curators of the CMM group of companies and the Altron Pension Fund, an investor in the CMM cash management fund. In April 2012, the plaintiffs instituted action against the Company as well as Absa nominees ("the defendants") for approximately R1 157 million. It is alleged that the defendants caused damages to the plaintiffs arising from the their alleged failure to meet their obligations in the trust deed together with their statutory obligations set out in the Collective Investment Scheme Act. Alternatively, it is contended that the defendants recklessly facilitated the fraudulent conduct of CMM, thereby causing loss. However, the claim is poorly formulated, in response to which the defendants have lodged a series of exceptions, in respect of the latest of which a hearing date is awaited.
- Net 1 UEPS Technologies Incorporated ("Net 1"): A claim has been brought by Net 1 against the Company for loss of profit and damages. It is alleged that the Company caused a reduction in Net 1's share price by allegedly providing incorrect information to the media thereby "manipulating" media reports. It is also claimed that in view of the alleged manipulation, the Company caused an investigation by the United States Department of Justice, in terms of the Foreign Corrupt Practices Act, and the Securities Exchange Commission, into the award of the social grants tender by the South African Social Security Agency ("SASSA") to Net 1's subsidiary, Cash Paymaster Services Proprietary Limited. The Company has filed a plea in answer to the summons. The amount of the claim is R478 million.
- Ovation Global Investment Holdings Proprietary Limited ("Ovation"): The Company has been accused of negligently opening various bank accounts, which were used by one Cruickshank ("the fund administrator"), to embezzle funds belonging to the investors in the fund. It is the Company's position that investors have a claim against the fund manager and not against the Company. The matter is currently in the discovery phase and it is still expected that the trial date will be late 2014 or early 2015. The value of the claim instituted is R129,5 million.

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

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

	Bank 2013 Rm	Bank 2012 Rm
50. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**8 665**	8 094
Loans and advances to banks	**1 842**	692
	10 507	8 786

51. Share-based payments

During the reporting period, **R0 million** (2012: R17 million) and **R387 million** (2012: R431 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 33):

	Bank 2013 Rm	Bank 2012 Rm
Equity-settled arrangements:		
Barclays Africa Group Limited Executive Share Award Scheme ("ESAS")	**—**	11
Barclays Africa Group Limited Performance Share Plan ("PSP")	**—**	—
Barclays Africa Group Limited Share Incentive Scheme	**—**	6
Cash-settled arrangements:		
Barclays Africa Group Limited Deferred Award Plan ("DAP") (refer to note 51.1)	**196**	348
Barclays Africa Group Limited Long-Term Incentive Plan ("LTIP") (refer to note 51.2)	**7**	7
Barclays Africa Group Limited Phantom Joiners Share Award Plan ("JSAP") (refer to note 51.3)	**30**	39
Barclays Africa Group Limited Joiners Share Value Plan ("JSVP") (refer to note 51.4)	**44**	—
Barclays Africa Group Limited Share Value Plan ("SVP") (refer to note 51.5)	**107**	—
Other cash-settled arrangements	**3**	20
Total share-based payments staff cost	**387**	431
Total carrying amount of liabilities for cash-settled arrangements (refer to note 20)	**467**	610

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Barclays Africa Group Limited share price. Changes in the share price are accounted for in the statement of comprehensive income (refer to note 1.2.9 for share-based payment accounting policy).

Absa Bank Limited has entered into forward contracts referencing Barclays Africa Group Limited shares to hedge a portion of the potential cash flow variability resulting from its Deferred Award Plan and Share Value Plan share-based payment schemes.

The spot price of the forward contracts and an equal number of Deferred Award Plan and Share Value Plan phantom shares have been designated into cash flow hedging relationships.

Included in the share-based payment expenses listed above are hedging losses of **R19 million** relating to the Deferred Award Plan and **R18 million** relating to the Share Value Plan.

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**.

51. Share-based payments *(continued)*

51.1 Barclays Africa 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 market value of a number of Barclays Africa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. If Barclays Africa Group Limited fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate over the vesting period and are paid at maturity.

	Bank Number of awards	
	2013 '000	2012 '000
Outstanding at the beginning of the reporting period	**3 968**	3 993
Exercised during the reporting period	**(1 993)**	(1 537)
Forfeited during the reporting period	**(163)**	(356)
Granted during the reporting period	**—**	1 945
Transfer to Group subsidiaries	**24**	(77)
Outstanding at the end of the reporting period	**1 836**	3 968

The phantom awards outstanding have no exercise price and a weighted average contractual life of **0,5 years** (2012: 0,8 years). As the terms and conditions of this share scheme dictate that awards be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

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

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

- differences between the share price at grant date and the market price at valuation date;
- differences between actual and expected forfeited awards; and
- dividends accrued to date.

At 31 December 2013 **1,55 million** (2012: 3,10 million) Deferred Award Plan phantom shares were hedged through forward contracts at a price of R163,78, refer to note 54.2.3.

51.2 Long-Term Incentive Plan

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

	Bank Number of awards	
	2013 '000	2012 '000
Outstanding at the beginning of the reporting period	**765**	—
Exercised during the reporting period	**—**	—
Granted during the reporting period	**—**	765
Outstanding at the end of the reporting period	**765**	765

The awards outstanding have no exercise price and a weighted average contractual life of **1,0 year** (2012: 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 not yet settled.

51. Share-based payments *(continued)*

51.3 Barclays Africa Group Limited Phantom Joiners Share Award Plan

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

	Bank Number of awards	
	2013 '000	2012 '000
Outstanding at the beginning of the reporting period	**669**	878
Exercised during the reporting period	**(248)**	(294)
Forfeited during the reporting period	**(45)**	(179)
Granted during the reporting period	**—**	269
Transfer to Group subsidiaries	**3**	(5)
Outstanding at the end of the reporting period	**379**	669

The awards outstanding at the reporting date have no exercise price and a weighted average contractual life of **1,1 years** (2012: 1,6 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 Bank considers adjustments to reflect expectations of phantom awards that might be forfeited before the awards vest. At each reporting date, the Bank adjusts the liability o reflect:

- differences between the share price at grant date and the market price at valuation date;
- differences between actual and expected forfeited awards; and
- dividends accrued to date.

51.4 Barclays Africa Group Limited Phantom Joiners Share Value Plan

The JSVP is a cash-settled share-based payment arrangement that enables the Bank to attract and motivate new employees by buying out the "in the money" portion of a participant's shares or options under their previous employers' share scheme, by offering the employees Barclays Africa 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 accumulate and are reinvested over the vesting period, which can be over one to five years.

	Bank Number of awards	
	2013 '000	2012 '000
Outstanding at the beginning of the reporting period	**—**	—
Exercised during the reporting period	**(86)**	—
Forfeited during the reporting period	**(67)**	—
Granted during the reporting period	**627**	—
Outstanding at the end of the reporting period	**474**	—

The awards outstanding at the reporting date have no exercise price and a weighted average contractual life of **1,7 years**.

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

Fair value assumptions of phantom awards granted during the current reporting period

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

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

51. Share-based payments *(continued)*

51.5 Barclays Africa Group Limited Share Value Plan

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

	Bank Number of awards	
	2013 '000	2012 '000
Outstanding at the beginning of the reporting period	**—**	—
Exercised during the reporting period	**(2)**	—
Forfeited during the reporting period	**(71)**	—
Granted during the reporting period	**1 669**	—
Outstanding at the end of the reporting period	**1 596**	—

The phantom awards outstanding have no exercise price and a weighted average contractual life of **1,6 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 reporting period

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

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

At 31 December 2013 **1,34 million** SVP phantom shares were hedged through forward contracts at a price of R164,11, refer to note 54.2.3.

52. Acquisitions and disposals of businesses

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

	Bank 2013 Rm	Bank 2012 Rm
Summary of net cash outflow due to acquisitions	—	(1)
Summary of net cash inflow due to disposals	—	258
Summary of cash and cash equivalents disposed	—	(18)
Summary of net cash inflow due to acquisition and disposals	—	239

52.1 Acquisitions of businesses during the current reporting period

There were no acquisitions of businesses during the current reporting period.

52.2 Acquisitions of businesses during the previous reporting period

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

	Bank 2012 Fair value recognised on acquisition Rm
Details of the net assets acquired are as follows:	
Investment securities	2
Other liabilities	(2)
Net assets acquired	—
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 (revenue generated from intragroup transactions of R2,8 million) and a net profit before tax of Rnil to the Bank for the period 1 May 2012 to 31 December 2012. If the acquisition occurred on 1 January 2012, the Bank's revenue would have been Rnil higher and the net profit before tax for the reporting period would have been Rnil higher.

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

52.3 Disposal of businesses during the current reporting period

There were no disposals of businesses during the current reporting period.

52.4 Disposal of businesses during the previous reporting period

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

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

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

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

53. Segment report

53.1 Summary of segments

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

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

- Retail and Business Banking ("RBB")
  - Business Banking South Africa (previously Business Markets): provides a comprehensive range of commercial banking products and services to large, medium and small businesses.
  - Retail Banking South Africa (previously 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 personalised services, as well as through a range of electronic channels and intermediaries such as estate agents and originators.
    - Vehicle and Asset Finance ("VAF"): offers customised vehicle and asset finance products and services through vehicle dealers as well as directly to retail and business customers through face-to-face engagements, call centre agents and digital channels. The VAF product line incorporates vehicle management solutions including fleet card management and associated services.
    - Card: provides credit cards and merchant acquiring. It includes the Edcon portfolio.
    - Personal Loans: offers unsecured instalment loans, including fixed and variable loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.
    - Retail Bank: offers financial solutions to individuals in South Africa, ranging from those entering the market with basic banking needs, to affluent individuals who require sophisticated banking solutions.
- Corporate, Investment Bank and Wealth ("CIBW"): offers corporate, investment banking and wealth management services. The business model centres on delivering specialist investment banking, corporate banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions, government clients and high net worth individuals.
- Financial Services: consist of shareholders expenses previously retained at bank level now charged to business.
- Head office, inter-segment eliminations and Other: consists of various non-banking activities and includes investment income earned by the Bank, as well as income earned by the London branch and Corporate Real Estate Services ("CRES").

Segments can further be split into South Africa and Rest of Africa geographical segment operations. However, due to the insignificance of the Rest of Africa segment to total Bank, geographical split of segments is not considered for reportable segments.

53. Segment report *(continued)*

53.1 Summary of segments *(continued)*

Comparative segment information has been updated for the reporting changes driven by the implementation of new IFRS, changes in the Bank's internal accounting policies and inter-segmental operational changes. Only the implementation of new IFRS impacts the net financial results of the Bank.

Operational changes, management changes and associated changes to the way in which the CODM views the performance of each business segment have resulted in the reallocation of earnings between operating segments. These changes are summarised under portfolio changes below. Further the Bank elected to allocate additional Head office elements to the business segments so that the aggregate of the business segments' results is more closely aligned to the Bank's total results.

➜ Portfolio changes

The portfolio changes affecting the reported results of the individual businesses in the segment report include:

- CPF debt – management responsibility for a number of large advances were transferred from RBB to CIBW.
- Commercial Asset Finance ("CAF") – this business line was previously included in Business Banking. To take advantage of synergies with the existing VAF portfolio in Retail Banking, the portfolio was moved to Retail Banking.
- Certain operations that were previously conducted from individual business segments were transferred to Head office to become shared services. In turn, their costs were allocated out to relevant business segments in line with the revised approach to head office allocations.

➜ Head office allocations

For each income and expense item previously recorded under the Head office segment, consideration was given to whether there is a logical basis for increased allocation of such items to other business segments. The primary changes were:

- Intragroup allocation of funding costs and other Bank Treasury items now includes all income derived from the Bank's liquid asset portfolio as well as allocation of dividends paid on the non-controlling preference shares, secondary tax on companies and an increased allocation of intragroup interest. The allocation is based on the risk-weighted assets carried by each business segment.
- Internal funding revenue generated by "Money Markets" desk in CIBW was moved from the Markets business to Bank Treasury (in the Head office segment) and was in turn allocated out to the business segments.
- Head office operating cost items have been allocated to business segments wherever practicable using the most appropriate driver of the cost.
- Fees recognised in 'Operating income before operating expenditure' and 'Taxation expense', that were payable and receivable between business lines within CIBW and between CIBW and Head office in respect of Structured Capital Markets activities have been eliminated. Both the allocation of secondary tax on companies, referred to above, and this item impacts the relative tax rates of segments.
  The Bank's Head office segment now represents a smaller proportion of the Bank's earnings and will primarily consist of: Bank consolidation entries; accounting mismatches (defined as IFRS accounting adjustments not deemed relevant to business segment performance); timing items (items allocated to business segments with a timing lag) and corporate items that cannot be meaningfully allocated to business segments.

53. Segment report *(continued)*
53.2 Segment report per market segment

Statement of comprehensive income (Rm)	RBB 2013	RBB 2012	RBB Retail Banking South Africa 2013	RBB Retail Banking South Africa 2012	RBB Business Banking South Africa 2013	RBB Business Banking South Africa 2012
Net interest income	**20 574**	19 050	**15 295**	13 724	**5 279**	5 326
Net interest income – external	**29 542**	28 807	**26 077**	24 900	**3 465**	3 907
Net interest income – internal	**(8 968)**	(9 757)	**(10 782)**	(11 176)	**1 814**	1 419
Impairment losses on loans and advances	**(5 751)**	(7 902)	**(4 854)**	(6 370)	**(897)**	(1 532)
Non-interest income	**13 582**	12 768	**10 531**	10 092	**3 051**	2 676
Non-interest income – external	**12 815**	12 009	**9 766**	9 337	**3 049**	2 672
Non-interest income – internal	**767**	759	**765**	755	**2**	4
Operating expenses	**(18 582)**	(17 012)	**(13 775)**	(12 124)	**(4 807)**	(4 888)
Depreciation and amortisation	**(501)**	(432)	**(484)**	(415)	**(17)**	(17)
Other operating expenses	**(18 081)**	(16 580)	**(13 291)**	(11 709)	**(4 790)**	(4 871)
Other	**(289)**	(564)	**(258)**	(250)	**(31)**	(314)
Other impairments	**(3)**	(276)	**(3)**	1	**—**	(277)
Indirect taxation	**(392)**	(357)	**(361)**	(327)	**(31)**	(30)
Share of post-tax results of associates and joint ventures	**106**	69	**106**	76	**—**	(7)
Operating profit before income tax	**9 534**	6 340	**6 939**	5 072	**2 595**	1 268
Taxation expense	**(2 636)**	(1 960)	**(1 913)**	(1 516)	**(723)**	(444)
Profit for the reporting period	**6 898**	4 380	**5 026**	3 556	**1 872**	824
Profit attributable to:						
Ordinary equity holder	**6 707**	4 198	**4 892**	3 420	**1 815**	778
Preference equity holders	**189**	199	**134**	136	**55**	63
Non-controlling interest	**2**	(17)	**—**	—	**2**	(17)
	6 898	4 380	**5 026**	3 556	**1 872**	824
Headline earnings	**6 641**	4 338	**4 879**	3 404	**1 762**	934

Notes

[1]Shareholders' expenses previously retained at bank level now charged to business.

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

CIBW		Financial Services[1]		Other		Head office and inter-segment eliminations[2]		Bank	
2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
3 538	2 899	**—**	—	**(433)**	(112)	**(114)**	39	**23 565**	21 876
(9 060)	(10 147)	**—**	—	**1 682**	2 144	**1 066**	1 211	**23 230**	22 015
12 598	13 046	**—**	—	**(2 115)**	(2 256)	**(1 180)**	(1 172)	**335**	(139)
(144)	(120)	**—**	—	**—**	—	**14**	—	**(5 881)**	(8 022)
5 038	4 889	**—**	—	**(104)**	228	**41**	4	**18 557**	17 889
5 578	9 491	**—**	—	**(54)**	309	**(1 373)**	(2 465)	**16 966**	19 344
(540)	(4 602)	**—**	—	**(50)**	(81)	**1 414**	2 469	**1 591**	(1 455)
(4 812)	(4 453)	**(106)**	(101)	**57**	(69)	**(117)**	656	**(23 560)**	(20 979)
(44)	(44)	**—**	—	**(202)**	(175)	**(654)**	(647)	**(1 401)**	(1 298)
(4 768)	(4 409)	**(106)**	(101)	**259**	106	**537**	1 303	**(22 159)**	(19 681)
(64)	27	**—**	—	**(100)**	(96)	**(209)**	(6)	**(662)**	(639)
—	—	**—**	—	**4**	—	**—**	(68)	**1**	(344)
(78)	(89)	**—**	—	**(104)**	(96)	**(221)**	7	**(795)**	(535)
14	116	**—**	—	**—**	—	**12**	55	**132**	240
3 556	3 242	**(106)**	(101)	**(580)**	(49)	**(385)**	693	**12 019**	10 125
(821)	(601)	**30**	28	**170**	10	**(27)**	(120)	**(3 284)**	(2 643)
2 735	2 641	**(76)**	(73)	**(410)**	(39)	**(412)**	573	**8 735**	7 482
2 630	2 546	**(76)**	(73)	**(410)**	(39)	**(412)**	571	**8 439**	7 203
105	95	**—**	—	**—**	—	**—**	1	**294**	295
—	—	**—**	—	**—**	—	**—**	1	**2**	(16)
2 735	2 641	**(76)**	(73)	**(410)**	(39)	**(412)**	573	**8 735**	7 482
2 492	2 546	**(76)**	(73)	**(392)**	(64)	**(399)**	609	**8 266**	7 356

53. Segment report *(continued)*
53.3 Segment report per market segment *(continued)*

	RBB		RBB Retail Banking South Africa		RBB Business Banking South Africa	
	2013	2012	**2013**	2012	**2013**	2012
Operating performance (%)						
Net interest margin on average interest-bearing assets[3]	**3,84**	3,70	**3,33**	3,11	**6,86**	7,27
Impairment losses on loans and advances as a percentage of average loans and advances to customers[3]	**1,44**	2,03	**1,44**	1,96	**1,43**	2,36
Non-interest income as a percentage of total revenue[4]	**39,8**	40,1	**40,8**	42,4	**36,6**	33,4
Revenue growth[4]	**7**	2	**8**	3	**4**	(1)
Cost growth[4]	**(9)**	(1)	**(14)**	—	**2**	(6)
Cost-to-income ratio[4]	**54,4**	53,5	**53,3**	50,9	**57,7**	61,1
Statement of financial position (Rm)						
Loans and advances to customers	**402 369**	397 804	**340 690**	334 005	**61 679**	63 799
Investment securities	**855**	1 036	**—**	—	**855**	1 036
Other assets	**212 247**	191 319	**177 691**	170 203	**34 556**	21 116
Total assets	**615 471**	590 159	**518 381**	504 208	**97 090**	85 951
Deposits due to customers	**222 745**	205 992	**134 830**	126 892	**87 915**	79 100
Debt securities in issue	**—**	—	**—**	—	**—**	—
Other liabilities	**385 355**	379 289	**378 125**	373 426	**7 230**	5 863
Total liabilities	**608 100**	585 281	**512 955**	500 318	**95 145**	84 963
Financial performance (%)[4]						
Return on average risk-weighted assets[3]	**2,43**	1,56	**2,43**	1,77	**2,41**	1,10
Return on average assets[3]	**1,15**	0,77	**1,00**	0,71	**1,99**	1,08
Other[3]						
Banking customer base by segment (millions)	**9,23**	10,19	**8,84**	9,78	**0,39**	0,41

Notes

[1]Shareholders' expenses previously retained at bank level now charged to business.

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

[3]These ratios are unaudited.

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

	CIBW		Financial Services[1]		Other		Head office and inter-segment eliminations[2]		Bank	
	2013	2012[1]	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	n/a	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**3,64**	3,54
	0,12	0,12	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**1,14**	1,60
	58,7	62,8	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**44,1**	45,0
	10	10	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**6**	3
	(8)	—	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**(12)**	2
	56,1	57,2	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**55,9**	52,7
	131 520	112 137	**—**	—	**46**	266	**105**	109	**534 040**	510 316
	4 175	5 360	**—**	—	**29**	55	**161**	138	**5 220**	6 589
	352 207	344 647	**—**	(101)	**31 364**	33 392	**(345 707)**	(322 242)	**250 111**	247 015
	487 902	462 144	**—**	(101)	**31 439**	33 713	**(345 441)**	(321 995)	**789 371**	763 920
	267 342	261 752	**—**	—	**—**	—	**(1 716)**	—	**488 371**	467 744
	75 674	82 988	**—**	—	**21 505**	21 935	**—**	—	**97 179**	104 923
	141 713	114 495	**76**	(28)	**7 375**	7 050	**(387 957)**	(370 465)	**146 562**	130 341
	484 729	459 235	**76**	(28)	**28 880**	28 985	**(389 673)**	(370 465)	**732 112**	703 008
	2,09	2,38	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**1,98**	1,90
	0,50	0,48	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**1,08**	0,96
	0,02	0,02	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**9,25**	10,21

54. Derivatives

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

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

54.1 Derivatives held for trading

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

54.2 Derivatives held for hedging

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

54.2.1 Derivatives designated as fair value hedges

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

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

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

	Bank	
	2013 Rm	2012 Rm
(Losses)/gains on hedged items (assets) (refer to note 27)	**(2 450)**	1 780
Gains/(losses) on hedging instruments (assets) (refer to note 27)	**2 818**	(1 591)
Gains/(losses) on hedged items (liabilities) (refer to note 28)	**820**	(446)
(Losses)/gains on hedging instruments (liabilities) (refer to note 28)	**(899)**	388

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 or loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Bank	
	2013 Rm	2012 Rm
Ineffectiveness (outside range) (refer to note 30)	**(4)**	(23)
Ineffectiveness (inside range)	**2**	(21)

54.2.2 Derivatives designated as cash flow hedges – interest rate risk

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

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

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

54. Derivatives *(continued)*

54.2 Derivatives held for hedging *(continued)*

54.2.2 Derivatives designated as cash flow hedges – interest rate risk *(continued)*

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

	Bank						
	2013						
	Less than 1 year Rm	**1 – 2 years Rm**	**2 – 3 years Rm**	**3 – 4 years Rm**	**4 – 5 years Rm**	**More than 5 years Rm**	**Total Rm**
Forecast receivable cash flow[1]	**1 446**	**403**	**62**	**16**	**4**	**39**	**1 970**
Forecast payable cash flow[1]	**(33)**	**(65)**	**(221)**	**(251)**	**(161)**	**(78)**	**(809)**
Net cash flow before taxation	**1 413**	**338**	**(159)**	**(235)**	**(157)**	**(39)**	**1 161**

	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]	1 947	1 324	634	198	20	—	4 123
Forecast payable cash flow[1]	(11)	—	—	(1)	(2)	(26)	(40)
Net cash flow before taxation	1 936	1 324	634	197	18	(26)	4 083

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

	Bank	
	2013 Rm	2012 Rm
Interest and similar income (refer to note 27)	**1 730**	1 990
Interest expense and similar charges (refer to note 28)	**52**	79
Gains and losses from banking and trading activities (refer to note 30)	**(234)**	45
	1 548	2 114

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

	Bank	
	2013 Rm	2012 Rm
Ineffectiveness (outside range) (refer to note 30)	**(234)**	45
Ineffectiveness (inside range)	**158**	202

Note
[1] These balances are shown before taxation.

54. Derivatives *(continued)*

54.2 Derivatives held for hedging *(continued)*

54.2.3 Derivatives designated as cash flow hedges – share-based payment transactions

The objective of share-based payment cash flow hedges is to protect against changes in the settlement cash flows of cash-settled share-based payment schemes resulting from the impact of changes in the market price of Barclays Africa Group Limited shares.

The Bank uses forward contracts referencing the Barclays Africa Group Limited's share price to protect against changes in cash flows of its Deferred Award Plan and Share Value Plan cash-settled share-based payment schemes.

The Bank is exposed to variability in future cash-settled share-based payment cash flows. The Bank designates the spot component of the forward contracts as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows due to changes in the Barclays Africa Group Limited's share price.

The following schedule indicates the periods when the cash flows from the hedged share-based payment liabilities are expected to occur and when they are expected to affect the profit or loss component of the statement of comprehensive income as at the reporting date. The cash flows and profit or loss impact presented below are on an undiscounted basis (before taxation) and have been calculated using the Barclays Africa Group Limited's 31 December 2013 closing share price:

	Bank						
	2013						
	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 payable cash flow[1]	**(306)**	**(171)**	**(77)**	**—**	**—**	**—**	**(554)**
Forecast profit or loss impact[1]	**(29)**	**(82)**	**(57)**	**—**	**—**	**—**	**(168)**
Net cash flow before taxation	**(335)**	(253)	**(134)**	—	—	—	**(722)**
	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 payable cash flow[1]	(364)	(229)	(100)	—	—	—	(693)
Forecast profit or loss impact[1]	(30)	(106)	(71)	—	—	—	(207)
Net cash flow before taxation	(394)	(335)	(171)	—	—	—	(900)

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

	Bank	
	2013 Rm	2012 Rm
Operating expenses – staff costs – share-based payments	**(37)**	—

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

	Bank	
	2013 Rm	2012 Rm
Ineffectiveness (outside range) (refer to note 30)	**—**	—

The spot element of the forward contracts that were designated as hedging instruments were 100% effective during the periods and therefore no ineffectiveness was recognised in profit or loss.

Note

[1]These balances are shown before taxation.

54. Derivatives *(continued)*

54.3 Detailed breakdown of derivatives

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

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

54. Derivatives *(continued)*

54.3 Detailed breakdown of derivatives *(continued)*

	Bank					
	2013				2012	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Trading						
Foreign exchange derivatives						
Foreign exchange forwards	41 651	(842)	906	(1 748)	50 085	(393)
Currency swaps	366 996	(15)	5 323	(5 338)	534 508	437
Over-the-counter (“OTC”) foreign exchange options	53 097	127	822	(695)	35 237	160
OTC foreign exchange options purchased	26 340	778	782	(4)	18 820	401
OTC foreign exchange options written	26 757	(651)	40	(691)	16 417	(241)
Other OTC foreign exchange derivatives	—	—	—	—	247	(1)
Exchange-traded derivatives	88 263	4	4	—	97 174	1
Eurodollar futures	83 115	—	—	—	96 533	—
Exchange-traded options purchased	—	—	—	—	496	1
Exchange-traded futures	5 148	4	4	—	145	—
Total foreign exchange derivatives	550 007	(726)	7 055	(7 781)	717 251	204
Interest rate derivatives						
Forward rate agreements (“FRAs”)	2 076 796	103	770	(667)	1 281 461	(131)
Currency interest rate swaps	178 906	(1 066)	7 575	(8 641)	174 075	(827)
Swaps	6 414	(199)	26	(225)	62 362	11
Interest rate swaps	1 847 814	(905)	26 721	(27 626)	1 122 885	1 729
OTC options on FRAs and swaps	25 445	10	113	(103)	109 669	(142)
OTC options on FRAs and swaps purchased	12 351	110	113	(3)	71 196	455
OTC options on FRAs and swaps written	13 094	(100)	—	(100)	38 473	(597)
Other OTC interest rate derivatives	24 306	(43)	45	(88)	12 319	4
Exchange-traded derivatives	27 095	(3)	2	(5)	7 647	4
Exchange-traded derivatives purchased	27 032	2	2	—	7 647	4
Exchange-traded derivative written	63	(5)	—	(5)	—	—
Embedded derivatives	1	(2)	(2)	—	11 791	(436)
Total interest rate derivatives	4 186 777	(2 105)	35 250	(37 355)	2 782 209	212
Equity derivatives						
OTC options purchased	4 944	271	286	(15)	7 991	512
OTC options written	6 103	(1 172)	(739)	(433)	8 331	(544)
Equity futures	—	—	—	—	1 989	(6)
Other OTC equity derivatives	41 847	1 034	2 490	(1 456)	30 505	(659)
OTC equity derivatives	52 894	133	2 037	(1 904)	48 816	(697)
Exchange-traded derivatives	52 828	7	16	(9)	3 361	5
Exchange-traded options purchased	1 860	—	—	—	544	5
Exchange-traded options written	2 996	(1)	—	(1)	14	—
Exchange-traded futures	47 972	8	16	(8)	2 803	—
Embedded derivatives	1	(1 324)	(1 324)	—	1 028	(212)
Total equity derivatives	105 723	(1 184)	729	(1 913)	53 205	(904)
Balance carried forward	4 842 507	(4 015)	43 034	(47 049)	3 552 665	(488)

	Bank					
	2013				2012	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
54. Derivatives *(continued)*						
54.3 Detailed breakdown of derivatives *(continued)*						
Trading *(continued)*						
Balance brought forward	**4 842 507**	**(4 015)**	**43 034**	**(47 049)**	3 552 665	(488)
Commodity derivatives						
Agricultural forwards	**8 121**	**—**	**12**	**(12)**	361	(32)
OTC agricultural options	**9**	**2**	**2**	**—**	132	(9)
OTC agricultural options purchased	9	2	2	—	54	(1)
OTC agricultural options written	—	—	—	—	78	(8)
OTC options on gold – purchased	**54**	**2**	**2**	**—**	28	—
Other OTC commodity derivatives	**13 587**	**95**	**226**	**(131)**	4 768	502
OTC commodity derivatives	**21 771**	**99**	**242**	**(143)**	5 289	461
Exchange-traded agricultural derivatives – purchased	**772**	**—**	**—**	**—**	2 218	2
Embedded derivatives	**—**	**—**	**—**	**—**	—	(32)
Total commodity derivatives	**22 543**	**99**	**242**	**(143)**	7 507	431
Credit derivatives						
Credit derivatives purchased (swaps)	**7 212**	**(122)**	**16**	**(138)**	4 327	(48)
Credit derivatives written (swaps)	**23 805**	**(4)**	**253**	**(257)**	11 865	18
Embedded derivatives	**—**	**—**	**—**	**—**	11 201	43
Total credit derivatives	**31 017**	**(126)**	**269**	**(395)**	27 393	13
Total trading	**4 896 067**	**(4 042)**	**43 545**	**(47 587)**	3 587 565	(44)
Hedging						
Cash flow hedges						
Interest rate swaps	**173 822**	**1 161**	**1 595**	**(434)**	149 992	3 845
Total cash flow hedges	**173 822**	**1 161**	**1 595**	**(434)**	149 992	3 845
Fair value hedges						
Currency swaps	**1 859**	**(147)**	**—**	**(147)**	137 150	(2 261)
Interest rate swaps	**147 479**	**(61)**	**1 749**	**(1 810)**	—	—
Total fair value hedges	**149 338**	**(208)**	**1 749**	**(1 957)**	137 150	(2 261)
Total hedges	**323 160**	**953**	**3 344**	**(2 391)**	287 142	1 584
Total derivative instruments	**5 219 227**	**(3 089)**	**46 889**	**(49 978)**	3 874 707	1 540

Derivative assets and liabilities subject to counterparty netting agreements amounted to **R41 778 million** (2012: R30 522 million). Additionally, the Bank held **R3 908 million** (2012: R990 million) of collateral against the net derivative asset exposure. OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association ("ISDA") Master Agreement is used by the Bank. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

Notional amount

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

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

Fair value

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

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

	Bank			
	2013		2012	
	Assets Rm	Liabilities and equity Rm	Assets Rm	Liabilities and equity Rm
Fair value through profit or loss	98 778	86 164	114 540	90 028
Designated at fair value	19 377	33 714	27 199	38 284
Statutory liquid asset portfolio	—	—	800	—
Loans and advances to banks	6 140	—	9 729	—
Other assets	16	—	16	—
Loans and advances to customers	10 546	—	11 937	—
Investment securities	2 675	—	4 717	—
Deposits from banks	—	12 267	—	14 976
Deposits due to customers	—	17 863	—	19 089
Debt securities in issue	—	3 584	—	3 441
Borrowed funds	—	—	—	778
Held for trading	76 057	50 059	81 902	47 889
Trading portfolio assets	76 057	—	81 902	—
Trading portfolio liabilities	—	50 059	—	47 889
Hedging instruments	3 344	2 391	5 439	3 855
Hedging portfolio assets	3 344	—	5 439	—
Hedging portfolio liabilities	—	2 391	—	3 855
Available-for-sale	64 600	—	64 092	—
Designated as available-for-sale	39 122	—	36 919	—
Statutory liquid asset portfolio	36 577	—	35 047	—
Investment securities	2 545	—	1 872	—
Hedged items				
Statutory liquid asset portfolio	25 478	—	27 173	—
Amortised cost	611 070	641 255	572 321	607 897
Held at amortised cost	606 658	624 096	567 350	590 703
Cash, cash balances and balances with central banks	21 087	—	20 435	—
Loans and advances to banks	39 162	—	32 678	—
Other assets	8 080	—	9 873	—
Loans and advances to customers	519 082	—	493 408	—
Loans to Group companies	19 247	—	10 956	—
Deposits from banks	—	51 833	—	28 109
Other liabilities	—	9 557	—	12 522
Deposits due to customers	—	470 508	—	448 655
Debt securities in issue	—	81 516	—	89 494
Borrowed funds	—	10 682	—	11 923
Hedged items	4 412	17 159	4 971	17 194
Loans and advances to customers	4 412	—	4 971	—
Debt securities in issue	—	12 079	—	11 988
Borrowed funds	—	5 080	—	5 206
Other assets and liabilities	14 923	4 693	12 967	5 084
Total equity	—	57 259	—	60 912
	789 371	789 371	763 920	763 920

56. Assets and liabilities not held at fair value

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

	Bank			
	2013		2012	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the SARB	12 417	12 417	12 338	12 338
Coins and bank notes	8 665	8 665	8 094	8 094
Money market assets	5	5	3	3
Cash, cash balances and balances with central banks (refer to note 2)	21 087	21 087	20 435	20 435
Loans and advances to banks (refer to note 4)	39 162	39 162	32 678	32 678
Other assets (refer to note 6)	8 080	8 080	9 873	9 873
Retail Banking South Africa	340 690	340 527	334 005	341 206
Cheque accounts	2 015	2 015	1 892	1 892
Credit cards	27 830	27 830	25 855	25 855
Instalment credit agreements	63 600	63 297	57 317	58 693
Loans to associates and joint ventures	10 287	10 287	8 393	8 393
Mortgages	222 640	222 704	226 263	232 088
Personal and term loans	14 318	14 394	14 285	14 285
Business Banking South Africa	60 971	61 041	62 780	65 468
Cheque accounts	17 075	17 075	17 998	17 998
Commercial property finance	30 682	30 752	31 404	34 092
Instalment credit agreements	984	984	1 440	1 440
Loans to associates and joint ventures	559	559	627	627
Term loans	11 671	11 671	11 311	11 311
CIBW	121 682	115 879	101 219	101 219
Head office, inter-segment eliminations and Other	151	151	375	375
Loans and advances to customers – net of impairment losses (refer to note 9)	523 494	517 598	498 379	508 268
Loans to Group companies (refer to note 11)	19 247	19 340	10 956	10 956
Total assets	611 070	605 267	572 321	582 210
Financial liabilities				
Deposits from banks (refer to note 18)	51 833	48 621	28 109	28 111
Other liabilities (refer to note 20)	9 557	9 095	12 522	12 522
Call deposits	52 829	52 830	56 648	56 648
Cheque account deposits	139 146	139 145	139 795	139 795
Credit card deposits	1 914	1 914	1 938	1 938
Fixed deposits	116 420	116 462	107 733	108 174
Foreign currency deposits	14 108	14 108	9 723	9 723
Notice deposits	56 349	56 348	55 728	55 935
Other deposits	1 877	1 877	1 558	1 558
Saving and transmission deposits	87 865	87 865	75 532	75 532
Deposits due to customers (refer to note 22)	470 508	470 549	448 655	449 303
Debt securities in issue (refer to note 23)	93 595	93 596	101 482	101 482
Borrowed funds (refer to note 24)	15 762	16 308	17 129	18 414
Total liabilities	641 255	638 169	607 897	609 832

56. Assets and liabilities not held at fair value *(continued)*

	Bank 2013 Carrying value Rm	Fair value Rm	Valuations with reference to observable prices Level 1 Rm	Valuations with reference to observable inputs Level 2 Rm	Valuations with reference to unobservable inputs Level 3 Rm
Financial assets					
Balances with the SARB	12 417	12 417	11 851	566	—
Coins and bank notes	8 665	8 665	8 665	—	—
Money market assets	5	5	5	—	—
Cash, cash balances and balances with central banks (refer to note 2)	21 087	21 087	20 521	566	—
Loans and advances to banks (refer to note 4)	39 162	39 162	4 694	33 502	966
Other assets (refer to note 6)	8 080	8 080	1 732	5 670	678
Retail Banking South Africa	340 690	340 527	1 659	4 825	334 043
Cheque accounts	2 015	2 015	806	—	1 209
Credit cards	27 830	27 830	—	381	27 449
Instalment credit agreements	63 600	63 297	—	360	62 937
Loans to associates and joint ventures	10 287	10 287	—	—	10 287
Mortgages	222 640	222 704	—	—	222 704
Personal and term loans	14 318	14 394	853	4 084	9 457
Business Banking South Africa	60 971	61 041	—	—	61 041
Cheque accounts	17 075	17 075	—	—	17 075
Commercial property finance	30 682	30 752	—	—	30 752
Instalment credit agreements	984	984	—	—	984
Loans to associates and joint ventures	559	559	—	—	559
Term loans	11 671	11 671	—	—	11 671
CIBW	121 682	115 879	9 271	12 746	93 862
Head office, inter-segment eliminations and Other	151	151	—	—	151
Loans and advances to customers – net of impairment losses (refer to note 9)	523 494	517 598	10 930	17 571	489 097
Loans to Group companies (refer to note 11)	19 247	19 340	—	—	19 340
Total assets	611 070	605 267	37 877	57 309	510 081
Financial liabilities					
Deposits from banks (refer to note 18)	51 833	48 621	10 018	30 833	7 770
Other liabilities (refer to note 20)	9 557	9 095	4 685	1 357	3 053
Call deposits	52 829	52 830	52 799	30	1
Cheque account deposits	139 146	139 145	126 725	3 583	8 837
Credit card deposits	1 914	1 914	—	—	1 914
Fixed deposits	116 420	116 462	—	116 462	—
Foreign currency deposits	14 108	14 108	244	13 864	—
Notice deposits	56 349	56 348	—	56 348	—
Other deposits	1 877	1 877	804	—	1 073
Saving and transmission deposits	87 865	87 865	61 929	13 663	12 273
Deposits due to customers (refer to note 22)	470 508	470 549	242 501	203 950	24 098
Debt securities in issue (refer to note 23)	93 595	93 596	21 544	72 052	—
Borrowed funds (refer to note 24)	15 762	16 308	15 620	688	—
Total liabilities	641 225	638 169	294 368	308 880	34 921

56. Assets and liabilities not held at fair value *(continued)*

56.1 Valuation methodology – non-fair value items

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a wide range of valuation techniques are available, it may be inappropriate to compare the Bank's fair value information to independent market or other financial institutions. Assumptions changes and different valuation methodologies can have significant impact on fair values which are based on unobservable inputs.

The carrying values of certain financial assets and financial liabilities have been determined using measurement bases other than fair value. IFRS 13 Fair Value ("IFRS 13") imposes specific fair value disclosure requirements on these items that fall within the scope of the standard. The valuation methodology described below has been applied in order to determine the disclosed fair values for such financial assets and financial liabilities that are not carried at fair value.

Financial assets

The carrying value of financial assets held at amortised cost (including loans and advances, and other lending such as reverse repurchase agreements and cash collateral on securities borrowed) is determined in accordance with the Bank's accounting policy.

Loans and advances to banks and customers

The disclosed fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

Financial liabilities

The carrying value of financial liabilities held at amortised cost (including customer accounts and other deposits such as repurchase agreements and cash collateral on securities lent, debt securities in issue and subordinated liabilities) is determined in accordance with the Bank's accounting policy.

In many cases, the disclosed fair value approximates the carrying value because the instruments are short term in nature or have interest rates that reprice frequently such as customer accounts and other deposits and short-term debt securities.

The disclosed fair value for deposits repayable on demand is considered to be equal to their carrying value. The fair value for all other deposits is determined using discounted cash flows applying either market rates or current rates for deposits of similar remaining maturities.

Fair values of other debt securities in issue are based on quoted prices where available, or where these are unavailable, are determined using valuation models.

Fair values for dated and undated convertible and non-convertible loan capital are based on quoted market rates for the issue concerned or issues with similar terms and conditions.

Valuation inputs

IFRS 13 requires an entity to classify disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instrument fair values are classified as Level 1 if they have been determined using observable prices in an active market. Such fair values are determined by 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.

Financial instruments measured at amortised cost, such as loans and advances to banks and customers, are generally not traded in active markets which precludes the classification of their fair values as Level 1 fair values.

56. Assets and liabilities not held at fair value *(continued)*

56.1 Valuation methodology – non-fair value items *(continued)*

Valuation technique using observable inputs – Level 2

Financial instrument fair values classified as Level 2 have been determined using models for which inputs are observable in an active market. A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. The determination of financial instrument fair values for instruments not measured at fair value usually relies on unobservable inputs which have a significant impact on their fair values, precluding their classification as Level 2 fair values.

Valuation technique using significant unobservable inputs – Level 3

Financial instrument fair values are classified as Level 3 if their determination incorporates significant inputs that are not based on observable market data (unobservable inputs). An input is deemed significant if it is shown to contribute more than 10% to the fair value of a financial instrument. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

56.2 Measurement of financial instruments at Level 2

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments not held at fair value categorised as Level 2. A description of the nature of the techniques used to calculate valuations based on observable inputs, is set out in the table below:

Category of asset/liability	Types of financial instruments	Valuation techniques applied	Significant observable inputs
Cash, cash balances and balances with central banks	Balances with other central banks, balances with the SARB, coins and bank notes and money market assets	Discounted cash flow	Interest rate curves and money market curves
Loans and advances to banks	Loans and advances and reverse repurchase agreements	Discounted cash flow	Interest rate curves and money market curves
Other assets	Accounts receivable and prepayments, initial margin and settlement accounts	Discounted cash flow	Interest rate curves and money market curves
Loans and advances to customers	Loans and advances and reverse repurchase agreements	Discounted cash flow	Interest rate curves and money market curves
Deposits from banks	Fixed deposits, foreign currency deposits and repurchase agreements	Discounted cash flow	Interest rate curves and money market curves
Other liabilities	Creditors, liabilities under finance leases and settlement balances	Discounted cash flow	Interest rate curves and money market curves
Deposits due to customers	Bills, repurchase agreements with non-banks, buy sellback agreements, floating rate notes, deposits, certificates of deposit, commercial paper and other money market instruments	Discounted cash flow	Interest rate curves and money market curves
Debt securities in issue	Bonds and index linked bonds	Discounted cash flow	Underlying price of the market traded instrument, interest rate curves and money market curves
Borrowed funds	Subordinated callable notes	Discounted cash flow	Interest rate curves and money market curves

56. Assets and liabilities not held at fair value *(continued)*

56.3 Measurement of financial instruments at Level 3

The table below sets out information about significant unobservable inputs used at the end of the reporting period in measuring financial instruments not held at fair value categorised as Level 3.

Category of asset/liability	Types of financial instruments	Valuation techniques applied	Significant unobservable inputs
Cash, cash balances and balances with central banks	Balances with other central banks, balances with the SARB, coins and bank notes and money market assets	Discounted cash flow	Interest rate curves and money market curves
Loans and advances to banks	Loans and advances and reverse repurchase agreements	Discounted cash flow	Interest rate curves and money market curves
Other assets	Accounts receivable and prepayments, initial margin and settlement accounts	Discounted cash flow	Interest rate curves and money market curves
Loans and advances to customers	Loans and advances and reverse repurchase agreements	Discounted cash flow	Interest rate curves and money market curves
Investment securities	Debt instruments	Discounted cash flow	Interest rate curves and money market curves
Deposits from banks	Fixed deposits, foreign currency deposits and repurchase agreements	Discounted cash flow, discounted average balance	Interest rate curves and money market curves
Other liabilities	Creditors, liabilities under finance leases and settlement balances	Discounted cash flow	Interest rate curves and money market curves
Deposits due to customers	Bills, repurchase agreements with non-banks, buy sellback agreements, floating rate notes, deposits, certificates of deposit, commercial paper and other money market instruments	Discounted cash flow	Interest rate curves and money market curves
Debt securities in issue	Bonds and index linked bonds	Discounted cash flow	Underlying price of the market traded instrument, interest rate curves and money market curves
Borrowed funds	Subordinated callable notes	Discounted cash flow	Interest rate curves and money market curves

57. Fair value hierarchy disclosures

57.1 Valuation methodology

The table below shows the Bank's assets and liabilities that are recognised and subsequently measured at fair value and are analysed by valuation techniques. The classification of assets and liabilities is based on the lowest level input that is significant to the fair value measurement in its entirety.

	Bank			
	2013			
Recurring fair value measurements	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
Financial assets				
Statutory liquid asset portfolio (refer to note 3)	62 055	—	—	62 055
Loans and advances to banks (refer to note 4)	—	6 140	—	6 140
Trading and hedging portfolio assets (refer to note 5)	24 382	53 982	1 037	79 401
Debt instruments	23 928	174	873	24 975
Derivative assets	—	46 725	164	46 889
Commodity derivatives	—	242	—	242
Credit derivatives	—	258	11	269
Equity derivatives	—	729	—	729
Foreign exchange derivatives	—	7 016	39	7 055
Interest rate derivatives	—	38 480	114	38 594
Equity instruments	454	77	—	531
Money market assets	—	7 006	—	7 006
Other assets (refer to note 6)	—	—	16	16
Loans and advances to customers (refer to note 9)	—	4 069	6 477	10 546
Investment securities (refer to note 12)	2 907	—	2 313	5 220
Total financial assets	89 343	64 191	9 843	163 377
Financial liabilities				
Deposits from banks (refer to note 18)	—	12 267	—	12 267
Trading and hedging portfolio liabilities (refer to note 19)	2 472	49 436	542	52 450
Derivative liabilities	—	49 436	542	49 978
Commodity derivatives	—	149	—	149
Credit derivatives	—	350	45	395
Equity derivatives	—	1 607	306	1 913
Foreign exchange derivatives	—	7 745	49	7 794
Interest rate derivatives	—	39 585	142	39 727
Short positions	2 472	—	—	2 472
Deposits due to customers (refer to note 22)	—	10 725	7 138	17 863
Debt securities in issue (refer to note 23)	—	3 549	35	3 584
Borrowed funds (refer to note 24)	—	—	—	—
Total financial liabilities	2 472	75 977	7 715	86 164
Non-financial assets				
Investment properties (refer note 14)	—	—	240	240
Trading and hedging portfolio assets (refer to note 5)				
Commodities	1 080	—	—	1 080
Non-recurring fair value measurements				
Non-current assets held for sale (refer to note 8)	101	1 297	460	1 857
Non-current liabilities held for sale (refer to note 8)	—	175	—	175

Notes

[1]The nature of the valuation techniques is summarised in note 57.2.

[2]The nature of the valuation techniques is summarised in note 57.3.

Bank			
2012			
Valuations with reference to observable prices Level 1[1] Rm	Valuations based on observable inputs Level 2[1] Rm	Valuations based on un-observable inputs Level 3[2] Rm	Total Rm
63 017	3	—	63 020
—	9 729	—	9 729
24 106	62 283	952	87 341
23 742	—	873	24 615
1	52 169	79	52 249
1	604	—	605
—	152	43	195
—	964	5	969
—	5 813	1	5 814
—	44 636	30	44 666
362	141	—	503
1	9 973	—	9 974
—	—	16	16
—	5 523	6 414	11 937
2 601	—	3 988	6 589
89 724	77 538	11 370	178 632
—	14 976	—	14 976
1 131	50 539	74	51 744
5	50 539	74	50 618
—	174	—	174
—	158	24	182
—	1 756	26	1 782
—	5 610	—	5 610
5	42 841	24	42 870
1 126	—	—	1 126
—	11 417	7 672	19 089
—	3 254	187	3 441
778	—	—	778
1 909	80 186	7 933	90 028
—	—	331	331
514	—	—	514
20	—	1 418	1 438
—	—	177	177

57. Fair value hierarchy disclosures *(continued)*

57.1 Valuation methodology *(continued)*

57.1.1 Fair value measurement and valuation processes

Financial assets and financial liabilities

The Bank has an established control framework with respect to the measurement of fair values. The framework includes a Valuation Committee and an Independent Valuation Control ("IVC") team, where IVC are independent of front office management.

The Valuation Committee is responsible for overseeing the valuation control process and will therefore consider the appropriateness of valuation techniques and inputs for fair value measurement.

The IVC team independently verifies the results of trading and investment operations and all significant fair value measurements.The team sources independent data from various external sources as well as internal risk areas when performing independent price verification for all fair value positions. IVC assesses and documents the inputs obtained from independent sources to measure fair value to support conclusions that such valuations are in accordance with IFRS and internal valuation policies.

The Valuation Committee which, comprises representatives from senior management, will formally approve valuation policies and any changes to valuation methodologies. Significant valuation issues are reported to the Group Audit and Compliance Committee.

Investment properties

Where possible the fair value of the Bank's investment property has been determined on the basis of a valuation carried out on the respective dates by independent valuators not related to the business. Where the Bank's internal valuations are different to that of the external valuers, detailed procedures are performed to substantiate any differences. The IVC team independently verifies the procedures performed by front office and considers the appropriateness of any differences to external valuations. The fair value was determined based on the most appropriate methodology applicable to the relevant investment property. Methodologies include the market comparable approach that reflects recent transaction prices for similar properties, discounted cash flows and income capitalisation methodologies. In estimating the fair value of the properties, the highest and best use of the properties is taken into account.

57.1.2 Significant transfers between levels

During the reporting period trading portfolio assets to the value of R237 million as well as trading portfolio liabilities of R165 million were transferred from Level 2 to Level 3. The transfers relate to equity securities for which there are no longer a quoted price in an active market and for which the significant inputs to determine the fair value have become unobservable.

57.2 Valuation techniques using observable inputs

Valuations based on observable inputs include:

Level 1

Assets and liabilities 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

Asset and liabilities 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.

57. Fair value hierarchy disclosures *(continued)*

57.3 Valuation techniques using unobservable inputs

Valuations based on unobservable inputs include:

Level 3

Asset and liabilities valued using inputs that are not based on observable market data (unobservable data) such as an entity's own 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.

(viii) Investment properties

The significant inputs for the valuation of investment properties include but are not limited to estimates of periods in which rental units will be disposed of, selling prices per unit, selling price escalations per year, rental income per unit, rental escalations per year, expense ratios, vacancy rates, income capitalisation rates and risk adjusted discount rates.

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 and other eligible bills

These instruments are valued, based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or, in the case of certain mortgage-backed securities, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Equity instruments

Equity instruments are valued, based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Also included in equity instruments are non-public investments, which include investments in venture capital organisations. The fair value of these investments is determined using appropriate valuation methodologies which, dependent on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price:earnings comparisons. For each investment, the relevant methodology is applied consistently over time.

Derivatives

Derivative contracts can be exchange-traded or traded OTC. OTC derivative contracts include forward, swap and option contracts related to interest rates, bonds, foreign currencies, credit spreads, equity prices and commodity prices or indices on these instruments. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models.

57. Fair value hierarchy disclosures *(continued)*

57.3 Valuations techniques using unobservable inputs *(continued)*

Judgemental inputs on valuation of principal instruments *(continued)*

Loans and advances

The disclosed fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

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.

57.4 Fair value adjustments

The main valuation adjustments required to arrive at a fair value are described below:

Bid-offer valuation adjustments

For assets and liabilities where the Bank is not a market maker, mid prices are adjusted to bid and offer prices respectively. Bid-offer adjustments reflect expected close out strategy and, for derivatives, the fact that they are managed on a portfolio basis. The methodology for determining the bid-offer adjustment for a derivative portfolio will generally involve netting between long and short positions and the bucketing of risk by strike and term in accordance with hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the Bank is a market maker and has the ability to transact at, or better than, mid-price (which is the case for certain equity, bond and vanilla derivative markets), the mid-price is used, since the bid-offer spread does not represent a transaction cost.

Uncollateralised derivative adjustments

A fair value adjustment is incorporated into uncollateralised derivative valuations to reflect the impact on fair value of counterparty credit risk, the Bank's own credit quality, as well as the cost of funding across all asset classes.

57. Fair value hierarchy disclosures *(continued)*

57.4 Fair value adjustments *(continued)*

Model valuation adjustments

Valuation models are reviewed under the Bank's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependent on the size of portfolio, complexity of the model, whether the model is market standard and to what extent it incorporates all known risk factors. All models and model valuation adjustments are subject to review on at least an annual basis.

57.5 Third-party credit enhancements

There were no significant liabilities measured at fair value and issued with inseparable third-party credit enhancements.

57. Fair value hierarchy disclosures *(continued)*

57.6 Movements on assets and liabilities 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 assets and liabilities is set out below:

	Bank				
	2013				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm
Opening balance at the beginning of the reporting period	**952**	**16**	**6 414**	**3 988**	**331**
Movement in other comprehensive income	—	—	—	20	—
Net interest income	55	—	345	(11)	—
Other income	—	—	—	—	39
Gains and losses from banking and trading activities	(165)	—	204	(203)	—
Gains and losses from investment activities	—	—	(99)	(218)	60
Purchases	13	—	762	20	—
Sales	—	—	(44)	(704)	—
Issues	—	—	—	5	—
Settlements	—	—	(978)	(579)	—
Transferred to/(from) assets/liabilities	(55)	—	(127)	(5)	(190)
Movement in/(out) of Level 3[1]	237	—	—	—	—
Closing balance at the end of the reporting period	**1 037**	**16**	**6 477**	**2 312**	**240**

	2012				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm
Opening balance at the beginning of the reporting period	1 072	16	6 821	6 184	1 840
Movement in other comprehensive income	—	—	—	—	—
Net interest income	(10)	—	11	32	—
Other income	—	—	—	—	(154)
Gains and losses from banking and trading activities	70	—	741	175	—
Gains and losses from investment activities	—	—	—	(215)	—
Purchases	33	—	630	114	—
Sales	(46)	—	(869)	(2 083)	(43)
Issues	39	—	154	—	—
Settlements	(102)	—	(1 074)	(108)	—
Transferred to/(from) assets/liabilities	—	—	—	(111)	(1 312)
Movement in/(out) of Level 3[1]	(104)	—	—	—	—
Closing balance at the end of the reporting period	952	16	6 414	3 988	331

Note

[1]Refer to note 57.1.2.

Bank

2013

Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
11 701	74	7 672	187	7 933
20	—	—	—	—
389	—	9	—	9
39	—	—	—	—
(164)	306	153	(152)	307
(257)	—	(1)	—	(1)
795	—	27	—	27
(748)	(3)	427	—	424
5	—	—	—	—
(1 557)	—	(1 149)	—	(1 149)
(377)	—	—	—	—
237	165	—	—	165
10 083	542	7 138	35	7 715

2012

Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
15 933	199	7 612	209	8 020
—	—	—	—	—
33	—	—	—	—
(154)	—	—	—	—
986	1	735	7	743
(215)	—	—	—	—
777	27	—	—	27
(3 041)	—	—	—	—
193	3	920	—	923
(1 284)	(6)	(1 595)	(29)	(1 630)
(1 423)	—	—	—	—
(104)	(150)	—		(150)
11 701	74	7 672	187	7 933

57. Fair value hierarchy disclosures *(continued)*

57.7 Unrealised gains and losses on Level 3 positions

The total unrealised gains and losses for the reporting period on Level 3 positions held at the reporting date are set out below:

Bank

	2013						
	Trading and hedging portfolio assets Rm	**Other assets Rm**	**Loans and advances to customers Rm**	**Investment securities Rm**	**Investment properties Rm**	**Non-current assets held for sale Rm**	**Total assets at fair value Rm**
Net interest income	—	—	—	—	—	—	—
Gains and losses from banking and trading activities	**337**	—	**(136)**	—	—	—	**201**
Gains and losses from investment activities	—	—	—	—	—	—	—
	337	—	**(136)**	—	—	—	**201**

	2012						
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm	Non-current assets held for sale Rm	Total assets at fair value Rm
Net interest income	—	—	29	7	—	—	36
Gains and losses from banking and trading activities	30	—	437	316	—	—	783
Gains and losses from investment activities	—	—	—	(215)	—	—	(215)
	30	—	466	108	—	—	604

Bank

	2013				
	Trading and hedging portfolio liabilities Rm	**Other liabilities Rm**	**Deposits due to customers Rm**	**Debt securities in issue Rm**	**Total liabilities at fair value Rm**
Gains and losses from banking and trading activities	**(311)**	—	**1**	—	**(310)**

	2012				
	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
Gains and losses from banking and trading activities	(1)	—	(735)	—	(736)

57. Fair value hierarchy disclosures *(continued)*

57.8 Unrecognised (losses)/gains as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in the statement of comprehensive income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	Bank 2013 Rm	Bank 2012 Rm
Opening balance at the beginning of the reporting period	**(93)**	(51)
New transactions	**17**	38
Amounts recognised in the profit or loss component of the statement of comprehensive income during the reporting period	**(9)**	(80)
Closing balance at the end of the reporting period	**(85)**	(93)

57.9 Sensitivity analysis of valuations using unobservable inputs

As part of the Bank's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The assets and liabilities 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 charge to the profit or loss section of the statement of comprehensive income, or a change in the fair value asset or liability of more than 10% of the underlying value of the affected item. This is demonstrated by the following sensitivity analysis which includes reasonable ranges of possible outcomes:

Bank

2013	Significant unobservable parameters[1]	Potential effect recorded in profit or loss Favourable Rm	Potential effect recorded in profit or loss Unfavourable Rm	Potential effect recorded directly in equity Favourable Rm	Potential effect recorded directly in equity Unfavourable Rm
Trading and hedging portfolio assets	**i, iii**	**43**	**43**	—	—
Other assets	**i, iii**	**2**	**2**	—	—
Loans and advances to customers	**i, iii, v, vi, vii**	**1 202**	**159**	—	—
Investment securities	**iv, v, vi**	**204**	**204**	—	—
Investment properties	**viii**	**1**	**1**	—	—
Trading and hedging portfolio liabilities	**iii**	**13**	**5**	—	—
Deposits due to customers	**iv**	**221**	**220**	—	—
		1 686	**634**	—	—

2012	Significant unobservable parameters[1]	Potential effect recorded in profit or loss Favourable Rm	Potential effect recorded in profit or loss Unfavourable Rm	Potential effect recorded directly in equity Favourable Rm	Potential effect recorded directly in equity Unfavourable Rm
Trading and hedging portfolio assets	i, iii	131	123	—	—
Loans and advances to customers	i, iii, iv, v, vi, vii	245	306	—	—
Investment securities	iv, v, vi	1 527	1 735	5	4
Trading and hedging portfolio liabilities	iii	65	61	—	—
Other liabilities	vi	2	2	—	—
Deposits due to customers	iv	122	122	—	—
Debt securities in issue	iv	59	59	—	—
		2 151	2 408	5	4

Note

[1]Refer to note 57.3 for details of unobservable parameters.

57. Fair value hierarchy disclosures *(continued)*

57.9 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 assets and liabilities:

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
Investment securities (private equity, property equity, investments and other)	Future earnings and marketability discounts	15/(15)%
	Comparator multiples	
	Discount rates	
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100/(100) bps
Investment properties	Selling price per unit	15/(15)%
	Selling price escalations per year	
	Rental income per unit	
	Rental escalations per year	
	Expense ratios	
	Vacancy rates	
	Income capitalisation rates	
	Risk adjusted rates	

57.10 Measurement of financial instruments at Level 2

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments categorised as Level 2 in the fair value hierarchy.

Category of asset/liability	Valuation techniques applied	Significant observable inputs	Fair value of asset/ liability Rm
Loans and advances to banks	Discounted cash flow	Interest rate curves, money market curves	6 140
Trading and hedging portfolio assets			
Debt Instruments	Discounted cash flow	Underlying price of market traded instruments and interest rates	174
Derivative assets			46 725
Commodity derivatives	Discounted cash flow model, option pricing models, futures pricing model, ETF model	Spot price (physical or futures), interest rates, volatility	242
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Interest rate, recovery rate, credit spread, quanto ratio	258
Equity derivatives	Discounted cash flow model, option pricing models, futures pricing model	Spot price, interest rate, volatility, dividend stream	729
Foreign exchange derivatives	Discounted cash flow model, option pricing models	Spot price, interest rate, volatility	7 016
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rate curves, repo curves, money market curves, volatility	38 480
Equity instruments	Net asset value	Underlying price of market traded instruments	77
Money market assets	Discounted cash flow	Money market rates and interest rates	7 006
Loans and advances to customers	Discounted cash flow	Interest rate curves, money market curves	4 069

57. Fair value hierarchy disclosures *(continued)*

57.10 Measurement of financial instruments at Level 2 *(continued)*

Category of asset/liability	Valuation techniques applied	Significant observable inputs	Fair value of asset/ liability Rm
Deposits from banks	Discounted cash flow	Interest rate curves and money market curves	12 267
Trading and hedging portfolio liabilities			
Derivative liabilities			49 436
Commodity derivatives	Discounted cash flow model, option pricing models, futures pricing model, ETF model	Spot price (physical or futures), interest rates, volatility	149
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Interest rate, recovery rate, credit spread, quanto ratio	350
Equity derivatives	Discounted cash flow model, option pricing models, futures pricing model	Spot price, interest rate, volatility, dividend stream	1 607
Foreign exchange derivatives	Discounted cash flow model, option pricing models	Spot price, interest rate, volatility	7 745
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rate curves, repo curves, money market curves, volatility	39 585
Deposits due to customers	Discounted cash flow	Interest rate curves and money market curves	10 725
Debt securities in issue	Discounted cash flow	The underlying price of the market traded instrument and interest rate curves	3 549

57.11 Measurement of financial instruments at Level 3

The table below sets out information about significant unobservable inputs used at the end of the reporting period in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fair value measurement sensitivity to the unobservable inputs	Fair value of asset/ liability Rm
Loans and advances to customers	Discounted cash flow, and dividend yield models	Credit ratings	Credit spreads vary between 1,35% and 7,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	6 477
Investment securities	Discounted cash flows, third party valuations, earnings before interest tax depreciation and amortisation ("EBITDA") multiples, income capitalisation valuations, net asset value models	Weighted average cost of capital, EBITDA multiples, liquidity discounts, minority discounts, capitalisation rates	Discount rates between 9,7% and 18%, multiples between 5,5 and 6,1	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on value.	2 313

57. Fair value hierarchy disclosures *(continued)*

57.11 Measurement of financial instruments at Level 3 *(continued)*

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fair value measurement sensitivity to the unobservable inputs	Fair value of asset/ liability Rm
Trading and hedging portfolio assets					
Debt instruments	Discounted cash flow	Credit spreads used in the calculation of the counterparty credit risk adjustment	0,9% to 3,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	873
Derivative asset					164
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Illiquid credit curves, recovery rates, quanto ratio	0% to 3,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	11
Equity derivatives	Discounted cash flow model, option pricing models, futures pricing model	Volatility, dividend streams > 3 years	16,9% to 37,2%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	—
Foreign exchange derivatives	Discounted cash flow model, option pricing models	African basis curves > 1 year	-2,5% to 1,7%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	39

57. Fair value hierarchy disclosures *(continued)*

57.11 Measurement of financial instruments at Level 3 *(continued)*

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fair value measurement sensitivity to the unobservable inputs	Fair value of asset/ liability Rm
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rates (ZAR-SWAP-SPREAD curves, ZAR-REAL < 1 year, ZAR-MM-FundingSPR > 5 years, repo curves > 1 year)	-1,5% to 8,3%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	114
Deposits due to customers	Discounted cash flow	ZAR MM funding spread greater than 5 years	0,85% to 1,2%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	7 138
Debt securities in issue	Discounted cash flow	Credit spread	10 to 20 bps	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	35

57. Fair value hierarchy disclosures *(continued)*

57.11 Measurement of financial instruments at Level 3 *(continued)*

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fare measurement sensitivity to the unobservable inputs	Fair value of asset/ liability Rm
Trading and hedging portfolio liabilities					
Derivative liabilities					542
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Illiquid credit curves, recovery rates, quanto ratio	0% to 3,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	45
Equity derivatives	Discounted cash flow model, option pricing models, futures pricing model	Volatility, dividend streams > 3 years	16,9% to 37,2%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	306
Foreign exchange derivatives	Discounted cash flow model, option pricing models	African basis curves > 1 year	-2,5% to 1,7%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	49
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rates (ZAR-SWAP-SPREAD curves, ZAR-REAL < 1 year, ZAR-MM-FundingSPR > 5 years, repo curves > 1 year)	-1,5% to 8,3%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	142

57. Fair value hierarchy disclosures *(continued)*

57.12 Measurement of non-financial assets and liabilities at Level 3

The table below sets out information about significant unobservable inputs used at the end of the reporting period in measuring non-financial assets and liabilities categorised as Level 3 in the fair value hierarchy.

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fair value measurement sensitivity to the unobservable inputs	Fair value of asset/ liability Rm
Investment properties	Discounted cash flow	Estimates of periods in which rental units will be disposed of	2 to 7 years	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	240
		Selling price escalations per year	0% to 6%		
		Rental escalations per year	0% to 10%		
		Expense ratios	22% to 75%		
		Vacancy rates	2% to 15%		
		Income capitalisation rate	10% to 12%		
		Risk adjusted discount rates	14% to 16%		

58. Risk management

58.1 Introduction *(unaudited)*

Financial risks are inherent within the Bank's activities and disclosure as required by IFRS 7 will follow. A well establish principal risk policy ("RRP") provides an integrated risk management framework, outlining the process for managing risks facing the Bank. This assists in mitigating the Bank's risk and comprises four principal risks, namely credit, market, funding and operational risk.

The Bank's risk appetite (unaudited)

The Bank's risk appetite is defined as the level of risk the Bank is willing to accept in planning and achieving its business objectives. The Bank's risk appetite framework is embedded within key decision-making processes and supports the implementation of the Bank's strategy. The Bank uses this to maximise returns without exposing it to levels of risk above its appetite. In particular, the risk appetite framework assists in protecting the Bank's financial performance, improves management responsiveness and debate regarding the Bank's risk profile, assists executive management in improving the control and coordination of risk-taking across business units and identifies unused risk capacity in pursuit of profitable opportunities.

The Bank's risk appetite framework is developed using a formal quantitative method and is set by the board. Risk appetite outcomes are subjected to stress testing, (i.e. validated, by estimating the Bank's sensitivity to adverse changes in the business environment). This framework then forms the basis for setting business unit targets and risk-taking limits across the Bank.

The Bank's risk appetite can be categorised into four broad areas namely:

- earnings volatility in comparison to targets;
- capacity to absorb unexpected losses;
- capital ratio targets; and
- capacity to grow.

Stress testing (unaudited)

Stress testing is embedded in the risk management of the Bank and is a key focus area in the strategic planning processes. Through stress testing and scenario analysis, the Bank is able to assess the performance of its portfolios under potentially adverse economic conditions.

Stress tests simulate the effects on business units' financial position across the Bank by analysing the impact on profits and the ability to maintain appropriate capital ratios and liquidity levels. Insights gained are integrated into the management process covering the medium to long term. Stress testing also forms an integral part of evaluating the Bank's risk appetite for reasonableness under specifically designed scenarios. Stress tests are regularly discussed with the regulators.

Risk appetite key indicators and triggers (unaudited)

The Bank aims to manage its risk profile in a proactive way. To support this, key indicators and triggers have been developed to act as early signals in the event that one of the scenarios or stress situations may materialise. The forward-looking indicators include, inter alia, economic indices directly correlated with risk measures and financials. The indicators and triggers are monitored routinely and considered by the Barclays Africa Group Limited's Group Risk and Capital Management Committee ("GRCMC").

58.2 Credit risk

Credit risk is the risk of financial loss should the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. The Bank actively seeks to originate and manage credit risk in such a way as to achieve sustainable asset growth and risk-adjusted returns in line with board-approved risk appetite.

Strategy

The Bank's credit risk objectives are:

- supporting the achievement of sustainable asset and revenue growth in line with our risk appetite;
- simplifying risk management processes;
- investing in skills and experience;
- operating sound credit granting processes;
- monitoring credit diligently;
- using appropriate models to assist decision-making;
- improving forecasting and reducing variability;
- continually improving collections and recovery; and
- optimising the control environment.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Performance (unaudited)

Retail credit risk (unaudited)

- **Growth:** Overall loans and advances remained flat driven by growth in Vehicle and Asset Finance ("VAF"), acquisition of Edcon, modest increase in unsecured lending, offset by continuing reduction in the home loans legal recovery book.
- **Portfolio performance:** New business quality continues to improve across major portfolios due to improvements in credit policy and customer segmentation. Overall retail portfolio performance has continued to improve with non-performing loans ("NPLs") reducing from 7,0% to 6,0%, primarily due to reduction in home loans where NPLs reduced by R5,2 billion, from 8,1% as a percentage of loans and advances to 5,9%.
- **Impairment:** Home loans impairment loss ratio reduced from 2,0% to 0,7% driven by non-recurrence of 2012 charges taken to increase coverage, and reduced inflow into NPL due to strong performance of new business and improved collection capabilities. Impairment loss ratio in unsecured loans, cards and VAF increased from the previous reporting period returning to more normalised levels, and reflective of the current economic environment. Overall NPL coverage ratio increased as balances decreased.

Wholesale credit risk (unaudited)

- **Growth:** Portfolio experienced modest growth in the reporting period, above GDP growth rates and within appetite levels. Renewed interest by large corporate and multinational corporate clients in infrastructure and other project finance ventures resulted in a noticeable increase in the Investment Bank's term lending portfolio (26,5% increase from prior reporting). The Markets business increased 23% from previous reporting period, underpinned by increased demand for currency hedging from corporate clients and financial institutions.
- **Portfolio performance:** Performance was well in line with expectations. In particular, arrears within Business Banking have reduced. Average probability of default ("PD") measures improved across the wholesale client base. The exposure in early warning list ("EWL") reduced significantly over the reporting period as a consequence of heightened management attention and active client engagement. The South African Reserve Bank ("SARB") review of the Bank's advanced internal ratings based ("AIRB") approach to risk models and reporting confirmed the appropriateness of the Bank's risk modelling approach within wholesale credit.
- **Impairments:** Impairments reduced significantly from the previous reporting period, primarily in Commercial Property Finance ("CPF") and Commercial Asset Finance ("CAF") due to significant reduction in exposure to customers in legal status resulting from increased risk management intervention. NPL coverage ratio increased from the previous reporting period across the major portfolios.

Approach to credit risk

Approach to credit modelling/internal ratings

The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Bank is exposed from the level of individual facilities up to the total portfolio. Integral to this is the calculation of internal ratings that is used in numerous aspects of credit risk management and in the calculation of regulatory capital ("RC") and economic capital ("EC"). The key building blocks of this process are:

- probability of default ("PD");
- exposure at default ("EAD");
- loss given default ("LGD"); and
- maturity.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Approach to credit risk *(continued)*

These parameters are used in a variety of applications that measure credit risk across the entire portfolio and can be calculated to represent different aspects of the credit cycle:

- PD estimates can be calculated on a through-the-cycle ("TTC") basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time ("PIT") basis, reflecting the predicted default frequency in the next 12 months.
- EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under actual conditions.

These parameters can be used in different combinations for a wide range of credit risk measurement and management. Internal ratings are used for the following purposes:

- Credit approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and certain retail home loans portfolios, PD models are used to direct applications to an appropriate credit sanctioning level.
- Credit grading: to provide a common measure of risk across the Bank, wholesale credit grading employs a 26-point scale of default probabilities.
- Risk-reward and pricing: PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.
- Risk appetite: measures of expected loss ("EL") and the potential volatility of loss are used in the Bank's risk appetite framework.
- Impairment calculation: under IAS 39, many of the collective impairment estimates incorporate the use of the Bank's PD and LGD models, adjusted as necessary.
- Collections and recoveries: model outputs are used to identify segments of the portfolio where collection and recovery efforts should be prioritised.
- EC calculations: most EC calculations use the same PD and EAD inputs as the RC process. The EC process also uses the same underlying LGD model outputs as used in RC calculations, but does not incorporate the same economic downturn adjustment used in RC calculations.
- Risk management information: Bank Risk and the business units generate risk reports to inform senior management on issues such as business performance, risk appetite and consumption of EC. Model outputs are used as key indicators in these reports.

Retail portfolio

Ratings assigned across each retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application updated monthly thereafter and used in decisions concerning underwriting, "pay/no pay" and assignment of accounts to risk grades used to calculate RC. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- Internal risk estimates of PD, EAD and LGD are grounded in historical experience, incorporating all relevant material and available data, information and methods. Both the historical observation periods and default definitions used are consistent with regulatory requirements.
- For each product, PDs are assigned at account level by calibrating the raw behavioural model scores/ratings to the observed long-run average default rate for each pool.
- For each product, EADs are assigned to each account based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.
- LGDs are estimated for each product and assigned at account level, based on the LGD pool to which the account has been assigned. Calibration data on historically defaulted accounts includes observed EADs, recovery streams, cure and write-off rates. The models also make use of suitable risk drivers such as loan-to-value ("LTV"), which are updated monthly.
- The mortgage loan PD model was recalibrated and implemented in January 2013. Subsequently new group requirements have come into effect and the mortgage Basel model suite is in the process of being redeveloped and should be implemented during the first quarter of 2014 once approved through the appropriate governance process. The remaining products will be redeveloped sequentially in terms of materiality.
- To ensure the effectiveness of the validation process, an independent review is performed annually. Models are approved by the Retail Credit Tansactional Risk Committee ("RCTRC") and the most material models require approval by the Models Committee ("MC").
- Models are independently reviewed on an annual basis and when new models have been developed or changes occur to models. In addition, a process is in place to perform post model adjustments as needed or when management applies its discretion.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Approach to credit risk *(continued)*

Wholesale portfolio

The rating process relies both on internally developed PD rating models and vendor provided solutions. While the rating and credit decision-making process in the retail portfolio is largely automated, this process in the wholesale portfolio relies on quantitative and qualitative assessments on a transactional level. Information used in the calculation of customer ratings includes:

- financial statements;
- projected cash flows;
- equity price information;
- external rating agency grades; and
- behavioural scorecards.

Internal LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process, while the EAD models aim to replicate the expected utilisation of a customer's facility should a default occur.

PD measures based on behavioural scores and equity prices are updated monthly for credit risk management and capital calculation purposes. Other PD models that rely on more static information are updated at least quarterly in a conventional environment or as and when extraordinary circumstances warrant a review of a customer's credit standing.

To ensure the effectiveness of the validation process, an independent review is performed annually. Models are approved at the Wholesale Credit Risk Management Committee ("WCRMC"), and the most material models require approval by the MC.

Models are independently reviewed on an annual basis and when new models have been developed or changes occur to models. In addition, a process is in place to perform post model adjustments as needed or when management applies its discretion.

Assessment of credit risk

The assessment of credit risk relies heavily on quantitative models and tools which, to a large degree, have been developed internally and are supplemented by vendor solutions. The following sections provide an overview of the aforesaid concepts and their use in the assessment of credit risk across the Bank's portfolios.

Probability of default

PD measures the likelihood of a customer defaulting on its obligations within the next 12 months and is a primary component of the internal risk rating calculated for all customers. The Bank uses two types of PDs, namely:

- TTC PD, which reflects the Bank's assessment of the borrower's long-run average propensity to default in the next year; and
- PIT PD, which reflects current economic, industry and borrower circumstances.

Both types of PDs are used extensively in the Bank's decision-making processes and several types of rating approaches are employed across the Bank.

For communication and comparison purposes, the Bank's 21 default grades ("DG"), which is the Bank's internal master rating scale were mapped, to the SARB 26 grade PD scale used for regulatory reporting purposes.

DG grading represents a TTC view of the distribution of the book at a specific point in time. An indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

Default grade definitions

- DG 1 –11: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BB rating and better.
- DG 12 – 19: financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies.
- DG 20 – 21: the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well defined weaknesses that exacerbate the PD. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Bank will sustain some loss when default occurs.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

The following table demonstrates the neither past due and past due loans. Past due loans are further analysed in the tables to follow.

Maximum exposure to credit risk

	Bank				
	2013				
	Gross maximum exposure	Neither past due nor impaired[1]			Total past due loans
	Rm	DG1 – 11 Rm	DG12 – 19 Rm	DG20 – 21 Rm	Rm
Balances with the SARB	12 417	12 417	—	—	—
Money market assets	5	5	—	—	—
Cash, cash balances and balances with central banks (refer to note 2)	**12 422**	**12 422**	**—**	**—**	**—**
RSA government bonds	41 536	41 536	—	—	—
Treasury bills	20 519	20 519		—	—
Statutory liquid asset portfolio (refer to note 3)	**62 055**	**62 055**	**—**	**—**	**—**
Other	29 761	18 292	11 464	5	—
Reverse repurchase agreements	15 541	15 541	—	—	—
Loans and advances to banks (refer to note 4)	**45 302**	**33 833**	**11 464**	**5**	**—**
Debt instruments	24 975	24 789	186	—	—
Derivative assets	43 545	38 449	5 094	2	—
Money market assets	7 006	5 140	1 866	—	—
Trading portfolio assets (refer to note 5)	**75 526**	**68 378**	**7 146**	**2**	**—**
Derivatives designated as cash flow hedging instruments	1 595	1 595	—	—	—
Derivatives designated as fair value hedging instruments	1 749	1 749	—	—	—
Hedging portfolio assets (refer to note 5)	**3 344**	**3 344**	**—**	**—**	**—**
Accounts receivable	5 978	3 970	116	24	1 868
Settlement accounts	2 118	2 117	1	—	—
Other assets (refer to note 6)	**8 096**	**6 087**	**117**	**24**	**1 868**
RBB	414 333	118 070	236 106	11 051	49 106
Retail Banking South Africa	350 266	98 287	201 427	9 336	41 216
Cheque accounts	2 102	379	1 475	4	244
Credit cards	20 325	1 763	14 753	1 219	2 590
Edcon portfolio[2]	9 856	6 848	—	—	3 008
Instalment credit agreements	64 515	12 491	47 009	946	4 069
Loans to associates and joint ventures	10 287	1 440	8 538	309	—
Mortgages	227 708	72 211	121 616	5 596	28 285
Personal and term loans	15 473	3 155	8 036	1 262	3 020
Business Banking South Africa	64 067	19 783	34 679	1 715	7 890
Cheque accounts	17 572	5 516	10 395	286	1 375
Commercial property finance	32 750	9 836	17 285	1 226	4 403
Instalment credit agreements	1 090	—	975	—	115
Term loans	12 655	4 431	6 024	203	1 997
CIBW	132 202	76 771	52 143	1 208	2 080
Other and intergroup eliminations	261	125	26	—	110
Loans and advances to customers (refer to note 9)	**546 796**	**194 966**	**288 275**	**12 259**	**51 296**
Loans and advances to group companies	19 247	19 247	—	—	—
Loans and advances to group companies (refer to note 11)	**19 247**	**19 247**	**—**	**—**	**—**
Debt instruments	3 178	2 614	564	—	—
Investment securities (refer to note 12)	**3 178**	**2 614**	**564**	**—**	**—**
Total gross maximum exposure to credit risk	**775 966**				
Impairments raised (refer to note 10)	**(12 756)**				
Total net exposure to credit risk as disclosed on the statement of financial position	**763 210**				
Assets not subject to credit risk	**26 161**				
Total assets per the statement of financial position	**789 371**				

Notes

[1]Refer to prior page for DG bucket definitions.

[2]Subsquent to the acquisition of the Edcon portfolio, the advances detail have been incorporated into our proprietary risk systems in the current reporting period and graded accordingly.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Maximum exposure to credit risk *(continued)*

	Bank 2012				
	Gross maximum exposure	Neither past due nor impaired			Total past due loans
		DG1 – 11	DG12 – 19	DG20 – 21	
	Rm	Rm	Rm	Rm	Rm
Balances with the SARB	12 338	12 338	—	—	—
Money market assets	3	—	—	3	—
Cash, cash balances and balances with central banks (refer to note 2)	12 341	12 338	—	3	—
RSA government bonds	51 853	51 853	—	—	—
Reverse repurchase agreements	3	3	—	—	—
Treasury bills	11 164	11 164	—	—	—
Statutory liquid asset portfolio (refer to note 3)	63 020	63 020	—	—	—
Other	33 273	29 789	3 484	—	—
Reverse repurchase agreements	9 134	9 134	—	—	—
Loans and advances to banks (refer to note 4)	42 407	38 923	3 484	—	—
Debt instruments	24 615	24 283	332	—	—
Derivative assets	46 810	45 144	1 666	—	—
Money market assets	9 974	9 972	2	—	—
Trading portfolio assets (refer to note 5)	81 399	79 399	2 000	—	—
Derivatives designated as cash flow hedging instruments	3 859	3 825	34	—	—
Derivatives designated as fair value hedging instruments	1 580	1 576	4	—	—
Hedging portfolio assets (refer to note 5)	5 439	5 401	38	—	—
Accounts receivable	6 296	5 473	65	—	758
Settlement accounts	3 593	3 294	299	—	—
Other assets (refer to note 6)	9 889	8 767	364	—	758
RBB	410 027	115 496	238 539	6 777	49 215
Retail Banking South Africa	343 562	95 493	202 333	5 445	40 291
Cheque accounts	1 964	335	1 295	4	330
Credit cards	17 245	4 324	9 662	709	2 550
Edcon portfolio	9 806	—	9 806	—	—
Instalment credit agreements	58 505	11 030	42 435	1 102	3 938
Loans to associates and joint ventures	8 393	1 175	6 966	252	—
Mortgages	232 420	76 705	122 093	2 275	31 347
Personal and term loans	15 229	1 924	10 076	1 103	2 126
Business Banking South Africa	66 465	20 003	36 206	1 332	8 924
Cheque accounts	18 430	7 517	9 112	279	1 522
Commercial property finance	33 992	8 258	19 595	956	5 183
Instalment credit agreements	1 750	7	1 300	—	443
Term loans	12 293	4 221	6 199	97	1 776
CIBW	112 787	77 065	33 247	1 116	1 359
Other and intergroup eliminations	500	324	51	—	125
Loans and advances to customers (refer to note 9)	523 314	192 885	271 837	7 893	50 699
Loans and advances to group companies	10 956	10 956	—	—	—
Loans and advances to group companies	10 956	10 956	—	—	—
Debt instruments	3 175	2 651	524	—	—
Investment securities (refer to note 12)	3 175	2 651	524	—	—
Total gross maximum exposure to credit risk	751 940				
Impairments raised (refer to note 10)	(12 998)				
Total net exposure to credit risk as disclosed on the statement of financial position	738 942				
Assets not subject to credit risk	24 978				
Total assets per the statement of financial position	763 920				

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Analysis of past due accounts

The following table demonstrates the financial assets gross exposure that were considered past due and possible impairment were raised against during the reporting period.

	Bank					
	2013					
		Past due not impaired[1] Performing loans				
	Total past due loans Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm
Accounts receivable	1 868	1 864	—	—	—	—
Other assets (refer to note 6)	1 868	1 864	—	—	—	—
RBB	49 106	882	440	170	35	321
Retail Banking South Africa	41 216	8	2	1	6	—
Cheque accounts	244	—	—	—	—	—
Credit cards	2 590	—	—	—	—	—
Edcon portfolio	3 008	—	—	—	—	—
Instalment credit agreements	4 069	8	2	1	6	—
Loans to associates and joint ventures	—	—	—	—	—	—
Mortgages	28 285	—	—	—	—	—
Personal and term loans	3 020	—	—	—	—	—
Business Banking South Africa	7 890	874	438	169	29	321
Cheque accounts	1 375	73	29	12	7	58
Commercial property finance	4 403	628	307	105	7	131
Instalment credit agreement	115	—	—	—	—	—
Term loans	1 997	173	102	52	15	132
CIBW	2 080	—	—	—	—	—
Other and intergroup eliminations	110	—	—	—	—	—
Loans and advances to customers (refer to note 9)	51 296	882	440	170	35	321

Note

[1]For financial assets not disclosed in the table above did not have any past due exposures.

Bank

2013							
Past due not impaired Non-performing loans					Past due and impaired		
Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Performing loans Rm	Non-performing loans Rm	Total non-performing loans Rm
—	—	—	—	—	4	—	—
—	—	—	—	—	4	—	—
170	16	24	18	241	23 285	23 504	23 973
5	—	—	3	6	22 206	18 979	18 993
—	—	—	—	—	148	96	96
—	—	—	—	—	1 118	1 472	1 472
—	—	—	—	—	1 905	1 103	1 103
5	—	—	3	6	2 693	1 345	1 359
—	—	—	—	—	—	—	—
—	—	—	—	—	14 744	13 541	13 541
—	—	—	—	—	1 598	1 422	1 422
165	16	24	15	235	1 079	4 525	4 980
—	—	1	2	82	333	778	863
40	—	18	—	76	381	2 710	2 844
—	—	—	—	—	—	115	115
125	16	5	13	77	365	922	1 158
—	—	—	—	27	1 293	760	787
—	—	—	—	—	110	—	—
170	16	24	18	268	24 688	24 264	24 760

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Analysis of past due accounts *(continued)*

	Bank					
		2012 Past due not impaired[1] Performing loans				
	Total past due loans Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm
Accounts receivable	758	258	—	—	—	—
Other assets (refer to note 6)	758	258	—	—	—	—
RBB	49 215	588	175	248	85	287
Retail Banking South Africa	40 291	11	5	1	2	2
Cheque accounts	330	—	—	—	—	—
Credit cards	2 550	—	—	—	—	—
Edcon portfolio	—	—	—	—	—	—
Instalment credit agreements	3 938	11	5	1	2	2
Loans to associates and joint ventures	—	—	—	—	—	—
Mortgages	31 347	—	—	—	—	—
Personal and term loans	2 126	—	—	—	—	—
Business Banking South Africa	8 924	577	170	247	83	285
Cheque accounts	1 522	85	36	17	22	31
Commercial property finance	5 183	375	104	206	48	174
Instalment credit agreements	443	—	—	—	—	—
Term loans	1 776	117	30	24	13	80
CIBW	1 359	—	—	—	—	—
Other and intergroup eliminations	125	—	—	—	—	—
Loans and advances to customers (refer to note 9)	50 699	588	175	248	85	287

Note
[1]Financial assets not disclosed in the table above did not have any past due exposures.

Bank

2012

Past due not impaired: Non-performing loans					Past due and impaired		
Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Performing loans Rm	Non-performing loans Rm	Total non-performing loans Rm
—	—	—	—	—	500	—	—
—	—	—	—	—	500	—	—
330	68	19	83	227	18 704	28 401	29 128
—	23	—	—	—	16 742	23 505	23 528
—	—	—	—	—	234	96	96
—	—	—	—	—	1 161	1 389	1 389
—	—	—	—	—	—	—	—
—	23	—	—	—	2 127	1 767	1 790
—	—	—	—	—	—	—	—
—	—	—	—	—	12 549	18 798	18 798
—	—	—	—	—	671	1 455	1 455
330	45	19	83	227	1 962	4 896	5 600
9	1	6	34	102	472	707	859
213	31	7	14	24	1 054	2 933	3 222
—	—	—	—	—	—	443	443
108	13	6	35	101	436	813	1 076
—	—	—	—	24	480	855	879
—	—	—	—	—	125	—	—
330	68	19	83	251	19 309	29 256	30 007

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Allowances for impairments on loans and advances to customers

Based on the credit quality of financial assets disclosed in the previous two tables, the Bank raised the following allowances for impairments on loans and advances to customers during the reporting period.

	Bank				
	2013				
		Identified individual impairment		Identified collective impairment	
	Unidentified impairment performing loans Rm	Performing loans Rm	Non-performing loans Rm	Performing loans Rm	Non-performing loans Rm
RBB	(955)	(138)	(2 127)	(1 650)	(7 094)
Retail Banking South Africa	(701)	(15)	(116)	(1 650)	(7 094)
Cheque accounts	(10)	—	—	(21)	(56)
Credit cards	(65)	—	—	(116)	(980)
Edcon portfolio	(68)	—	—	(229)	(893)
Instalment credit agreements	(141)	(15)	(116)	(130)	(513)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(362)	—	—	(943)	(3 763)
Personal and term loans	(55)	—	—	(211)	(889)
Business Banking South Africa	(254)	(123)	(2 011)	—	—
Cheque accounts	(98)	(39)	(361)	—	—
Commercial property finance	(92)	(33)	(1 235)	—	—
Instalment credit agreements	(4)	—	(102)	—	—
Term loans	(60)	(51)	(313)	—	—
CIBW	(229)	—	(453)	—	—
Other and intergroup eliminations	—	(110)	—	—	—
Loans and advances to customers (refer to note 10)	(1 184)	(248)	(2 580)	(1 650)	(7 094)

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Allowances for impairments on loans and advances to customers *(continued)*

	Bank 2012				
		Identified individual impairment		Identified collective impairment	
	Unidentified impairment performing loans Rm	Performing loans Rm	Non-performing loans Rm	Performing loans Rm	Non-performing loans Rm
RBB	(773)	(365)	(2 377)	(766)	(7 942)
Retail Banking South Africa	(622)	(96)	(131)	(766)	(7 942)
Cheque accounts	(4)	—	—	—	(68)
Credit cards	(32)	—	—	(237)	(825)
Edcon portfolio	(74)	—	—	(28)	—
Instalment credit agreements	(111)	(96)	(131)	(86)	(764)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(389)	—	—	(415)	(5 353)
Personal and term loans	(12)	—	—	—	(932)
Business Banking South Africa	(151)	(269)	(2 246)	—	—
Cheque accounts	(47)	(48)	(337)	—	—
Commercial property finance	(59)	(170)	(1 340)	—	—
Instalment credit agreements	(12)	—	(298)	—	—
Term loans	(33)	(51)	(271)	—	—
CIBW	(136)	(18)	(496)	—	—
Other and intergroup eliminations	—	(125)	—	—	—
Loans and advances to customers (refer to note 10)	(909)	(508)	(2 873)	(766)	(7 942)

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Maximum exposure to credit risk

For financial guarantees, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

Credit exposures relating to off-statement of financial position items

	Bank	
	2013	2012
	Rm	Rm
Financial guarantee contracts (refer to note 47)	**3 790**	176
Guarantees (refer to note 49)	**15 862**	15 540
Irrevocable debt facilities (refer to note 49)	**46 679**	46 191
Letters of credit (refer to note 49)	**5 666**	5 894
Other (refer to note 49)	**3**	6
	72 000	67 807

The Bank utilised credit derivatives as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss. Refer to the credit risk mitigation and collateral table for more information.

Allowances for impairments on loans and advances to customers

Net present value unwind on non-performing book

The impairment allowance contains a net present value adjustment that represents the time value of money of expected cash flows. Such time value of money reduces as the point of cash flow is approached. The time-based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets.

Impairments: relevant accounting impairment policy versus expected loss regulatory policy

IFRS governs the reporting practices of banks and, in part, overlaps with the requirements of regulation 43 of the Banks Act (commonly known as Pillar 3). IFRS 7 prescribes disclosure requirements pertaining to financial instruments for accounting purposes and, as such, is based on a similar set of data used for Pillar 3 reporting purposes. Regulation 43 requires banks to disclose certain accounting definitions and information, in particular, with respect to impairments, past due loans and advances and charge-offs. The Bank regularly reconciles the data used for both financial (IFRS compliance reporting) and regulatory (Pillar 3) disclosures.

Impairment methods of assessment and use of allowance accounts

The Bank establishes, through charges against profit, an impairment allowance for the incurred loss inherent in the lending book. Under IFRS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition of the asset, and where these events had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. To determine if a loss event has occurred, historical economic information similar to the current economic climate, overall customer risk profile, payment record and the realisable value of any collateral, are taken into consideration.

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

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

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Allowances for impairments on loans and advances to customers (continued)

Impairments in respect of assets that are individually significant or have been flagged as being in default, are measured individually. Where a portfolio comprises homogeneous assets and appropriate statistical techniques are available, it is measured collectively. The amount of loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows (excluding future credit losses), discounted at the financial asset's original effective interest rate. Two key aspects in the cash flow calculation are the valuation of all security and the timing of all asset realisations, after allowing for all collection and recovery costs.

For the purpose of a collective evaluation of impairment, financial assets are allocated to groups, based on similar risk characteristics, asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for such groups of assets, being indicative of the counterparty's ability to pay amounts due under the contractual terms of the assets.

Unidentified impairment allowances are raised when observable data indicates a measurable decrease in the estimated future cash flows from a group of financial assets since their original recognition, even though the decrease cannot yet be linked to individual assets in the group. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition that has already occurred, but will only be identifiable at a borrower level at a future date.

An emergence period concept is applied to ensure that only impairments that exist at the reporting date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event (unidentified impairment) and the impairment being identified at an individual account level (identified impairment). The emergence periods, based on actual experience, vary across businesses and are reviewed annually. The PD for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This PD is then applied to all exposures in respect of which no identified impairments have been recognised. Where total expected loss ("EL") of all credit risk assets exceeds total impairments, the difference is deducted from eligible capital. In the instance that total impairments exceed total EL, the difference is added to eligible capital, subject to a maximum of 0,6% of total risk weighted assets ("RWA").

The impairment allowance also takes into account the expected severity of loss at default, or the LGD, which is the amount outstanding that is written off and is therefore not recoverable.

Recovery varies by product and depends, for example, on the level of security held in relation to each loan as well as the Bank's position relative to other claimants. LGD estimates are based on historical loss experience. Historical loss experience data is adjusted to add current economic conditions into the data set, which conditions did not exist at the time of loss experience and/or to remove the effects of conditions in the historical period that do not currently exist.

The replacement of IAS 39 with IFRS 9 will have a significant impact on banks' financial statements, the biggest impact being the calculation of impairments. IFRS 9 will replace the current incurred loss model with the requirement to calculate expected losses.

Identified impairments on financial assets

According to the Bank's credit policy, the following are key indicators of default:

- the borrower is unlikely to pay its credit obligation in full, without recourse by the Bank to actions such as realising security held; and/or
- the borrower is overdue.

A retail identified impairment is triggered when a contractual payment is missed. This is not the same as the non-performing definition which applies to loans in a legal process or more than three payments in arrears. The impairment calculation is based on a roll-rate approach where the percentage of assets moving from the initial delinquency state to default is derived from statistical probabilities, based on experience. The PD is calculated within a certain outcome period. The outcome period is defined as the timeframe within which assets default. Recovery amounts and contractual interest rates are calculated using a weighted average for the relevant portfolio.

Future cash flows for a group of financial assets, which are collectively evaluated for impairment purposes, are estimated based on the contractual cash flows of the assets in the group and the historical loss experienced for assets with similar credit risk characteristics to those in the group.

In the retail portfolio, the identified impairment is calculated on a collective basis. For accounting purposes, these accounts are considered to be identified collective impairments.

In the wholesale portfolio, the identified impairment is calculated on accounts reflected on management EWLs (category 3), and accounts currently going through the legal process. An identified impairment is raised on an individual basis and is the difference between the outstanding capital and the present value of future cash flows.

Write-offs

Once an advance has been identified as impaired and an impairment allowance has been raised, circumstances may change and indicate that the prospect of further recovery does not exist. Write-offs will occur when, and to the extent that, the debt is considered irrecoverable.

A write-off policy, based on an age-driven concept, drives the timing and extent of write-offs. A write-off can also be triggered by a specific event, such as the conclusion of insolvency proceedings or other formal recovery actions making it possible to quantify the extent of the advance that is beyond a realistic prospect of recovery. Nonetheless, impaired loans and advances are reviewed at least quarterly, ensuring that irrecoverable loans and advances are written off in a timely and systematic way and in compliance with local regulations.

Assets are only written off once all necessary procedures have been completed and the amount of loss has been determined. Recoveries of amounts previously written off are reversed and accordingly decrease the amount of the reported impairment charge in the statement of comprehensive income.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

Allowances for impairments on loans and advances to customers *(continued)*

Reconciliation of total allowances for impairment losses on loans and advances to customers (identified and unidentified)

	Bank				
	2013				
	Retail Banking South Africa Rm	Business Banking South Africa Rm	CIBW Rm	Other Rm	Total Rm
Opening balance at the beginning of the reporting period	9 556	2 667	650	125	12 998
Net present value unwinding non-performing book	(695)	(153)	(3)	—	(851)
Exchange differences	—	—	—	—	—
Amounts written-off	(4 918)	(1 171)	(109)	—	(6 198)
Identified impairments raised	5 548	939	49	(15)	6 521
Unidentified impairments raised	85	106	95	—	286
Closing balance at the end of the reporting period	9 576	2 388	682	110	12 756
	2012				
	Retail Banking South Africa Rm	Business Banking South Africa Rm	CIBW Rm	Other Rm	Total Rm
Opening balance at the beginning of the reporting period	8 659	2 038	566	125	11 388
Net present value unwinding non-performing book	(955)	(60)	(5)	—	(1 020)
Exchange differences	—	—	3	—	3
Amounts written-off	(5 082)	(966)	(36)	—	(6 084)
Identified impairments raised	6 763	1 689	108	—	8 560
Unidentified impairments raised/(released)	172	(35)	14	—	151
Closing balance at the end of the reporting period	9 557	2 666	650	125	12 998

IFRS disclosures in terms of credit mitigation

The financial effect and forms of collateral and credit enhancements for each class of financial instrument giving rise to credit risk are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset balance is described further in note 1.7.5 of the Bank's financial statements.

The Bank offsets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Bank has a legally enforceable right to do so. Amounts disclosed in the maximum exposure category are stated net of these.

The percentage collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying value of the related credit exposure where a loan is possibly over-collateralised, and dividing this value by the maximum exposure, as reported. The percentage reported is calculated independently of other forms of collateral and the assessment of impairment losses on loans and advances.

The Bank may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies from period to period depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount (fair value or nominal value) of this collateral and the value of this collateral is not reported.

Credit risk mitigation and collateral

Guarantees, credit insurance and credit derivatives

The Bank in some cases holds guarantees and/or letters of credit from third parties that enables it to claim a settlement from them. This form of enhancement is typically held for lending to groups of companies but may be obtained in other limited circumstances for other forms of lending.

The Bank makes use of credit default swaps and credit insurance to manage its overall credit risk with major counterparties. These enable the Bank to claim in the event of a deterioration in the credit quality of borrowers and counterparties.

Notional value of the guarantees held by the Bank, as issued by corporate and financial institutional counterparties, are disclosed in this report. In addition, the Bank takes guarantees from personal customers in respect of personal loans and smaller business loans. These are not quantified in the aforesaid table.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

Physical collateral

The Bank has the ability to call on collateral in the event of default of the borrower or other counterparty. This collateral takes a number of forms:

- mortgages: a fixed charge over domestic property in the form of houses, flats and other dwellings;
- wholesale and corporate lending: a fixed charge over commercial property in various forms;
- reverse repurchase agreements and securities borrowing transactions: typically the highly liquid securities that have been legally transferred to the Bank subject to an agreement to return them for a fixed price;
- finance lease receivables: typically the Bank retains legal ownership of the leased asset and has the right to repossess the asset on the default of the borrower; and
- for finance lease receivables: the collateral value is dependent on the state of the vehicle at inception of the lease. For new vehicles, the collateral value is the cost of the new vehicle, while for used vehicles it is the retail value.

Where the required thresholds for property sales are not achieved, the Bank has a property buy-in strategy. There is a clearly defined policy around collateral not easily convertible to cash and strategies are designed to achieve specific benchmark recovery rates on the portfolio. The Bank has been reducing the stock of its repossessed properties portfolio over the current reporting period with differentiated strategies to manage the inflows and back-book. Although the main objective is to break even in the portfolio, sales have exceeded sales targets against valuations and buy-in amounts. This is due to an optimised strategy and business processes.

It must further be noted that **67%** (2012: 78%) of the current property in possession ("PIP") inventory, is sold pending registration. New inflows have stabilised to around **R1,4 million** (2012: R15 million) per month.

Cash collateral

The Bank may hold cash as security against loans granted, or for derivative trades entered into with certain counterparties. This collateral type includes deposits from customers and ring-fenced bank accounts.

Other

This includes master netting agreements and when derivatives are capable of being net settled, reducing the Bank's exposure to counterparties on derivative asset positions. The reduction in risk is the amount of the liability held.

This category includes any put options from holding companies or cessions of loan accounts.

	Bank					
	2013					
Analysis of credit risk mitigation and collateral[1]	Gross maximum exposure Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm
Other	29 761	—	—	—	2 079	27 682
Reverse repurchase agreements	15 541	—	—	—	15 283	258
Loans and advances to banks (refer to note 4)	45 302	—	—	—	17 362	27 940
Debt instruments	24 975	—	—	—	—	24 975
Derivative assets	43 545	58	—	3 804	35 139	4 544
Money market assets	7 006	—	—	—	—	7 006
Trading portfolio assets (refer to note 5)	75 526	58	—	3 804	35 139	36 525
Accounts receivable	5 962	—	—	—	—	5 962
Settlement accounts	2 118	—	—	—	—	2 118
Other assets (refer to note 6)	8 080	—	—	—	—	8 080
RBB	414 333	224	288 304	1 143	—	124 662
Retail Banking South Africa	350 266	—	243 449	—	—	106 817
Cheque accounts	2 102	—	—	—	—	2 102
Credit cards	20 325	—	—	—	—	20 325
Edcon portfolio	9 856	—	—	—	—	9 856
Instalment credit agreements	64 515	—	45 158	—	—	19 357
Loans to associates and joint ventures	10 287	—	—	—	—	10 287
Mortgages	227 708	—	198 291	—	—	29 417
Personal and term loans	15 473	—	—	—	—	15 473
Business Banking South Africa	64 067	224	44 855	1 143	—	17 845
Cheque accounts	17 572	139	7 349	888	—	9 196
Commercial property finance	32 750	28	30 547	26	—	2 149
Instalment credit agreements	1 090	—	—	—	—	1 090
Term loans	12 655	57	6 959	229	—	5 410
CIBW	132 202	1 869	8 142	1 403	1 825	118 963
Other and intergroup eliminations	261	—	—	—	—	261
Loans and advances to customers (refer to note 9)	546 796	2 093	296 446	2 546	1 825	243 886

Note

[1]For financial assets not listed in the table above no credit risk mitigation or collateral was held during the reporting period.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

	Bank					
	2012					
Analysis of credit risk mitigation and collateral[1] *(continued)*	Gross maximum exposure Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm
Other	33 273	—	—	—	2 240	31 033
Reverse repurchase agreements	9 134	—	—	—	6 523	2 611
Loans and advances to banks (refer to note 4)	42 407	—	—	—	8 763	33 644
Debt instruments	24 615	—	—	—	246	24 369
Derivative assets	46 810	6	—	3 162	39 741	3 901
Money market assets	9 974	—	—	—	—	9 974
Trading portfolio assets (refer to note 5)	81 399	6	—	3 162	39 987	38 244
Accounts receivable	6 280	—	—	—	—	6 280
Settlement accounts	3 593	—	—	—	—	3 593
Other assets (refer to note 6)	9 873	—	—	—	—	9 873
RBB	410 027	236	288 962	1 945	—	118 884
Retail Banking South Africa	343 562	—	240 212	—	—	103 350
Cheque accounts	1 964	—	—	—	—	1 964
Credit cards	17 245	—	—	—	—	17 245
Edcon portfolio	9 806	—	—	—	—	9 806
Instalment credit agreements	58 505	—	38 080	—	—	20 425
Loans to associates and joint ventures	8 393	—	—	—	—	8 393
Mortgages	232 420	—	202 132	—	—	30 288
Personal and term loans	15 229	—	—	—	—	15 229
Business Banking South Africa	66 465	236	48 750	1 945	—	15 534
Cheque accounts	18 430	146	8 194	1 537	—	8 553
Commercial property finance	33 992	36	33 164	49	—	743
Instalment credit agreements	1 750	—	—	—	—	1 750
Term loans	12 293	54	7 392	359	—	4 488
CIBW	112 787	2 618	7 354	1 359	11 645	89 811
Other and intergroup eliminations	500	—	30	—	—	470
Loans and advances to customers (refer to note 9)	523 314	2 854	296 346	3 304	11 645	209 165

Enforcement of collateral

Residential properties

The carrying value of the assets held by the Bank at the reporting date as a result of the enforcement of collateral is as follows:

	Bank	
	2013 Rm	2012 Rm
Balance at the beginning of the reporting period	**342**	731
Acquisitions	**16**	143
Disposals	**(342)**	(532)
Balance at the end of the reporting period	**16**	342

The Bank has further reduced the stock of the PIP portfolio over the last reporting period with optimised sales strategies to manage the inflow and back-book. This has resulted in a reduction of the book from R342 million in the previous reporting period to **R16 million** in the current reporting period (including a provision for impairment). The PIP portfolio declined from R422 million in the previous reporting period to **R86 million** (pre-allowances for impairment losses). It must be noted that **67%** (2012: 78%) of the current inventory is sold pending registration. New inflows of PIPs was on average **R1,4 million** (2012: R15 million) per month.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

***IFRS disclosures in terms of credit mitigation** (continued)*

Geographical concentration of risk

	Bank				
	2013				
	Asia, Americas and Australia Rm	Europe[1] Rm	Rest of Africa Rm	South Africa Rm	Total exposure Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	6	—	—	12 416	12 422
Statutory liquid asset portfolio	—	—	4	62 051	62 055
Loans and advances to banks	3 152	23 949	310	17 891	45 302
Trading portfolio assets	1 238	27 077	990	46 221	75 526
Hedging portfolio assets	67	1 540	—	1 737	3 344
Other assets	4	1 364	2	6 726	8 096
Loans and advances to customers	1 524	3 895	10 470	518 151	534 040
Loans and advances to Group companies	—	—	—	19 247	19 247
Investment securities	—	—	—	3 178	3 178
Subject to credit risk	5 991	57 825	11 776	687 618	763 210
Off-statement of financial postion exposures					
Financial guarantee contracts	—	—	—	3 790	3 790
Guarantees	—	24	—	15 838	15 862
Irrevocable debt facilities	—	4 227	—	42 452	46 679
Letters of credit	—	—	—	5 666	5 666
Other	—	—	—	3	3
Subject to credit risk	—	4 251	—	67 749	72 000

	2012				
	Asia, Americas and Australia Rm	Europe[1] Rm	Rest of Africa Rm	South Africa Rm	Total exposure Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	3	—	—	12 338	12 341
Statutory liquid asset portfolio	—	—	—	63 020	63 020
Loans and advances to banks	3 459	23 021	226	15 701	42 407
Trading portfolio assets	637	25 600	694	54 468	81 399
Hedging portfolio assets	147	2 752	—	2 540	5 439
Other assets	—	2 287	—	7 602	9 889
Loans and advances to customers	634	3 783	3 676	502 223	510 316
Loans and advances to Group companies	—	—	—	10 956	10 956
Investment securities	—	—	—	3 175	3 175
Subject to credit risk	4 880	57 443	4 596	672 023	738 942
Off-statement of financial position exposures					
Financial guarantee contracts	—	37	30	109	176
Guarantees	425	—	295	14 820	15 540
Irrevocable debt facilities	—	3 761	21	42 409	46 191
Letters of credit	—	—	85	5 809	5 894
Other	—	—	—	6	6
Subject to credit risk	425	3 798	431	63 153	67 807

Note

[1]The majority of the exposures to Europe relate to the exposure to Barclays PLC.

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

Financial instruments designated at fair value through profit or loss

The following table represents financial instruments designated at fair value through profit or loss at the reporting date before taking into account collateral held or other credit enhancements.

	Bank 2013 Rm	Bank 2012 Rm
Assets		
Statutory liquid asset portfolio (refer to note 3)	**—**	800
Loans and advances to banks (refer to note 4)	**6 140**	9 729
Other assets (refer to note 6)	**16**	16
Loans and advances to customers (refer to note 9)	**10 546**	11 937
Investment securities	**799**	1 438
	17 501	23 920
Liabilities		
Deposits from banks (refer to note 18)	**12 267**	14 976
Deposits due to customers (refer to note 22)	**17 863**	19 089
Debt securities in issue (refer to note 23)	**3 584**	3 441
Borrowed funds (refer to note 24)	**—**	778
	33 714	38 284

The Bank utilised credit derivatives as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss. Refer to the credit risk mitigation and collateral table for more information.

Contractual obligation at maturity of financial liabilities designated at fair value through profit or loss

The following table represents the carrying value of financial liabilities designated at fair value through profit or loss and the amount that the Bank is contractually required to pay to the holder of the obligation at maturity.

	Bank			
	2013		2012	
	Carrying value Rm	**Contractual obligation Rm**	Carrying value Rm	Contractual obligation Rm
Liabilities				
Deposits from banks (refer to note 18)	**12 267**	**14 497**	14 977	11 205
Deposits due to customers (refer to note 22)	**17 863**	**18 045**	19 089	25 143
Debt securities in issue (refer to note 23)	**3 584**	**4 223**	3 440	3 614
Borrowed funds (refer to note 24)	**—**	**—**	778	768
	33 714	**36 765**	38 284	40 730

58. Risk management *(continued)*

58.2 Credit risk *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

Decrease in fair value attributable to changes in credit risk during the reporting period

	Bank	
	2013 Rm	2012 Rm
Assets		
Loans and advances to customers	—	1
Liabilities		
Deposits from banks	(13)	21

Cumulative adjustment in fair value attributable to changes in credit risk

	Bank	
	2013 Rm	2012 Rm
Assets		
Loans and advances to customers	—	5
Liabilities		
Deposits from banks	20	33

The following approaches are used in determining changes in fair value due to changes in credit risk for loans and advances designated at fair value through profit or loss:

- Internal risk grading approach: the cumulative change in fair value due to changes in credit risk is calculated by assigning each customer an internal risk grading based on the customer's PD. The risk grading determines the credit spread incorporated in the valuation curve. Changes in the risk grading will result in a change in fair value of the loan due to changes in credit risk. The change in fair value is calculated by removing the trading margin from the fixed rate instruments to determine the split between interest and credit movement.
- The disclosed fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

58.3 Equity investment risk

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book for non-trading purposes.

The Bank's equity investment risk objective is to balance the portfolio composition in line with, the Bank's risk appetite with selective exits as appropriate.

Approach

The Bank's governance of equity investments is based on the following key fundamental principles:

- A formal approval governance process;
- Key functional specialists reviewing investment proposals;
- Adequate monitoring and control after the investment decision has been implemented; and
- Ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Bank's equity investments are held in the CIBW and Business Banking segments.

The CPF Equities portfolio decreased during the current reporting period due to fair value revaluations and planed sell-downs in line with the Bank's equity investment strategy.

Relevant accounting policies

IAS 39 requires all equity investments to be measured at fair value. Accounting policies relating to subsidiaries and investments in associates and joint ventures are discussed separately in note 57 of the Bank's annual financial statements.

58. Risk management *(continued)*

58.3 Equity investment risk *(continued)*

Relevant accounting policies *(continued)*

The fair value of equity investments is determined using appropriate valuation methodologies which, depending on the nature of the investment, include discounted cash flow analysis, enterprise value comparisons with similar companies and price-earnings comparisons.

Listed and unlisted investments are either designated at fair value through profit or loss or as available-for-sale. Investments in entities that form part of the venture capital and similar activities of the Bank have been designated at fair value through profit or loss. The designation has been made in accordance with IAS 39, based on the scope exclusion that is provided in IFRS 11 and IAS 28. The relevant accounting policies for equity investments are discussed in note 1.7 of the Bank's annual financial statements.

Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and EC requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Group has adopted the market-based simple risk weighted approach to calculate RWAs and RC for equity risk in the banking book.

According to this approach, the Bank applies a 300% risk weight to listed exposures and 400% to unlisted exposures in non-financial entities subject to a prescribed scaling factor of 1,06. Investments in financial entities are treated in line with the principals embodied in Basel III and the regulations relating to Banks, whereby the risk weightings are subject to the aggregate value of the Bank's shareholding in those investments and also in relation to the Bank's Capital. For those financial investments constituting a significant minority investment (i.e. 20%-50%) with no other significant shareholder, the Bank applies a capital deduction.

Economic capital for equity investment risk in the banking book is based on investment type and portfolio risk modelling and varies from 35,2% to 100%.

Analysis of equity investment risk in the banking book

Equity sensitivity analysis – impact on pre-tax profit or loss and equity after the effect of hedges

	Bank									
	2013					2012				
	Impact of a 5% reduction in fair value			Impact of a 5% increase in fair value		Impact of a 5% reduction in fair value			Impact of a 5% increase in fair value	
	Profit and loss Rm	Equity Rm	Fair value Rm	Profit and loss Rm	Equity Rm	Profit and loss Rm	Equity Rm	Fair value Rm	Profit and loss Rm	Equity Rm
Listed equity investments[1]	(12)	(3)	299	12	3	(20)	(3)	443	20	3
Unlisted equity investments[1]	(82)	(5)	1 743	82	5	(134)	(4)	2 774	134	4
Total Bank equity investments	**(94)**	**(8)**	**2 042**	**94**	**8**	(154)	(7)	3 217	154	7

58.4 Market risk

Market risk is the risk that the Bank's earnings, capital or business objectives will be adversely impacted by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. It consists of:

- Traded market risk is the risk of the Bank being impacted by changes in the level or volatility of positions in its trading books, primarily in the Investment Bank.
- Non-traded market risk is the risk of the Bank being unable to hedge the interest rate risk in the banking book, primarily in retail, business banking and corporate portfolios.
- Pension risk arises when an adverse movement between pension assets and liabilities contributes to a pension deficit.

Note
[1]Excludes debt instruments.

58. Risk management *(continued)*

58.4 Market risk *(continued)*

Traded market risk arises in the trading book to support client-trading activity, whereas non-traded market risk arises in the banking book to support customer products.

The Africa Market Risk Committee ("AMRC") meets monthly to review, challenge and make recommendations concerning the market risk profile, including risk appetite, policies, limits, risk utilisation and the effectiveness of the control environment.

The Trading Risk Committee ("TRC"), Africa Treasury Committee ("ATC") and ATC subcommittees provide oversight of specific market risk.

Strategy

The Bank's market risk management objectives are to:

- ensure risk is managed within the Bank's risk appetite by monitoring risk against the limit and appetite framework;
- ensure a high degree of net interest margin stability in the banking books;
- understand risk sensitivity and volatility, leverage stress testing and empirical analytics. Use appropriate models to measure risk;
- underwrite risks that are well diversified in terms of types of risk and the level of insured benefits; and
- ensure pension risk managed in accordance with outlined principles, objectives and governance, as well as the country specific regulations.

Traded market risk

Approach

Traded market risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, risk management solutions and execution of syndications. Mismatches between client transactions and hedges result in market risk. In CIBW, trading risk is measured for the trading book, as defined for regulatory purposes and certain banking books.

Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported as part of the interest rate risk in the banking book section.

Risk appetite

The risk appetite for market risk is based on:

- proposed business strategy and growth;
- targeted growth in risk;
- budgeted revenue growth;
- historical risk usage;
- statistical modelling measures; and
- risk equated to capital projection under stress.

Risk measurement

A number of techniques are used to measure and control traded market risk on a daily basis, which include:

- value at risk ("VaR") based measures (incorporating tail risk metrics) including both VaR and stressed value at risk ("sVaR");
- tail metrics;
- position and sensitivity reporting ("non-VaR");
- stress testing;
- backtesting; and
- standardised general and specific risk, as relevant.

Daily value at risk

Daily value at risk ("DVaR") is an estimate of the potential loss that may arise from unfavourable market movements if current positions were to be held unchanged for one business day.

The Bank uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 95%.

The historical simulation methodology can be split into three parts:

- calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves;
- sum of all hypothetical profits or losses for day one across all positions, giving one total profit or loss. Repeat for all other days in the two-year history; and
- DVaR is the 95th percentile loss selected from the resultant two-year historical simulated strip of daily hypothetical net profit or loss. Daily losses in excess of the DVaR figure are likely to occur, on average, up to 26 times over the two-year period.

58. Risk management *(continued)*

58.4 Market risk *(continued)*

Traded market risk *(continued)*

This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level for regulatory backtesting and RC calculation purposes, respectively. The VaR internal model has been approved by the SARB to calculate RC for all trading book portfolios in South Africa. The approval covers general position risk across all interest rate, foreign exchange, commodity, equity and traded credit products. Issuer-specific risk is currently reported in accordance with the regulatory standardised approach across the Bank. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach.

DVaR is an important market risk measurement and control tool that is used by the Bank. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. Backtesting measures daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily.

VaR estimates have a number of limitations:

- historical simulation assumes that the past is a good representation of the future, which may not always be the case;
- the assumed time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon;
- VaR does not indicate the potential loss beyond the selected percentile;
- VaR is based on positions as at the close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured; and
- prudent valuation practices are used in the VaR calculation when there is difficulty in obtaining rate/price information.

Tail risk metrics, stress testing and other sensitivity measures are used to complement VaR.

Backtesting

The Bank conducts backtesting of the VaR risk measurement model against:

- the theoretical profit or loss representing the change in the value of the portfolio as computed by the risk system under the assumption that the portfolio holdings remained constant for the holding period; and
- the actual profit or loss representing the actual daily trading outcome.

Tail metrics

Tail risk metrics highlight the risk beyond the percentile selected for DVaR. The two tail risk metrics chosen for daily monitoring, using the current portfolio and two years of price and rate history, are:

- the average of the worst three hypothetical losses from the historical simulation; and
- expected shortfall (also referred to as expected tail loss), which is the average of all hypothetical losses from the historical simulation beyond the 95th percentile used for DVaR.

Non-value at risk

Non-VaR reporting covers non-statistical measures of measuring and monitoring risk sensitivities and exposures as well as gross or notional limits where appropriate. All asset classes and product types have non-VaR reporting and limit monitoring, as required. These limits are aligned to DVaR limits, but do not bear a direct linear relationship.

Stressed value at risk

SVaR is an estimate of the potential loss arising from a 12-month period of significant financial stress. The Bank's sVaR model and period selection methodology was approved by the SARB. The SARB has also assigned a sVaR model multiplier to be used for RC calculations. SVaR uses DVaR methodology based on inputs calibrated to historical data from a continuous 12-month period to replicate a period of significant stress. A regular process is applied to assess the stress period in terms of the approved methodology, which means that the stress period is subject to change.

The sVar RC requirement is calculated daily and is disclosed for the reporting period.

Stress testing

Stress testing provides an indication of the potential size of losses that could occur in extreme conditions. Stress testing assists in identifying risk concentrations across business lines and assists senior management in making capital planning decisions. The Bank performs two main types of stress/scenario testing. Firstly, risk factor stress testing is carried out, where extended historical stress moves are applied to each of the main risk categories including interest rate, equity, foreign exchange, commodity and credit spread risk. Secondly, the trading book is subjected to multi-factor scenarios that simulate past periods of significant market disturbance and hypothetical extreme yet plausible events. Scenarios are reviewed at least annually.

Stress testing results are monitored against approved limits and triggers for trading books in South Africa. A full revaluation approach is applied to undertake stress testing for said trading books. The approach taken for trading books in the region is sensitivity based.

58. Risk management *(continued)*

58.4 Market risk *(continued)*

Traded market risk *(continued)*

Standardised specific risk

Idiosyncratic risks are capitalised through the Basel/regulatory framework using standardised rules for South Africa. In addition, the standardised rules are used for to quantify general risk regulatory capital for any instruments traded in South Africa for which internal model approach approval has not yet been obtained.

Risk control

Risk limits are set and reviewed at least annually to control the trading activities, in line with the defined risk appetite of the Bank. The criteria for setting risk limits include relevant market analysis, market liquidity and business strategy.

This limit structure comprises the following types of market risk limits:

- VaR limits (DVaR);
- stressed value at risk limits, as relevant;
- position and sensitivity (non-VaR) limits;
- stress testing limits, as relevant; and
- management action triggers, reporting of actual losses based on predetermined tolerance levels.

Valuation control, independent price testing and bid-offer testing are conducted by product control and the results are reviewed monthly by the Valuation Governance and Control Committee of CIBW.

The model validation function is responsible for validating all valuation models used for accounting and risk. The validation reviews the theoretical approach and its applicability to the product. Focus is on ensuring the implementation of the model is correct, identifying the primary risks, model limitations or uncertainties and recommending provisions to account for such uncertainties.

Risk reporting

The market risk team produces a number of detailed and summary market risk reports daily and monthly. These reports summarise the positions, risks and top stresses covering interest rate, foreign exchange, equity, commodity and credit spread risks. A risk summary is also presented at the AMRC and other governance committees, as required.

Analysis of traded market risk exposure

The following table reflects the DVaR and expected shortfall statistics for trading book activities as measured by the internal models approach ("IMA") for general trading position risk. Traded market risk exposure, as measured by average total DVaR, increased to **R20,73 million** for the reporting period, which is up 10% compared to the previous reporting period (R18,87 million). This was principally due to increased volatility in time series data given extreme market moves recorded during the period. The business model of CIB is orientated around client flow and the risk profile is maintained so that it is aligned with the near-term demands of clients. The model showed resilience in tough trading conditions. Trading revenues declined marginally compared to the previous reporting period, but a favourable risk-adjusted return was sustained for the reporting period.

Trading book DVaR summary

	Bank							
	2013				2012			
	Average Rm	High[1] Rm	Low[1] Rm	As at the reporting date Rm	Average Rm	High[1] Rm	Low[1] Rm	As at the reporting date Rm
Interest rate risk	16,36	37,04	7,06	11,28	16,99	30,71	8,84	11,87
Foreign exchange risk	6,96	23,59	1,20	2,93	7,30	21,34	2,13	8,23
Equity risk	4,45	15,95	1,38	4,32	5,12	16,72	1,13	1,88
Commodity risk	1,52	4,16	0,32	0,34	0,85	2,92	0,17	1,29
Inflation risk	8,29	17,37	4,36	4,46	7,06	17,95	2,63	8,80
Credit spread risk	4,52	8,98	1,96	4,35	4,05	5,76	1,95	3,69
Diversification effect	(21,37)	n/a	n/a	(14,28)	(22,50)	n/a	n/a	(18,21)
Total DVaR[2]	20,73	37,14	10,34	13,40	18,87	34,38	12,66	17,55
Expected shortfall	30,53	53,81	14,48	21,66	27,46	49,65	17,58	23,84
Regulatory VaR[3]	35,94	76,09	17,35	29,65	32,38	53,67	20,11	31,91
Regulatory sVaR[3]	51,15	91,19	23,81	29,16	44,42	93,58	27,19	40,88

Notes

[1]The high and low DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted.

[2]The analysis includes trading books for which internal models approval has been obtained.

[3]Regulatory VaR and sVaR are reported with a one-day holding period at a 99% confidence level. Consequently these figures are not directly comparable to the 95% risk metrics reported in the rest of the table. The sVaR period is subject to ongoing review for appropriateness.

58. Risk management *(continued)*

58.4 Market risk *(continued)*

Interest rate risk in the banking book

Interest rate risk is the risk that the Bank's financial position may be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, as well as from certain structural exposures within the statement of financial position, mainly due to repricing timing differences between assets, liabilities and equity. These risks impact both the earnings and the economic value of the Bank.

Strategy

The Bank's objective for managing interest rate risk in the banking book is to ensure a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to the local treasury or Group Treasury, which in turn hedges material net exposures with the external market. As a result of mainly timing considerations, interest rate risk may arise when some of the net position remains with Treasury. A limits framework is in place to ensure that retained risk remains within approved risk appetite.

Risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Bank's interest rate risk exposure within limits.

Where possible, hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules, as detailed in the Bank's accounting policies, are followed.

Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Bank's equity, and is managed by Group Treasury.

Embedded customer optionality risk may also give rise to interest rate risk in the banking book. This risk arises from a customer's right to buy, sell or in some manner alter the cash flow of a financial contract. Embedded customer optionality is distinct from direct optionality, which arises through the underlying product structure (e.g. capped rate loan products). The Bank's policy requires such direct option risk to be hedged explicitly.

Prepayment risk arises in relation to transactions where an early settlement option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the Bank is unable to collect full market-related compensation. The risk is controlled through book and term limits, funding (hedging) new loans according to the expected behavioural repayment profile and tracking deviations of actual customer behaviour from the expected profile.

Recruitment risk arises when the Bank commits to providing a product at a predetermined price for a period into the future. Customers have the option to take up this offer. Controls include campaign rules, pre-funding of anticipated take-up and the management of the resultant residual risk.

Risk measurement

The techniques used to measure and control interest rate risk in the banking book include repricing profiles, annual earnings at risk ("AEaR"), DVaR and tail metrics, economic value of equity ("EVE") sensitivity and stress testing.

Repricing profile

With the repricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets based on the most likely repricing behaviour. The repricing profiles take the assumed behavioural profile of structural product balances into account.

Currently, he contractual profiles of assets are not adjusted for customer prepayment features.

Annual Earnings at Risk/net interest income ("NII") sensitivity

AEaR/NII sensitivity measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. AEaR is monitored against approved internal limits.

Daily value at risk

The Bank uses a sensitivity-based approach to calculate DVaR at a 95% confidence level for measuring interest rate risk in the banking book. The DVaR is monitored against approved internal limits, and is used as a complementary tool to AEaR. The DVaR is supplemented by non-DVaR, stress and tail metrics.

Economic Value of Equity

EVE sensitivity measures the sensitivity of the present value of the banking book at a specific point in time to a specified shock to the yield curve. Similar to DVaR, EVE is a present value sensitivity and is complementary to income sensitivity measures such as AEaR. EVE sensitivity is measured against regulatory guidelines and not against approved internal limits.

Stress testing

The stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. Stress testing is carried out by Group Treasury and the Group Market Risk department to supplement the DVaR and AEaR metrics.

58. Risk management *(continued)*

58.4 Market risk *(continued)*

Interest rate risk in the banking book *(continued)*

Risk control

Market risk is controlled through the use of AEaR, DVaR and stress limits as appropriate and supported non-DVaR triggers as well as the monthly monitoring of the risk profiles and EVE sensitivity. Limits are set at the business level and then cascaded down. The business level limits for AEaR, DVaR and stress are agreed by the AMRC. Compliance with limits is monitored by the respective business market risk team with oversight provided by Group Market Risk.

Risk reporting

DVaR and supporting metrics are reported daily by the Group Treasury department. The repricing profiles, AEaR, EVE sensitivity and stress results are reported monthly by Group Treasury.

Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Bank's banking book are set out in the table that follows, namely, the repricing profile of the book, the potential effect of changes in market interest rates on annual earnings and impact on equity reserves.

Repricing profile

The repricing profile of the Bank's consolidated banking book shows that the consolidated banking book remains asset sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates. However, asset sensitivity, as represented by the cumulative 12-month interest rate gap, decreased from the previous reporting period to the current reporting period.

Expected repricing profile

	Bank			
	2013			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	105 750	(12 109)	(25 622)	(31 584)
Derivatives[2]	(102 150)	17 347	22 996	61 806
Net interest rate sensitivity gap	3 600	5 238	(2 626)	30 222
Cumulative interest rate gap	3 600	8 838	6 212	36 434
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	0,5	1,1	0,8	4,6

Notes

[1]Includes exposures held in the CIB banking book.

[2]Derivatives for interest rate risk management purposes (net nominal value).

58. Risk management *(continued)*

58.4 Market risk *(continued)*

Interest rate risk in the banking book *(continued)*

Expected repricing profile

	2012			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	126 839	(18 329)	(30 019)	(37 694)
Derivatives[2]	(93 476)	10 633	17 189	65 654
Net interest rate sensitivity gap	33 363	(7 696)	(12 830)	27 960
Cumulative interest rate gap	33 363	25 667	12 837	40 797
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	4,4	3,4	1,7	5,3

Impact on earnings

The following table shows the AEaR from impacts to net interest income for 100 and 200 bps up and down movements in market interest rates for the Bank's banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of **R1,75 billion** (2012: R1,57 billion). A similar increase would result in an increase in projected 12-month net interest income of **R1,56 billion** (2012: R1,57 billion). AEaR remains at just over 7% of the Bank's net interest income.
A sensitivity analysis by major currency market interest rates indicates that earnings sensitivity to South African rand market interest rates constitutes 86% of the total earnings at risk at the reporting date (2012: 84%), therefore indicating that the Bank remains primarily exposed to South African market interest rates.

Annual earnings at risk for 100 and 200 bps changes in market interest rates

	Bank			
	2013			
	Change in market interest rates			
	200 bps decrease	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Change in projected net interest income[1] (Rm)	**(1 753)**	**(866)**	**758**	**1 562**
Percentage of the Bank's net interest income (%)	**(7,4)**	**(3,7)**	**3,2**	**6,6**
Percentage of the Bank's equity (%)	**(3,1)**	**(1,5)**	**1,3**	**2,7**
	2012			
	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income[1] (Rm)	(1 568)	(769)	776	1 574
Percentage of the Bank's net interest income (%)	(7,1)	(3,5)	3,5	7,2
Percentage of the Bank's equity (%)	(2,6)	(1,3)	1,3	2,6

Notes
[1]Includes exposures held in the CIB banking book.
[2]Derivates for interest rate risk management purposes (net nominal value).

58. Risk management *(continued)*

58.4 Market risk *(continued)*

Interest rate risk in the banking book *(continued)*

Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:

- higher or lower profit after tax resulting from higher or lower net interest income;
- higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments; and
- higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the tax rate for the reporting period.

The equity reserve sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios which are mark-to-market through reserves. The impact on equity is calculated by revaluing the fixed rate available-for-sale financial assets, including the effect of any associated hedges and derivatives designated as cash flow hedges, for an assumed change in market interest rates. The increase in sensitivity of reserves is due to the increase in the structural position.

Sensitivity of reserves to market interest rate movements

	Bank					
	2013			2012		
	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1] Rm	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1] Rm
+ 100 bps parallel move in all yield curves						
Available-for-sale reserve	(883)	(1 077)	(883)	(1 099)	(1 119)	(955)
Cash flow hedging reserve	(1 756)	(1 851)	(1 737)	(1 746)	(1 799)	(1 671)
	(2 639)	(2 928)	(2 620)	(2 845)	(2 918)	(2 626)
As a percentage of Bank equity (%)	(4,6)	(5,0)	(4,6)	(4,7)	(4,7)	(4,4)
– 100 bps parallel move in all yield curves						
Available-for-sale reserve	883	1 077	883	1 099	1 119	955
Cash flow hedging reserve	1 756	1 851	1 737	1 746	1 799	1 671
	2 639	2 928	2 620	2 845	2 918	2 626
As a percentage of Bank equity (%)	4,6	5,0	4,6	4,7	4,7	4,4

Notes

[1]The maximum and minimum impacts for each reserve category did not necessarily occur for the same months.

[2]The number represents the maximum or minimum potential combined impact for both reserve categories in a single month (and does not equate to the sum of the minimum and maximum per month shown in footnote 1 above).

58. Risk management *(continued)*

58.4 Market risk *(continued)*

Foreign exchange risk

The Bank is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Bank's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Bank's policy, there were no significant net open currency positions outside the trading book at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

Foreign currency translation sensitivity analysis

The following table depicts the carrying value of foreign currency net investments and the pre-tax impact on equity of a 5% change in the exchange rate between the ZAR and the relevant functional foreign currencies.

Functional foreign currency

	Bank	
	2013 Sterling Rm	2012 Sterling Rm
As at reporting period		
Foreign currency net investments	**1 728**	1 618
Impact on equity from a 5% currency translation shock	**86**	81

Other market risks

The Bank maintains different pension plans with defined benefit and defined contribution structures for current and former employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises when the estimated market value of the pension plan assets declines, their investment returns reduce, or when the estimated value of the pension liabilities increases, resulting in a funding deficit. In these circumstances, the Bank could be required or might choose to make additional contributions to the defined benefit plan.

Asset management risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of AEaR to reflect the sensitivity of annual earnings to shocks in market rates. Group policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises mainly in the Financial Services segment. Asset management risk was not material during the reporting period.

58.5 Operational risk

Operational risk arises when there is direct and indirect loss resulting from human factors, inadequate or failed internal processes, systems or external events. The Bank actively seeks to minimise the impact of losses suffered, both in the normal course of business (expected losses) and in extreme events (unexpected losses), improve effective management of the Bank and strengthen its brand and external reputation.

The Bank recognises the significance of operational risk and is committed to enhancing the measurement and management thereof. Within the Bank's operational risk framework, qualitative and quantitative methodologies and tools are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures.

Strategy

Operational risk management objectives are:

- embed an operational risk-aware culture throughout the Bank;
- implement framework and risk practices in businesses that include risk and control self-assessments, use of risk indicators, management of risk events including lessons learnt, and end-to-end risk and control reviews of specific processes, businesses or type of risks;
- enhance controls by using automated solutions, where possible;
- set and monitor the appropriate operational risk appetite, which includes assessment of potential extreme scenarios; and
- ensure investments are made in infrastructure and systems and remedial actions taken should the risk profile not be at an acceptable level.

58. Risk management *(continued)*

58.6 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequences of which may be the failure to meet obligations to repay depositors and to fulfil commitments to lend. Liquidity risk, more generally, is the risk that the Bank will be unable to continue operating as a going concern due to a lack of funding.

Liquidity risk is inherent in all banking operations. Confidence in the organisation, and hence liquidity, can be affected by a range of institution specific and market-wide events including, but not limited to, market rumours, credit events, payment system disruptions, systemic shocks, terrorist attacks and even natural disasters.

The appropriate and efficient management of liquidity risk by banks is of utmost importance in maintaining confidence in the financial markets and in ensuring that banks pursue sustainable business models.

Strategy

The liquidity risk management objectives are:

- growing and diversifying the funding base to support asset growth and other strategic initiatives;
- lengthening the Bank's funding profile balanced with a strategy to reduce the weighted average cost of funds;
- maintaining adequate levels of surplus liquid asset holdings in order to remain within the liquidity risk appetite; and
- realigning the Bank's business models and balance sheet mix to take into account the Basel III implications.

Approach

The Bank's liquidity risk position is managed in line with the board-approved liquidity risk appetite. The Group Treasury department is responsible for implementing the liquidity risk framework and policy and for ensuring that liquidity risk is adequately managed across the Bank. Group Treasury also monitors and manages the Bank's liquidity position to ensure full regulatory compliance in respect of liquidity risk management and reporting. As part of this process, Group Treasury takes the contractual and business-as-usual liquidity positions, as well as the stress tested liquidity position into consideration.

Business-as-usual liquidity risk management

Business-as-usual liquidity risk management refers to the management of the cash inflows and outflows of a bank in the ordinary course of business. The business-as-usual environment tends to display fairly high probability, low severity liquidity events and involves balancing the Bank's day-to-day cash needs. Group Treasury's approach to managing business-as-usual liquidity focuses on the following key areas:

- managing net anticipated cash flows (between assets and liabilities), within approved cash outflow limits;
- active daily management of the funding and liquidity profile, taking the board-approved liquidity risk metrics into consideration. These metrics were designed to ensure compliance with the Bank's business-as-usual liquidity risk tolerance and to position the Bank to deal with stressed liquidity events;
- maintaining a portfolio of highly liquid assets as a buffer against any unforeseen interruption to cash flow;
- participating in local money and capital markets to support the day-to-day funding requirements such as refinancing maturities, meeting customer withdrawals and supporting growth in advances;
- monitoring and managing liquidity costs; and
- conducting an ongoing assessment of the various funding sources in order to grow and diversify the Bank's funding base and achieve an optimal funding profile.

58. Risk management *(continued)*

58.6 Liquidity risk *(continued)*

***Approach** (continued)*

Key risk metrics used in business-as-usual liquidity risk management

Risk metric	Purpose of metric
Short-, medium- and long-term funding ratios	Provides a measure of the contractual term of the funding used. For example, the long-term funding ratio shows the proportion of total funding that has a remaining contractual term in excess of six months.
Interbank funding ratio	Provides an indication of the extent to which reliance is placed on funding from other banks.
Short-term maturity cash flow mismatches (at a contractual and behavioural level)	Provides a measure of the extent to which cash flow mismatches occur in the short-term (i.e. less than one month).
Cash outflow limits	Measures expected cash outflows against predetermined limits.
Concentration of deposits	Provides a measure of the extent to which reliance is placed on funding from certain customers or market sectors.

Stress liquidity risk management

Stress liquidity risk management refers to the management of liquidity risk during times of unexpected outflows arising from Bank specific or systemic stress events. Group Treasury regularly performs liquidity scenario analyses and stress tests to assess the adequacy of the Bank's stress funding sources, liquidity buffers and contingency funding strategies in the event of such a stressed scenario. Scenario analysis and stress testing encompasses a range of realistic adverse events which, while remote, could have a material impact on the liquidity of the Bank's operations.

Through scenario analysis and stress testing, the Bank aims to manage and mitigate liquidity risk by:

- determining, evaluating and testing the impact of adverse liquidity scenarios;
- identifying appropriate rapid and effective responses to a crisis; and
- setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk.

The Bank's overall objective is to ensure that during a liquidity stress event, the Bank's stress funding sources and liquidity buffers exceed the estimated stress funding requirements for a period of at least 30 days. Stress testing and scenario analysis is used to evaluate the efficiency of identified sources of stress funding along a continuum of risk scenarios and to formulate and test contingency plans.

A detailed 'contingent funding and liquidity plan' ("CFLP") has been designed to protect depositors, creditors and shareholders during adverse liquidity conditions. The plan includes early warning indicators and sets out the crisis response strategy addressing sources of stress funding, strategies for crisis avoidance/minimisation and the internal and external communication strategy. Liquidity simulation exercises are conducted regularly to test the robustness of the plan and to ensure that key stakeholders remain up to date on liquidity matters.

58. Risk management *(continued)*

58.6 Liquidity risk *(continued)*

Analysis of liquidity risk

A detailed breakdown of the contractual mismatch position, net of impairments, is provided below:

	Bank				
	2013				
Discounted maturity	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	20 514	248	—	325	21 087
Statutory liquid asset portfolio	—	22 697	16 305	23 053	62 055
Loans and advances to banks	5 596	35 082	1 813	2 811	45 302
Trading portfolio assets	77 137	—	—	—	77 137
Derivative assets	43 545	—	—	—	43 545
Non-derivative assets	33 592	—	—	—	33 592
Hedging portfolio assets	—	373	1 531	1 440	3 344
Other financial assets	4 602	3 211	86	195	8 094
Loans to Group companies	—	—	—	19 247	19 247
Loans and advances to customers	55 278	83 330	180 593	214 839	534 040
Investment securities	675	1 435	1 967	1 143	5 220
Financial assets	163 802	146 376	202 295	263 053	775 526
Non-financial assets					13 845
Total assets					789 371
Liabilities					
Deposits from banks	18 153	43 950	1 802	194	64 099
Trading portfolio liabilities	50 059	—	—	—	50 059
Derivative liabilities	47 587	—	—	—	47 587
Non-derivative liabilities	2 472	—	—	—	2 472
Hedging portfolio liabilities	19	14	1 301	1 056	2 390
Other financial liabilities	4 461	2 095	2 855	146	9 557
Deposits due to customers	176 314	238 683	60 303	13 072	488 372
Debt securities in issue	6 618	48 433	31 189	10 940	97 180
Borrowed funds	—	6 267	7 996	1 500	15 763
Financial liabilities	255 624	339 442	105 446	26 908	727 420
Non-financial liabilities					4 692
Total liabilities					732 112
Equity					57 259
Total liabilities and equity					789 371
Net liquidity position of financial instruments	(91 822)	(193 066)	96 849	236 145	48 106

58. Risk management *(continued)*

58.6 Liquidity risk *(continued)*

Analysis of liquidity risk *(continued)*

	Bank 2012				
Discounted maturity	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	20 435	—	—	—	20 435
Statutory liquid asset portfolio	—	22 487	13 818	26 715	63 020
Loans and advances to banks	13 883	22 261	2 544	3 717	42 405
Trading portfolio assets	82 416	—	—	—	82 416
Derivative assets	46 810	—	—	—	46 810
Non-derivative assets	35 606	—	—	—	35 606
Hedging portfolio assets	—	375	3 961	1 103	5 439
Other financial assets	3 236	5 777	653	223	9 889
Loans to Group companies	—	—	—	10 956	10 956
Loans and advances to customers	97 173	57 961	142 672	212 509	510 315
Investment securities	179	404	2 562	3 444	6 589
Financial assets	217 322	109 265	166 210	258 667	751 464
Non-financial assets					12 456
Total assets					763 920
Liabilities					
Deposits from banks	18 381	21 357	1 368	1 979	43 085
Trading portfolio liabilities	47 889	—	—	—	47 889
Derivative liabilities	46 763	—	—	—	46 763
Non-derivative liabilities	1 126	—	—	—	1 126
Hedging portfolio liabilities	—	39	1 320	2 496	3 855
Other financial liabilities	8 803	3 260	212	247	12 522
Deposits due to customers	275 693	148 171	28 982	14 898	467 744
Debt securities in issue	—	44 471	45 651	14 801	104 923
Borrowed funds	1 318	1 877	10 866	3 847	17 908
Financial liabilities	352 084	219 175	88 399	38 268	697 926
Non-financial liabilities					5 083
Total liabilities					703 009
Equity					60 911
Total liabilities and equity					763 920
Net liquidity position of financial instruments	(134 762)	(109 910)	77 811	220 399	53 538

The Bank manages its behavioural (business-as-usual) mismatches within board-approved limits. The behavioural mismatches position over one year improved during the reporting period, despite the challenging economic environment.

58. Risk management *(continued)*

58.6 Liquidity risk *(continued)*

Analysis of liquidity risk *(continued)*

	Bank					
	2013					
Undiscounted maturity (statement of financial position value with impact of future interest)	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	18 153	45 213	2 245	607	(2 119)	64 099
Trading portfolio liabilities	50 059	—	—	—	—	50 059
Derivative liabilities	47 587	—	—	—	—	47 587
Non-derivative liabilities	2 472	—	—	—	—	2 472
Hedging portfolio liabilities	19	14	1 622	3 297	(2 562)	2 390
Other financial liabilities	4 461	2 155	3 557	455	(1 071)	9 557
Deposits due to customers	176 314	245 549	75 109	40 809	(49 409)	488 372
Debt securities in issue	6 618	49 826	38 847	34 153	(32 264)	97 180
Borrowed funds	—	6 447	9 959	4 683	(5 326)	15 763
Financial liabilities	255 624	349 204	131 339	84 004	(92 751)	727 420
Non-financial liabilities						4 692
Total liabilities						732 112
Off-statement of financial position						
Financial guarantee contracts	955	—	—	—		955
Loan commitments[1]	72 980	1 268	7	—		74 255

Note

[1]Includes both irrevocable debt and equity facilities granted.

58. Risk management *(continued)*

58.6 Liquidity risk *(continued)*

Analysis of liquidity risk *(continued)*

	Bank					
	2012					
Undiscounted maturity (statement of financial position value with impact of future interest)	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	18 381	21 972	1 648	5 325	(4 241)	43 085
Trading portfolio liabilities	47 889	—	—	—	—	47 889
Derivative liabilities	46 763	—	—	—	—	46 763
Non-derivative liabilities	1 126	—	—	—	—	1 126
Hedging portfolio liabilities	—	40	1 590	6 717	(4 492)	3 855
Other financial liabilities	8 803	3 353	256	664	(554)	12 522
Deposits due to customers	275 693	152 433	34 920	40 089	(36 391)	466 744
Debt securities in issue	—	45 750	55 005	39 827	(35 659)	104 923
Borrowed funds	1 318	1 931	13 092	10 349	(8 782)	17 908
Financial liabilities	352 084	225 479	106 511	102 971	(90 119)	696 926
Non-financial liabilities						5 083
Total liabilities						702 009
Off-statement of financial position						
Financial guarantee contracts	88	—	—	88	—	176
Loan commitments[1]	37 611	5 352	3 629	141	—	46 733

Note

[1]Includes both irrevocable debt and equity facilities granted.

58. Risk management *(continued)*

58.7 Capital management

Capital risk, which is the risk that the Bank is unable to maintain adequate levels of capital which could lead to an inability to support business activity; a failure to meet regulatory requirements; and/or changes to credit ratings, which could also result in increased costs or reduced capacity to raise funding.

Strategy

Effective capital planning and management ensures that the Bank has sufficient and appropriate capital structures to support its risk appetite, business activities, credit rating and regulatory requirements.

The capital management process includes:

- meeting capital ratios required by regulators and the target ranges approved by the board;
- maintaining an adequate level of capital resources in excess of economic capital requirements; and
- optimising returns through capital and balance sheet structuring.

59. Going concern

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

60. Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2013 and the date of authorisation of these consolidated financial statements (as defined per IAS 10 Events after the Reporting Period ("IAS 10")).

Company statement of financial position

as at 31 December

	Note	Company 2013 Rm	2012[1] Rm	2011[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**21 081**	20 433	19 505
Statutory liquid asset portfolio	3	**62 055**	63 020	57 473
Loans and advances to banks	4	**43 934**	41 049	55 870
Trading portfolio assets	5	**77 137**	82 666	79 714
Hedging portfolio assets	5	**3 344**	5 439	4 299
Other assets	6	**9 199**	11 028	11 014
Current tax assets	7	**—**	—	—
Non-current assets held for sale	8	**558**	353	35
Loans and advances to customers	9, 10	**533 902**	508 582	482 278
Loans to Group companies	11	**19 193**	12 242	7 271
Investment securities	12	**4 967**	6 058	7 968
Investments in associates and joint ventures	13	**102**	102	76
Subsidiaries	14	**1 376**	1 834	3 279
Property and equipment	15	**8 496**	7 642	7 257
Goodwill and intangible assets	16	**1 190**	1 047	571
Deferred tax assets	17	**—**	—	47
Total assets		**786 534**	761 495	736 657
Liabilities				
Deposits from banks	18	**64 100**	43 203	44 957
Trading portfolio liabilities	19	**50 059**	47 889	49 232
Hedging portfolio liabilities	19	**2 391**	3 855	2 456
Other liabilities	20	**11 048**	14 042	10 182
Provisions	21	**1 358**	1 386	1 449
Current tax liabilities	7	**153**	57	258
Deposits due to customers	22	**487 997**	467 135	430 449
Debt securities in issue	23	**97 179**	104 923	126 632
Borrowed funds	24	**15 762**	17 907	14 051
Deferred tax liabilities	17	**895**	1 355	893
Total liabilities		**730 942**	701 752	680 559
Equity				
Capital and reserves				
Attributable to equity holders of the Company:				
Ordinary share capital	25	**303**	303	303
Ordinary share premium	25	**13 465**	12 465	11 465
Preference share capital	25	**1**	1	1
Preference share premium	25	**4 643**	4 643	4 643
Retained earnings		**33 559**	37 412	36 321
Other reserves	26	**3 621**	4 919	3 365
Total equity		**55 592**	59 743	56 098
Total liabilities and equity		**786 534**	761 495	736 657

Note

[1]Restate, refer to note 1.3 for reporting changes.

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2013 Rm	2012[1] Rm
Net interest income		**23 286**	21 610
Interest and similar income	27	**49 656**	48 124
Interest expense and similar charges	28	**(26 370)**	(26 514)
Impairment losses on loans and advances	10.1	**(5 775)**	(7 980)
Net interest income after impairment losses on loans and advances		**17 511**	13 630
Non-interest income		**18 180**	18 026
Net fee and commission income		**14 358**	13 609
Fee and commission income	29	**15 421**	14 825
Fee and commission expense	29	**(1 063)**	(1 216)
Gains and losses from banking and trading activities	30	**3 496**	3 724
Gains and losses from investment activities	31	**4**	289
Other operating income	32	**322**	404
Operating income before operating expenditure		**35 691**	31 656
Operating expenditure		**(24 179)**	(21 611)
Operating expenses	33	**(23 383)**	(20 581)
Other impairments	34	**(1)**	(495)
Indirect taxation	35	**(795)**	(535)
Operating profit before income tax		**11 512**	10 045
Taxation expense	36	**(3 259)**	(2 592)
Profit for the reporting period		**8 253**	7 453
Other comprehensive income			
Items that will not be reclassified to the profit or loss component of the statement of comprehensive income			
Movement in retirement benefit fund assets and liabilities		**(19)**	(44)
Decrease in retirement benefit surplus		**(26)**	(61)
Deferred tax	17	**7**	17
Total items that will not be reclassified to the profit or loss component of the statement of comprehensive income		**(19)**	(44)
Items that are or may be subsequently reclassified will not be reclassified to the profit or loss component of the statement of comprehensive income			
Foreign exchange differences on translation of foreign operations		**474**	138
Movement in cash flow hedging reserve		**(1 826)**	404
Fair value gains arising during the reporting period		**(907)**	2 649
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		**(1 629)**	(2 088)
Deferred tax	17	**710**	(157)
Movement in available-for-sale reserve		**88**	1 104
Fair value gains arising during the reporting period		**110**	1 527
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income		**10**	10
Deferred tax	17	**(32)**	(433)
Total items that are or may be reclassified subsequently to the profit or loss component of the statement of comprehensive income		**(1 264)**	1 647
Total comprehensive income for the year		**6 970**	9 055
Profit attributable to:			
Ordinary equity holder		**7 958**	7 158
Preference equity holders		**294**	295
		8 253	7 453
Total comprehensive income attributable to:			
Ordinary equity holder		**6 676**	8 760
Preference equity holders		**294**	295
		6 970	9 055
Earnings per share:			
Basic earnings per share (cents per share)	37	**2 099,2**	1 907,3
Diluted earnings per share (cents per share)	37	**2 099,2**	1 907,3

Note

[1]Restated, refer to note 1.3 for reporting changes.

Company statement of changes in equity

for the reporting period ended 31 December

	Company				
	2013				
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the reporting period	**378 758**	**303**	**12 465**	**1**	**4 643**
Total comprehensive income for the reporting period	—	—	—	—	—
Profit for the reporting period	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	—
Shares issued	**4 359**	**0**	**1 000**	—	—
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment schemes	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Balance at the end of the reporting period	**383 117**	**303**	**13 465**	**1**	**4 643**
Note		25	25	25	25

	2012				
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the reporting period as previously reported	374 112	303	11 465	1	4 643
Restatements	—	—	—	—	—
Restated balance at the beginning of the reporting period	374 112	303	11 465	1	4 643
Total comprehensive income for the reporting period	—	—	—	—	—
Profit for the reporting period	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	—
Shares issued	4 646	0	1 000	—	—
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment schemes	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Balance at the end of the reporting period	378 758	303	12 465	1	4 643
Note		25	25	25	25

Note

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

Company statement of changes in equity

for the reporting period ended 31 December

Company

2013

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Total equity Rm
37 412	4 919	876	2 430	133	1 422	58	59 743
8 234	(1 264)	88	(1 826)	474	—	—	6 970
8 253	—	—	—	—	—	—	8 253
(19)	(1 264)	88	(1 826)	474	—	—	(1 283)
(12 046)	—	—	—	—	—	—	(12 046)
—	—	—	—	—	—	—	1 000
(74)	—	—	—	—	—	—	(74)
33	(34)	—	—	—	—	(34)	(1)
33	(33)	—	—	—	—	(33)	—
—	(1)	—	—	—	—	(1)	(1)
33 559	3 621	964	604	607	1 422	24	55 592
		26	26	26	26	26	

2012

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Total equity Rm
36 471	3 365	(228)	2 025	(5)	1 422	151	56 248
(150)	—	—	—	—	—	—	(150)
36 321	3 365	(228)	2 025	(5)	1 422	151	56 098
7 409	1 647	1 104	405	138	—	—	9 056
7 452	—	—	—	—	—	—	7 452
(43)	1 647	1 104	405	138	—	—	1 604
(6 217)	—	—	—	—	—	—	(6 217)
—	—	—	—	—	—	—	1 000
(211)	—	—	—	—	—	—	(211)
110	(93)	—	—	—	—	(93)	17
110	(110)	—	—	—	—	(110)	—
—	17	—	—	—	—	17	17
37 412	4 919	876	2 430	133	1 422	58	59 743
		26	26	26	26	26	

Company statement of cash flows

for the reporting period ended 31 December

	Note	Company 2013 Rm	2012[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**65 395**	63 467
Interest, fee and commission expense		**(26 098)**	(26 527)
Net trading and other income/(expense)		**33**	(1 847)
Cash payments to employees and suppliers		**(22 223)**	(20 100)
Dividends received from banking and trading activities		**(96)**	(192)
Income taxes paid		**(2 944)**	(2 859)
Cash flow from operating activities before changes in operating assets and liabilities		**14 067**	11 942
Net increase in trading and hedging portfolio assets		**10 218**	1 569
Net increase in loans and advances to customers		**(30 449)**	(34 573)
Net (increase)/decrease in other assets		**(8 717)**	5 614
Net increase in trading and hedging portfolio liabilities		**741**	198
Net increase in amounts due to customers and banks		**40 765**	33 405
Net decrease in other liabilities		**(11 038)**	(17 070)
Net cash generated from operating activities		**15 587**	1 085
Cash flow from investing activities			
Purchase of property and equipment	15	**(2 335)**	(1 613)
Proceeds from disposal of property and equipment		**69**	136
Proceeds on sale of non-current assets held for sale		**20**	35
Purchase of intangible assets	16	**(353)**	(687)
Acquisition of associates and joint ventures, net of cash	13.5	**—**	(1)
Net decrease in investment securities		**1 739**	4 191
Dividends received from investment activities		**(3)**	(289)
Net cash (utilised)/generated from investing activities		**(863)**	1 772
Cash flow from financing activities			
Issue of 'A' ordinary shares		**1 000**	1 000
Share buy-back		**—**	—
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment schemes		**(74)**	(211)
Proceeds from borrowed funds		**—**	5 000
Repayment of borrowed funds		**(1 886)**	(1 500)
Dividends paid		**(12 046)**	(6 217)
Net cash utilised in financing activities		**(13 006)**	(1 928)
Net increase in cash and cash equivalents		**1 718**	929
Cash and cash equivalents at the beginning of the reporting period		**8 786**	7 857
Cash and cash equivalents at the end of the reporting period	46	**10 504**	8 786

Note

[1]Restated, refer to note 1.3.

1. Summary of significant accounting policies

The financial statements of Absa Bank Limited (the Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Bank. For detailed accounting policies refer to the Bank's financial statements.

1.1 Changes in accounting policies

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

1.2 Reporting changes

The financial reporting changes that impact the comparative reporting periods of the Company's results for the reporting period ending 31 December 2013 are driven by:

1. The implementation of new International Financial Reporting Standards ("IFRS"), specifically IFRS 10 Consolidated Financial Statements ("IFRS 10") and IAS 19 Employee Benefits (amended 2011) ("IAS 19R"). All other amendments to IFRS effective for the current reporting period have had no significant impact on the Company's reported results.
2. Certain changes in internal accounting policies.

The implementation of new IFRS impacts the net financial results of the Company. The changes in the Company's internal accounting policies impacts the individual lines on which the income or costs are accounted for but not the net financial results of the Company.

1.2.1 Accounting policy changes due to new IFRS

IFRS 10 and IAS 19R became effective for annual periods beginning on or after 1 January 2013 and resulted in the restatement of the Company's results for the reporting period ended 31 December 2011 and 2012.

IFRS 10 replaces the requirements of IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The standard introduces new criteria to determine whether entities in which the Company has interests should be consolidated.

Implementation of this new standard results in the Company consolidating a small number of entities that were previously not consolidated and deconsolidating a small number of entities that were previously consolidated, and the resultant reclassification of some inter-group balances accordingly.

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

1.2 Reporting changes *(continued)*

1.2.1 Accounting policy changes due to new IFRS (continued)

IAS 19R amends the requirements of IAS 19 Employee Benefits. The standard introduces a number of changes relating to defined benefit plans. For the Company, the main impacts of implementing IAS 19R were the removal of the recognition of expected returns on plan assets within profit or loss in favour of interest income on plan assets being recognised in profit or loss at the rate used to discount the pension fund obligation and the recognition of interest cost on reserves owing to members in profit or loss. In addition, some benefits previously classified as short-term benefits are reclassified as long-term benefits.

1.2.2 Internal accounting policy changes

The Company elected to make internal accounting policy changes set out below, involving classification of items between income statement lines. These have no impact on the net earnings of the Company. To ensure comparability, the comparative reporting periods have been restated.

- The Company elected to change its accounting policy in terms of best practices and to better align with Barclays' internal accounting policies in terms of:
  - '"Collection costs" – costs incurred in the follow up and collection of outstanding and overdue balances, previously recognised as part of "operating expenses" and fee expenses, within "net fee and commission income", have been reclassified to recoveries within the "impairment losses on loans and advances" line in the statement of comprehensive income.
  - "Association costs" – defined as costs incurred through the Bank's association with leading interchange agents resulting in a reclassification of certain costs from "operating expenses" to "net fee and commission income".

1.2.3 Acquisitions and similar transactions

In 2013, the business of Absa Rewards was sold to the Company in its entirety. Absa Rewards became a division of Absa Bank as a result of the sale.

The transaction is a business combination of entities under common control as defined in IFRS 3. The company elected in accordance with IFRS 3 guidance and the Bank's and Barclays Africa group's accounting policies, to account for the transaction in terms of predecessor accounting principals.

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

1.2 Reporting changes *(continued)*

1.2.4 Impact of reporting changes on the Company's results

Statement of financial position as at 31 December 2011

	Company				
	As previously reported[2] Rm	IFRS accounting changes[3] Rm	Incorporation of Rewards Programme Rm	Consolidation adjustments[1] Rm	Restated Rm
Assets					
Cash, cash balances and balances with central banks	19 505	—	—	—	19 505
Statutory liquid asset portfolio	57 473	—	—	—	57 473
Loans and advances to banks	55 870	(121)	121	—	55 870
Trading portfolio assets	80 677	(963)	—	—	79 714
Hedging portfolio assets	4 299	—	—	—	4 299
Other assets	11 133	(137)	18	—	11 014
Current tax assets	—	—	—	—	—
Non-current assets held for sale	35	—	—	—	35
Loans and advances to customers	481 346	932	—	—	482 278
Loans to Group companies	8 325	471	(112)	(1 413)	7 271
Reinsurance assets	—	—	—	—	—
Investment securities	7 938	30	—	—	7 968
Investments in associates and joint ventures	76	—	—	—	76
Subsidiaries	3 279	—	—	—	3 279
Investment properties	—	—	—	—	—
Property and equipment	7 257	—	—	—	7 257
Goodwill and intangible assets	571	—	—	—	571
Deferred tax assets	27	—	20	—	47
Total assets	737 811	212	47	(1 413)	736 657
Liabilities					
Deposits from banks	45 078	(121)	—	—	44 957
Trading portfolio liabilities	49 232	—	—	—	49 232
Hedging portfolio liabilities	2 456	—	—	—	2 456
Other liabilities	10 095	(35)	122	—	10 182
Provisions	1 448	—	1	—	1 449
Current tax liabilities	258	—	—	—	258
Deposits due to customers	429 943	506	—	—	430 449
Debt securities in issue	126 632	—	—	—	126 632
Loans from Group companies	1 438	—	(25)	(1 413)	—
Borrowed funds	14 051	—	—	—	14 051
Deferred tax liabilities	932	(39)	—	—	893
Total liabilities	681 563	311	98	(1 413)	680 559
Equity					
Capital and reserves					
Attributable to ordinary equity holders of the Group:					
Ordinary share capital	303	—	—	—	303
Ordinary share premium	11 465	—	—	—	11 465
Preference share capital	1	—	—	—	1
Preference share premium	4 643	—	—	—	4 643
Retained earnings	36 471	(99)	(51)	—	36 321
Other reserves	3 365	—	—	—	3 365
Total equity	56 248	(99)	(51)	—	56 098
Total liabilities and equity	737 811	212	47	(1 413)	736 657

Notes

[1]Adjustments to bring certain balances in Absa Bank Limited in line with fellow subsidiaries of Barclays Africa Group Limited as a result of the combination of Absa Group Limited and Barclays Africa Operations.

[2]Column refers to amounts published on 12 February 2013.

[3]Included in these adjustments is the impact of IAS 19, reflecting a credit to "other assets" of R138 million, a debit to "deferred tax liabilities" of R39 million and a debit to retained earnings of R99 million. The remaining adjustments relate to the implementation of IFRS 10.

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

1.2 Reporting changes *(continued)*

1.2.4 Impact of reporting changes on the Company's results *(continued)*

Statement of financial position as at 31 December 2012[2]

	Company				
	As previously reported[2] Rm	IFRS accounting policy changes Rm	Incorporation of Rewards Programme Rm	Consolidation adjustments[1] Rm	Restated Rm
Assets					
Cash, cash balances and balances with central banks	20 433	—	—	—	20 433
Statutory liquid asset portfolio	63 020	—	—	—	63 020
Loans and advances to banks	41 049	—	261	(261)	41 049
Trading portfolio assets	83 642	(976)	—	—	82 666
Hedging portfolio assets	5 439	—	—	—	5 439
Other assets	11 213	—	43	(228)	11 028
Current tax assets	—	—	4	(4)	—
Non-current assets held for sale	353	—	—	—	353
Loans and advances to customers	507 635	947	—	—	508 582
Loans to Group companies	11 749	—	—	493	12 242
Reinsurance assets	—	—	—	—	—
Investment securities	6 029	29	—	—	6 058
Investments in associates and joint ventures	102	—	—	—	102
Subsidiaries	1 834	—	—	—	1 834
Investment properties	—	—	—	—	—
Property and equipment	7 642	—	—	—	7 642
Goodwill and intangible assets	1 047	—	—	—	1 047
Deferred tax assets	—	—	—	—	—
Total assets	761 187	—	308	—	761 495
Liabilities					
Deposits from banks	43 465	—	—	(262)	43 203
Trading portfolio liabilities	47 889	—	—	—	47 889
Hedging portfolio liabilities	3 855	—	—	—	3 855
Other liabilities	13 892	—	199	(49)	14 042
Provisions	1 386	—	—	—	1 386
Current tax liabilities	57	—	—	—	57
Non-current liabilities held for sale	—	—	—	—	—
Deposits due to customers	466 708	427	—	—	467 135
Debt securities in issue	104 923	—	—	—	104 923
Loans from Absa Group companies	—	(427)	116	311	—
Borrowed funds	17 907	—	—	—	17 907
Deferred tax liabilities	1 357	—	(2)	—	1 355
Total liabilities	701 439	—	313	—	701 752
Equity					
Capital and reserves					
Attributable to ordinary equity holder:					
Ordinary share capital	303	—	—	—	303
Ordinary share premium	12 465	—	—	—	12 465
Preference share capital	1	—	—	—	1
Preference share premium	4 643	—	—	—	4 643
Retained earnings	37 417	—	(5)	—	37 412
Other reserves	4 919	—	—	—	4 919
Total equity	59 748	—	(5)	—	59 743
Total liabilities and equity	761 187	—	308	—	761 495

Notes

[1]Adjustments to bring certain balances in Absa Bank Limited in line with fellow subsidiaries of Barclays Africa Group Limited as a result of the combination of Absa Group Limited and Barclays Africa Operations.

[2]Column refers to amounts published on 12 February 2013.

[3]Included in these adjustments is the impact of IAS 19, reflecting a credit to "other assets" of R138 million, a debit to "deferred tax liabilities" of R39 million and a debit to retained earnings of R99 million. The remaining adjustments relate to the implementation of IFRS 10.

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

1.2 Reporting changes *(continued)*

1.2.4 Impact of reporting changes on the Company's results *(continued)*

Statement of comprehensive income for the reporting period ended 31 December 2012

	Company			
	As previously[1] reported Rm	IFRS accounting[2] policy changes Rm	Incorporation of Rewards programme Rm	Restated Rm
Net interest income	21 591	5	14	21 610
Interest and similar income	48 110	5	9	48 124
Interest expense and similar charges	(26 519)	—	5	(26 514)
Impairment losses on loans and advances	(7 877)	(103)	—	(7 980)
Net interest income after impairment losses on loans and advances	13 714	(98)	14	13 630
Non-interest income	17 967	(92)	152	18 027
Net fee and commission income	13 544	(87)	152	13 609
Fee and commission income	14 673	—	152	14 825
Fee and commission expense	(1 129)	(87)	—	(1 216)
Net insurance premium income	—			
Net insurance claims and benefits paid	—			
Changes in investment contract and insurance liabilities	—			
Gains and losses from banking and trading activities	3 729	(5)	—	3 724
Gains and losses from investment activities	289	—	—	289
Other operating income	405	—	—	405
Operating income before operating expenditure	31 681	(190)	166	31 657
Operating expenses	(21 619)	109	(102)	(21 612)
Operating expenses	(20 588)	109	(102)	(20 581)
Other impairments	(496)	—	—	(496)
Indirect taxation	(535)	—	—	(535)
Share of post-tax results of associates and joint ventures	—	—	—	—
Operating profit before income tax	10 062	(81)	64	10 045
Taxation expense	(2 597)	22	(17)	(2 592)
Profit for the reporting period	7 465	(59)	47	7 453

Notes

[1]Column refers to amounts published on 12 February 2013.

[2]Included in these adjustments is the impact of IAS 19, reflecting a credit to "other assets" of R138 million, a debit to "deferred tax liabilities" of R39 million and a debit to retained earnings of R99 million. The remaining adjustments relate to the implementation of IFRS 10.

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

1.2 Reporting changes *(continued)*

1.2.4 Impact of reporting changes on the Company's results *(continued)*

Statement of comprehensive income for the reporting period ended 31 December 2012

	Company			
	As previously[1] reported Rm	IFRS accounting[2] policy changes Rm	Incorporation of Rewards programme Rm	Restated Rm
Profit for the reporting period	7 465	(59)	47	7 453
Other comprehensive income				
Items that will not be reclassified to the profit and loss component of the statement of comprehensive income				
Movement in retirement benefit asset and liabilities	(201)	158	—	(43)
(Decrease)/increase in retirement benefit surplus	(279)	218	—	(61)
(Increase)/decrease in retirement benefit surplus	—	—	—	—
Deferred tax	78	(60)	—	18
Total items that will not be reclassified to the profit and loss component of the statement of comprehensive income	(201)	158	—	(43)
Foreign exchange differences on translation of foreign operations	138	—	—	138
Movement in cash flow hedging reserve	405	—	—	405
Fair value gains/(losses) arising during the reporting period	2 650	—		2 650
Amount removed from other comprehensive income and recognised in the profit or loss component of the statement of comprehensive income	(2 088)	—	—	(2 088)
Deferred tax	(157)	—	—	(157)
Movement in available-for-sale reserve	1 104	—	—	1 104
Fair value gains arising during the reporting period	1 527	—	—	1 527
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income	10	—	—	10
Deferred tax	(433)	—	—	(433)
Total items that will not be reclassified to the profit and loss component of the statement of comprehensive income	1 647	—	—	1 647
Total comprehensive income for the reporting period	8 911	99	47	9 057
Profit attributable to:				
Ordinary equity holders of the Company	7 170	(59)	47	7 158
Non-controlling interest – ordinary shares	—	—	—	—
Non-controlling interest – preference shares	295	—	—	295
	7 465	(59)	47	7 453
Total comprehensive income attributable to:				
Ordinary equity holders of the Company	8 616	99	47	8 762
Non-controlling interest – ordinary shares	—	—	—	—
Non-controlling interest – preference shares	295	—	—	295
	8 911	99	47	9 057

Notes

[1]Column refers to amounts published on 12 February 2013.

[2]Included in these adjustments is the impact of IAS 19, reflecting a credit to "other assets" of R138 million, a debit to "deferred tax liabilities" of R39 million and a debit to retained earnings of R99 million. The remaining adjustments relate to the implementation of IFRS 10.

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

1.3 New standards and interpretations not yet adopted

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

IFRS 7 (amendments) relating to disclosures for the first time adoption of IFRS 9 are effective for periods beginning on or after 1 January 2015.

The Bank is currently in the process of assessing IFRS 9's full impact (refer below) and the related disclosures which will need to be given on first time adoption of IFRS 9.

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. The effective date of IFRS 9 was 1 January 2015. However, in July 2013, the International Accounting Standards Board issued a tentative decision to defer the effective date of IFRS 9 as the classification and measurement and impairment of financial assets requirements have not yet been finalised.

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

IFRS 10, IFRS 12, IAS 27 and IAS 28 (amendments) apply to investments in subsidiaries, joint ventures and associates held by 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 IAS 39 (or IFRS 9, 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 and will first be applicable to the consolidated financial statements presented for the year ended 31 December 2014.

The Bank is in the process of assessing the impact.

IAS 32 (amendments) provide more application guidance on when the criterion for offsetting would be considered to be met. The amendments are required to be applied retrospectively and will first be applicable will first be applicable to the consolidated financial statements presented for the year ended 31 December 2014.

The Bank is in the process of assessing the impact.

IAS 36 (amendments) has amended the disclosure requirements for the measurement of the recoverable amount of impaired assets. The amendment requires the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are applied retrospectively; however an entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply IFRS 13. The amendments will first be applicable to the consolidated financial statements presented for the year ended 31 December 2014.

The Bank is in the process of assessing the impact.

IAS 39 (amendments) allows for the novation of a hedging instrument not to be considered an expiration or termination giving rise to the discontinuance of hedge accounting when a hedging derivative is novated as a consequence of laws and regulations or one or more clearing counterparties replaces the original counterparty and any changes in the terms of the novated derivative are limited to those necessary to effect the replacement of the counterparty. Any changes to the derivative's fair value arising from the novation are reflected in its measurement and therefore the measurement and assessment of hedge effectiveness. The amendments are required to be applied retrospectively and will first be applicable to the consolidated financial statements presented for the year ended 31 December 2014.

The Bank is in the process of assessing the impact.

IFRIC 21 Levies (IFRIC 21) addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. The interpretation will first be applicable to the consolidated financial statements presented for the year ended 31 December 2014.

The Bank is in the process of assessing the impact.

	Company 2013 Rm	Company 2012 Rm
2. Cash, cash balances and balances with central banks		
Balances with the South African Reserve Bank ("SARB")	**12 416**	12 339
Coins and bank notes	**8 665**	8 094
	21 081	20 433
Portfolio analysis		
Loans and receivables		
Balances with the SARB	**12 416**	12 339
Coins and bank notes	**8 665**	8 094
	21 081	20 433
3. Statutory liquid asset portfolio		
Republic of South Africa ("RSA") government bonds	**41 536**	51 853
Reverse repurchase agreements, refer to note 41 of the Bank's financial statements	**—**	3
Treasury bills	**20 519**	11 164
	62 055	63 020
Portfolio analysis		
Available-for-sale financial assets	**36 577**	35 047
RSA government bonds	**16 058**	23 883
Treasury bills	**20 519**	11 164
Available-for-sale financial assets in a fair value hedging relationship		
RSA government bonds	**25 478**	27 173
Financial assets designated at fair value through profit or loss	**—**	800
RSA government bonds	**—**	797
Reverse repurchase agreements	**—**	3
	62 055	63 020

RSA government bonds, SARB debentures and treasury bills valued at **R7 055 million** (2012: R2 592 million) have been pledged with the SARB, refer to note 41 in the Bank's financial statements.

	Company 2013 Rm	Company 2012 Rm
4. Loans and advances to banks		
Loans and advances to banks	**43 934**	41 049
Portfolio analysis		
Financial assets designated at fair value through profit or loss	**6 140**	9 728
Loans and receivables	**37 794**	31 321
	43 934	41 049

Loans with variable rates are **R24 664 million** (2012: R23 859 million) and with fixed rates are **R19 270 million** (2012: R17 190 million).

Included above are loans and advances to banks with a carrying value of **R3 597 million** (2012: R2 668 million) that have been pledged as security, including collateralised loans of **R1 098 million** (2012: R6 037 million) relating to securities borrowed (refer to note 41 of the Bank's financial statements) which excludes reverse repurchase agreements as disclosed in the same note. 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.

Included above are reverse repurchase agreements of **R15 541 million** (2012: R9 134 million), refer to note 41 of the Bank's financial statements.

	Company 2013 Rm	Company 2012 Rm
5. Trading and hedging portfolio assets		
Commodities	**1 080**	514
Debt instruments	**24 975**	24 614
Derivative assets (refer to note 49.3)	**43 545**	46 823
Commodity derivatives	**242**	605
Credit derivatives	**269**	195
Equity derivatives	**729**	969
Foreign exchange derivatives	**7 055**	5 814
Interest rate derivatives	**35 250**	39 240
Equity instruments	**531**	741
Money market assets	**7 006**	9 974
Total trading portfolio assets	**77 137**	82 666
Hedging portfolio assets (refer to note 49.3)	**3 344**	5 439
	80 481	88 105
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**1 595**	3 859
Derivatives designated as fair value hedging instruments	**1 749**	1 580
Financial assets held for trading	**76 057**	82 152
Debt instruments	**24 975**	24 614
Derivative assets	**43 545**	46 823
Equity instruments	**531**	741
Money market assets	**7 006**	9 974
Non-financial instruments	**1 080**	514
	80 481	88 105

Included above are financial instruments which relate to the Company's interest rate economic hedging programme with a notional value of **R3 941 million** (2012: R5 560 million) and a fair value of **R293 million** (2012: R655 million).

Trading portfolio assets with a carrying value of **R10 484 million** (2012: R12 063 million) were pledged as security for repurchase agreements (refer to note 12 of the Company's financial statements). In addition, trading portfolio assets with a carrying value of **Rnil** (2012: R645 million) were pledged as security for deposits. These assets are pledged for the duration of the respective agreements.

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

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

	Company 2013 Rm	Company 2012 Rm
6. Other assets		
Accounts receivable and prepayments	**6 464**	6 528
Deferred costs	**129**	95
Inventories	**26**	348
Cost	**94**	413
Writedown	**(68)**	(65)
Retirement benefit fund surplus (refer to note 39 of the Bank's financial statements)	**466**	466
Settlement accounts	**2 114**	3 591
	9 199	11 028
Portfolio analysis		
Loans and receivables	**8 064**	9 860
Accounts receivable	**5 950**	6 269
Settlement accounts	**2 114**	3 591
Financial assets designated at fair value through profit or loss	**16**	16
Non-financial assets	**1 119**	1 152
	9 199	11 028

	Company 2013 Rm	Company 2012 Rm
7. Current tax		
Current tax liabilities		
Amount due to revenue authorities	**153**	57
8. Non-current assets		
Balance at the beginning of the reporting period	**353**	35
Disposal of assets previously disclosed under non-current assets held for sale	**(20)**	(35)
Transfer from investment securities	**4**	30
Transfer from subsidiary shares	**—**	301
Transfer from property and equipment (refer to note 15)	**206**	22
Fair value adjustment – Investment securities[1]	**15**	—
Balance at the end of the reporting period	**558**	353

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

- Through the Head office and Other segment:
  - A number of assets classified as property and equipment within the Corporate Real Estate division have been identified as held for sale. These assets have a total carrying value of R206 million. The disposal of the property and equipment is due to take place during 2014.

Note

[1]The movements on non-current assets held for sale relate to investment securities which were classified as held for sale during the previous reporting period. As at the reporting date, these investment securities remain classified as such, however, there have been movements in the underlying assets as a result of a fair value adjustment. The retained classification as non-current asset held for sale, is considered appropriate on the basis that the delay in disposal is as a consequence of events outside of the Company's control. Management remains committed to effecting the disposal, and they are expected to take place in 2014.

	Company 2013 Rm	Company 2012 Rm
9. Loans and advances to customers		
Cheque accounts	**31 179**	31 619
Corporate overdrafts and specialised finance loans	**5 729**	5 121
Credit cards	**30 178**	27 051
Foreign currency loans	**21 076**	12 152
Instalment credit agreements (refer to note 9.1)	**63 614**	57 395
Gross advances	**77 595**	69 611
Unearned finance charges	**(13 981)**	(12 216)
Reverse repurchase agreements with non-banks (refer to note 41 of the Company's financial statements)	**3 893**	4 698
Loans to associates and joint ventures	**12 039**	10 094
Microloans	**1 962**	1 846
Mortgages	**271 570**	278 486
Other advances[1]	**2 897**	3 231
Overnight finance	**14 082**	18 862
Personal and term loans	**29 037**	29 638
Preference shares	**5 810**	4 549
Wholesale overdrafts	**53 421**	36 465
Gross loans and advances to customers	**546 487**	521 207
Impairment losses on loans and advances (refer to note 10)	**(12 585)**	(12 625)
	533 902	508 582
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**4 412**	4 970
Corporate overdrafts and specialised finance loans	**10**	194
Wholesale overdrafts	**4 402**	4 776
Financial assets designated at fair value through profit or loss	**9 761**	11 144
Foreign currency loans	**1 157**	950
Mortgages	**708**	1 019
Preference shares	**—**	382
Reverse repurchase agreements	**3 893**	4 698
Wholesale overdrafts	**4 003**	4 095
Loans and receivables	**532 314**	505 093
	546 487	521 207

The Company has securitised certain loans and advances to customers, the total carrying value of these securitised assets is **R4 068 million** (2012: R6 444 million), refer to note 41.

Included above are loans and advances to customers with a carrying value of **R3 659 million** (2012: R3 956 million) that have been pledged as security, including collateralised loans of **R3 024 million** (2012: R2 474 million) relating to securities borrowed, refer to note 43 of the Company's financial statements. Included above are reverse repurchase agreements of **R3 893 million** (2012: R4 698 million), refer to note 41 of the Company's financial statements. The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

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

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

9.1 Instalment credit agreements

	Company 2013 Gross advances Rm	Company 2013 Unearned finance charges Rm	Company 2013 Net advances Rm
Maturity analysis			
Less than one year	**24 230**	**(3 977)**	**20 253**
Between one and five years	**50 958**	**(9 509)**	**41 449**
More than five years	**2 407**	**(495)**	**1 912**
	77 595	**(13 981)**	**63 614**

	2012 Gross advances Rm	2012 Unearned finance charges Rm	2012 Net advances Rm
Less than one year	22 274	(3 601)	18 673
Between one and five years	45 206	(8 191)	37 015
More than five years	2 131	(424)	1 707
	69 611	(12 216)	57 395

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

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 533 million** (2012: R4 290 million).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R1 334 million** (2012: R1 464 million).

	Company 2013 Rm	Company 2012 Rm
10. Impairment losses on loans and advances		
Balance at the beginning of the reporting period	12 625	10 832
Amounts written off during the reporting period	(5 887)	(5 860)
Foreign exchange differences	—	3
Interest on impaired assets (refer to note 30)	(845)	(1 011)
Impairments raised during the reporting period (refer to note 10.1)	6 692	8 661
Balance at the end of the reporting period (refer to note 9)	12 585	12 625
Comprising:		
Identified impairments	11 405	11 728
Unidentified impairments	1 180	897
	12 585	12 625
10.1 Statement of comprehensive income charge during the reporting period		
Impairments raised	6 692	8 661
Identified impairments	6 407	8 510
Unidentified impairments	285	151
Recoveries of loans and advances previously written off	(917)	(681)
	5 775	7 980
11. Loans to Group companies		
Fellow subsidiaries	19 193	12 242
Portfolio analysis		
Loans and receivables	19 193	12 242
12. Investment securities		
Debt instruments	3 177	3 175
Listed equity instruments	88	152
Unlisted equity and hybrid instruments	1 702	2 731
	4 967	6 058
Market value		
Directors' valuation of unlisted equity and hybrid instruments	1 702	2 731
Market value of debt instruments	3 177	3 175
Market value of listed equity instruments	88	152
	4 967	6 058
Portfolio analysis		
Available-for-sale financial assets (refer to note 12.1)	2 503	1 827
Debt instruments	2 379	1 737
Listed equity instruments	58	51
Unlisted equity and hybrid instruments	66	39
Financial instruments designated at fair value through profit or loss	2 464	4 231
Debt instruments	798	1 438
Listed equity instruments	30	101
Unlisted equity and hybrid instruments	1 636	2 692
	4 967	6 058

	Company 2013 Rm	Company 2012 Rm
12. Investment securities *(continued)*		
12.1 Available-for-sale financial assets		
Carrying value at the beginning of the reporting period	**1 827**	1 092
Cost plus fair value movements	**1 866**	1 144
Impairments[1]	**(39)**	(52)
Movement in investment securities	**676**	735
Net acquisitions	**516**	740
Transferred to investments in associates and joint ventures (refer to note 13.5)	**—**	(25)
Fair value movements and accrued interest income	**160**	20
Carrying value at the end of the reporting period	**2 503**	1 827
Cost plus fair value movements	**2 542**	1 866
Impairments[1]	**(39)**	(39)
13. Investments in associates and joint ventures		
Unlisted investments	**102**	102
13.1 Movement in carrying value of associates and joint ventures accounted for under the equity method		
Balance at the beginning of the reporting period	**102**	76
Net movement resulting from acquisitions, disposals and transfers (refer to note 13.5)	**—**	26
Balance at the end of the reporting period	**102**	102
13.2 Analysis of carrying value of associates and joint ventures accounted for under the equity method		
Unlisted investments		
Shares at cost	**102**	102

	Company 2013 Associates Rm	Company 2013 Joint ventures Rm	Company 2013 Total Rm	Company 2012 Associates Rm	Company 2012 Joint ventures Rm	Company 2012 Total Rm
13.3 Carrying value of associates and joint ventures						
Equity accounted	26	76	102	26	76	102
	26	76	102	26	76	102

13.4 Associates and joint ventures

The following information is presented in respect of associates and joint ventures accounted for under the equity method:

Group share	Associates 2013 Rm	Associates 2012 Rm	Joint ventures 2013 Rm	Joint ventures 2012 Rm
Post-tax profit/(loss) from continuing operations	—	—	—	—
Total comprehensive income	—	—	—	—

The unrecognised share of the losses of associates was **Rnil** (2012: Rnil) in the reporting period and **Rnil** (2012: Rnil) cumulatively.
The unrecognised share of the losses of joint ventures was **Rnil** (2012: Rnil) in the reporting period and **Rnil** (2012: Rnil) cumulatively.

Note
[1]All impairments relate to equity instruments.

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

	Company			
	2013		2012	
	Effective holding (%)	**Movement Rm**	Effective holding (%)	Movement Rm
13.5 Net movement resulting from acquisitions, disposals and transfers				
Acquired during the previous reporting period, at cost:				
The Document Exchange Association	—	—	33	1
Transferred from investment securities during the previous reporting period (refer to note 12.1):		—		25
SBV Services Proprietary Limited	—	—	25	25
The South African Bankers Services Company Proprietary Limited	—	—	23	0
		—		26

	Company	
	2013 Rm	2012 Rm
13.6 Details of the purchase consideration on net assets acquired		
Cash consideration	—	1
	—	1
13.7 Details of transfers and consideration received on net assets acquired		
Transfer to non-current assets held for sale (refer to note 8)	—	—
Transfer from investment securities (refer to note 12.1)	—	25
	—	25
Refer to note 44.9 of the Bank's financial statements for the full disclosure of the Company's investments in associates and joint ventures.		

	Company 2013 Rm	Company 2012 Rm
14. Subsidiaries		
Loans to subsidiary companies	**515**	1 306
Shares at cost	**861**	528
	1 376	1 834

The disposal of the Absa Property Equity Fund (refer to note 52 of the Company's financial statements), the impairment of investments in subsidiaries with underlying investment properties and the reclassification of investments in subsidiaries to non-current assets held for sale (refer to note 8), contributed to the decline in the balance from the prior reporting period.

	Company 2013 Cost Rm	2013 Accumulated depreciation and/or impairments Rm	2013 Carrying value Rm	2012 Cost Rm	2012 Accumulated depreciation and/or impairments Rm	2012 Carrying value Rm
15. Property and equipment						
Computer equipment	**4 500**	**(2 816)**	**1 684**	5 300	(3 930)	1 370
Freehold property	**4 437**	**(320)**	**4 117**	3 935	(327)	3 608
Furniture and other equipment	**5 071**	**(2 376)**	**2 695**	5 782	(3 138)	2 644
Leasehold property	**41**	**(41)**	**—**	387	(367)	20
Motor vehicles	**4**	**(4)**	**—**	4	(4)	—
	14 053	**(5 557)**	**8 496**	15 408	(7 766)	7 642

Company 2013	Opening balance Rm	Additions Rm	Disposals Rm	Transferred to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Closing balance Rm
Reconciliation of property and equipment							
Computer equipment	**1 370**	**940**	**(27)**	**—**	**—**	**(599)**	**1 684**
Freehold property	**3 608**	**661**	**(17)**	**(98)**	**3**	**(40)**	**4 117**
Furniture and other equipment	**2 644**	**734**	**(42)**	**(108)**	**—**	**(533)**	**2 695**
Leasehold property	**20**	**—**	**(3)**	**—**	**—**	**(17)**	**—**
	7 642	**2 335**	**(89)**	**(206)**	**3**	**(1 189)**	**8 496**
Note				8		34	

2012	Opening balance Rm	Additions Rm	Disposals[1] Rm	Transferred to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Closing balance Rm
Reconciliation of property and equipment							
Computer equipment	1 516	474	(45)	—	—	(575)	1 370
Freehold property	3 395	252	—	(22)	3	(20)	3 608
Furniture and other equipment	2 305	887	(11)	—	—	(537)	2 644
Leasehold property	41	—	—	—	—	(21)	20
	7 257	1 613	(56)	(22)	3	(1 153)	7 642
Note				8		34	

Leasehold property and computer equipment with a carrying value of **R103 million** (2012: R116 million) are encumbered under finance leases (refer to note 20).

Included in the above additions is **R488 million** (2012: R185 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 **R571 million** (2012: R209 million) was transferred from assets under construction and brought into use.

	Company					
	2013			2012		
	Cost Rm	**Accumulated amortisation and/or impairments Rm**	**Carrying value Rm**	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
16. Intangible assets						
Computer software development costs	**1 781**	**(1 016)**	**765**	1 473	(832)	641
Customer lists and relationships	**413**	**(28)**	**385**	387	(1)	386
Other	**53**	**(13)**	**40**	22	(2)	20
	2 247	**(1 057)**	**1 190**	1 882	(835)	1 047

	Company				
	2013				
	Opening balance Rm	**Additions Rm**	**Amorti-sation Rm**	**Impairment charge Rm**	**Closing balance Rm**
Reconciliation of intangible assets					
Computer software development costs	**641**	**300**	**(176)**	**—**	**765**
Customer lists and relationships	**386**	**22**	**(23)**	**—**	**385**
Other	**20**	**31**	**(11)**	**—**	**40**
	1 047	**353**	**(210)**	**—**	**1 190**
Note			33	34	

	2012				
	Opening balance Rm	Additions Rm	Amorti-sation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of intangible assets					
Computer software development costs	571	281	(143)	(68)	641
Customer lists and relationships	—	386	—	—	386
Other	—	20	—	—	20
	571	687	(143)	(68)	1 047
Note			33	34	

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

Included in computer software development costs is **R375 million** (2012: R156 million) relating to assets under construction.

	Company 2013 Rm	Company 2012 Rm
17. Deferred tax		
17.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the reporting period	**1 357**	846
Deferred tax asset released on STC credits	**—**	27
Deferred tax on amounts charged directly to other comprehensive income	**(685)**	573
Available-for-sale investments	**32**	433
Fair value measurement	**29**	430
Transfer to the profit or loss component of the statement of comprehensive income	**3**	3
Cash flow hedges	**(710)**	157
Fair value measurement	**(254)**	741
Transfer to the profit or loss component of the statement of comprehensive income	**(456)**	(584)
Retirement benefit fund assets and liabilities	**(7)**	(17)
Charge to the profit or loss component of the statement of comprehensive income (refer to note 37)	**222**	(90)
Tax effect of translation and other differences	**1**	(1)
Balance at the end of the reporting period	**895**	1 355
17.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**1 586**	1 447
Fair value adjustments on financial instruments	**(400)**	(174)
Impairment of loans and advances	**(268)**	(158)
Lease and rental debtor allowances	**(84)**	(20)
Other differences	**(132)**	—
Property allowances	**46**	(41)
Retirement benefit fund assets and liabilities	**147**	130
Share-based payments	**—**	171
Deferred tax liability	**895**	1 355
Deferred tax asset	**—**	—
Net deferred tax liability	**895**	1 355

	Company 2013 Rm	Company 2012 Rm
18. Deposits from banks		
Call deposits	**8 134**	10 163
Fixed deposits	**15 492**	7 777
Foreign currency deposits	**14 807**	5 668
Other	**9 336**	6 526
Repurchase agreements (refer to note 41 of the Bank's financial statements)	**16 331**	13 069
	64 100	43 203
Portfolio analysis		
Financial liabilities at amortised cost	**51 833**	28 226
Financial liabilities designated at fair value through profit or loss	**12 267**	14 977
Fixed deposits	**2 954**	4 384
Foreign currency deposits	**37**	35
Repurchase agreements	**9 276**	10 558
	64 100	43 203

Deposits with variable rates are **R34 838 million** (2012: R21 876 million) and with fixed rates are **R29 262 million** (2012: R21 327 million).

	Company 2013 Rm	Company 2012 Rm
19. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 49.3)	**47 587**	46 763
Commodity derivatives	**143**	174
Credit derivatives	**395**	182
Equity derivatives	**1 913**	1 782
Foreign exchange derivatives	**7 781**	5 610
Interest rate derivatives	**37 355**	39 015
Short positions	**2 472**	1 126
Total trading portfolio liabilities	**50 059**	47 889
Hedging portfolio liabilities (refer to note 49.3)	**2 391**	3 855
	52 450	51 744
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**434**	14
Derivatives designated as fair value hedging instruments	**1 957**	3 841
Financial liabilities held for trading	**50 059**	47 889
Derivative liabilities	**47 587**	46 763
Short positions	**2 472**	1 126
	52 450	51 744

Included above are financial instruments related to the Company's interest rate economic hedging programme with a notional value of **R1 290 million** (2012: R1 119 million) and a fair value of **R51 million** (2012: R76 million).

	Company 2013 Rm	Company 2012 Rm
20. Other liabilities		
Accruals	**1 060**	1 039
Audit fee accrual	**63**	53
Creditors	**4 227**	4 284
Deferred income	**485**	340
Liabilities under finance leases (refer to note 20.1)	**106**	289
Settlement balances	**4 640**	7 426
Share-based payment liability	**467**	610
	11 048	14 042
Portfolio analysis		
Financial liabilities at amortised cost	**8 973**	12 000
Creditors	**4 227**	4 285
Liabilities under finance leases	**106**	289
Settlement balances	**4 640**	7 426
Non-financial liabilities	**2 075**	2 042
	11 048	14 042

	Company 2013 Minimum lease payments due Rm	Interest Rm	Principal Rm
20.1 Liabilities under finance leases			
Less than one year	**93**	**(2)**	**91**
Between one and two years	**15**	**0**	**15**
	108	**(2)**	**106**

	2012 Minimum lease payments due Rm	Interest Rm	Principal Rm
Liabilities under finance leases			
Less than one year	227	(23)	204
Between one and two years	82	(2)	80
Between two and three years	5	—	5
	314	(25)	289

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
Roggebaai	31 Lower Long Street, Cape Town	Original term of 20 years with negotiable escalation clauses and a renewal date of 28 February 2014.
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.

	Company	
	2013 Rm	2012 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

	Company		
	2013		
	Staff bonuses and incentive provision Rm	**Sundry provisions Rm**	**Total Rm**
21. Provisions			
Balance at the beginning of the reporting period	**836**	**550**	**1 386**
Additions	**1 096**	**106**	**1 202**
Amounts used	**(686)**	**(418)**	**(1 104)**
Reversals	**(110)**	**(16)**	**(126)**
Balance at the end of the reporting period	**1 136**	**222**	**1 358**

	2012		
	Staff bonuses and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the reporting period	963	485	1 448
Additions	844	231	1 075
Amounts used	(947)	(81)	(1 028)
Reversals	(24)	(85)	(109)
Balance at the end of the reporting period	836	550	1 386

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R1 249 million** (2012: R1 061 million).

Sundry provisions are made with respect to fraud cases, litigation and onerous contracts.

	Company 2013 Rm	Company 2012 Rm
22. Deposits due to customers		
Call deposits	**52 829**	56 648
Cheque account deposits	**139 304**	139 856
Credit card deposits	**1 914**	1 938
Fixed deposits	**132 678**	124 832
Foreign currency deposits	**14 108**	9 723
Notice deposits	**56 349**	55 728
Other[1]	**1 742**	1 375
Repurchase agreements with non-banks (refer to note 41 of the Bank's financial statements)	**1 208**	1 503
Saving and transmission deposits	**87 865**	75 532
	487 997	467 135
Portfolio analysis		
Financial liabilities at amortised cost	**470 134**	448 045
Financial liabilities designated at fair value through profit or loss	**17 863**	19 090
Cheque accounts deposits	**80**	61
Fixed deposits	**16 258**	17 099
Other	**317**	427
Repurchase agreements with non-banks	**1 208**	1 503
	487 997	467 135
23. Debt securities in issue		
Credit linked notes	**8 155**	9 800
Floating rate notes	**44 718**	52 639
Negotiable certificates of deposit	**20 821**	17 926
Other	**11**	7
Promissory notes	**935**	1 561
Structured notes and bonds	**1 006**	1 098
Senior notes	**21 533**	21 892
	97 179	104 923
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**12 079**	11 988
Negotiable certificates of deposit	**2 791**	2 145
Senior notes	**9 288**	9 843
Financial liabilities at amortised cost	**81 516**	89 494
Financial liabilities designated at fair value through profit or loss	**3 584**	3 441
Credit linked notes	**2 245**	1 572
Negotiable certificates of deposit	**41**	59
Promissory notes	**292**	712
Structured notes and bonds	**1 006**	1 098
	97 179	104 923

Note

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

			Company 2013 Rm	Company 2012 Rm
24. Borrowed funds				
Subordinated callable notes				
The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act.				
Interest rate	*Final maturity date*	Note		
8,80%	7 March 2019	i	**1 725**	1 725
8,10%	27 March 2020	ii	**2 000**	2 000
10,28%	3 May 2022	iii	**600**	600
8,295%	21 November 2023	iv	**1 188**	1 188
Three-month JIBAR + 2,10%	3 May 2022	v	**400**	400
Three-month JIBAR + 1,95%	21 November 2022	vi	**1 805**	1 805
Three-month JIBAR + 2,05%	21 November 2023	vii	**2 007**	2 007
CPI-linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	viii	**—**	1 886
6,00%	20 September 2019	ix	**3 000**	3 000
5,50%	7 December 2028	x	**1 500**	1 500
Accrued interest			**1 472**	1 462
Fair value adjustment			**65**	334
			15 762	17 907
Portfolio analysis				
Amortised cost financial liabilities held in a fair value hedging relationship			**5 080**	5 206
Financial liabilities designated at fair value through profit or loss			**—**	778
Financial liabilities held at amortised cost			**10 682**	11 923
			15 762	17 907

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

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

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

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

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

24. Borrowed funds *(continued)*

vi The three-month JIBAR plus 1,95% floating rate notes may be redeemed in full at the option of the Company on 21 November 2017. Interest is paid quarterly in arrears 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 Company has an option to exercise the redemption on any interest payment date after 21 November 2017.

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

viii The 6,25% Consumer Price Index-linked ("CPI-linked") notes were redeemed in full at the option of the Company on 31 March 2013. Interest was payable semi-annually in arrears on 31 March and 30 September each year.

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

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

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

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

	Company	
	2013 Rm	2012 Rm
25. Share capital and premium		
25.1 Ordinary share capital		
Authorised		
320 000 000 (2012: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2012: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2012: 302 609 359) ordinary shares of R1,00 each	**303**	303
80 507 857 (2012: 76 149 040) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**13 465**	12 465
	13 768	12 768

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

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

Shares issued during the current reporting period
An additional 4 358 817 'A' ordinary shares were issued during the current reporting period.

Shares issued during the previous reporting period
An additional 4 646 408 'A' ordinary shares were issued in the previous reporting period to Barclays Africa Group Limited.

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

	Company 2013 Rm	Company 2012 Rm
25. Share capital and premium *(continued)*		
25.2 Preference share capital and premium		
Authorised		
30 000 000 (2012: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2012: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

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

26. Other reserves

26.1 Available-for-sale reserve

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

26.2 Cash flow hedging reserve

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

26.3 Foreign currency translation reserve

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

26.4 Capital reserve

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

26.5 Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. The standard requires that the expense be charged to the profit or 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 or loss component of the statement of comprehensive income.

	Company 2013 Rm	Company 2012 Rm
27. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	12	19
Fair value adjustments on hedging instruments	3 803	(185)
Investment securities	47	117
Loans and advances to banks	727	811
Loans and advances to customers	42 207	40 642
Cheque accounts	2 633	2 677
Corporate overdrafts and specialised finance loans	123	484
Credit cards	4 649	2 660
Foreign currency loans	363	218
Instalment credit agreements	5 610	5 265
Interest on impaired financial assets (refer to note 10)	845	1 011
Loans to associates and joint ventures	657	494
Microloans	454	477
Mortgages	19 225	20 651
Other advances[1]	716	221
Overnight finance	786	814
Personal and term loans	3 097	3 228
Preference shares	342	251
Wholesale overdrafts	2 707	2 191
Other interest[2]	1 123	1 136
Statutory liquid asset portfolio	1 738	5 584
	49 656	48 124
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale financial assets held in a fair value hedging relationship (refer to note 49.2)	(2 450)	1 780
Loans and advances to customers	164	431
Statutory liquid asset portfolio	(2 614)	1 349
Fair value adjustments on hedging instruments	4 549	390
Cash flow hedges (refer to note 49.2)	1 730	1 990
Economic hedges	1	(9)
Fair value hedges (refer to note 49.2)	2 818	(1 591)
Interest on financial assets held at amortised cost	45 677	43 653
Interest on financial assets held as available-for-sale	2 291	2 242
Interest on financial assets designated at fair value through profit or loss	(410)	60
Hedging instrument	(747)	(574)
Investment securities	8	68
Loans and advances to customers	300	497
Statutory liquid asset portfolio	29	69
	49 656	48 124

Notes

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

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

	Company 2013 Rm	Company 2012 Rm
28. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 316**	1 350
Debt securities in issue	**5 733**	8 236
Deposits due to customers	**20 064**	17 748
Call deposits	**2 799**	2 863
Cheque account deposits	**3 065**	3 171
Credit card deposits	**8**	9
Fixed deposits	**8 486**	6 884
Foreign currency deposits	**348**	73
Notice deposits	**2 913**	2 469
Other	**155**	134
Savings and transmission deposits	**2 290**	2 145
Deposits from banks	**1 012**	1 227
Call deposits	**363**	677
Fixed deposits	**649**	517
Other	**—**	33
Fair value adjustments on hedging instruments	**500**	(998)
Interest incurred on finance leases	**19**	51
Other[1]	**(2 274)**	(1 100)
	26 370	26 514
Portfolio analysis		
Fair value adjustments on amortised cost financial liabilities held in a fair value hedging relationship (refer to note 49.2)	**(820)**	446
Borrowed funds	**(126)**	44
Debt securities in issue	**(694)**	402
Fair value adjustments on hedging instruments	**893**	(652)
Cash flow hedges (refer to note 49.2)	**(52)**	(79)
Economic hedges	**46**	(185)
Fair value hedges (refer to note 49.2)	**899**	(388)
Interest on financial liabilities designated at fair value through profit or loss	**495**	724
Borrowed funds	**17**	70
Debt securities in issue	**156**	366
Deposits due to customers	**714**	634
Hedging instruments	**(392)**	(346)
Interest on financial liabilities held at amortised cost	**25 802**	25 996
	26 370	26 514

Note

[1]Includes items such as inter-segment eliminations between "interest and similar income", "interest expense and similar charges", "gains and losses from banking and trading activities" and "gains and losses from investment activities".

		Company 2013 Rm	Company 2012 Rm
29.	**Net fee and commission income**		
	Asset management and other related fees	**97**	62
	Consulting and administration fees	**135**	104
	Credit-related fees and commissions	**12 404**	12 008
	Cheque accounts	**3 546**	3 539
	Credit cards[1]	**929**	428
	Electronic banking	**4 099**	4 067
	Other[2]	**1 546**	1 504
	Savings accounts	**2 284**	2 470
	Insurance commission received	**481**	461
	Investment banking fees	**255**	252
	Merchant income	**1 973**	1 843
	Other	**35**	65
	Trust and other fiduciary service fees	**41**	30
	Portfolio and other management fees	**22**	20
	Trust and estate income	**19**	10
	Fee and commission income	**15 421**	14 825
	Fee and commission expense	**(1 063)**	(1 216)
	Cheque processing fees	**(150)**	(161)
	Other	**(657)**	(669)
	Transaction-based legal fees	**(114)**	(206)
	Trust and other fiduciary service fees	**—**	(56)
	Valuation fees	**(142)**	(124)
		14 358	13 609

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

		Company 2013 Rm	Company 2012 Rm
29.1	**Included above are net fees and commissions linked to financial instruments not at fair value**		
	Cheque accounts	**3 546**	3 539
	Credit cards	**929**	428
	Other	**999**	869
	Savings accounts	**2 284**	2 470
	Fee and commission income	**7 758**	7 306
	Fee and commission expense	**(890)**	(991)
		6 868	6 315

Notes

[1]Includes acquiring and issuing fees.

[2]Includes service and credit-related fees and commissions on mortgage loans and foreign exchange transactions.

		Company 2013 Rm	Company 2012 Rm
30.	**Gains and losses from banking and trading activities**		
	Associates and joint ventures – dividends received	—	74
	Net gains on investments	**320**	188
	Debt instruments designated at fair value through profit or loss	**163**	179
	Equity instruments designated at fair value through profit or loss	**167**	19
	Available-for-sale unwind from reserves	**(10)**	(10)
	Net trading result	**3 031**	3 424
	Net trading income excluding the impact of hedge accounting	**3 269**	3 402
	Ineffective portion of hedges	**(238)**	22
	Cash flow hedges (refer to note 49.2.2)	**(234)**	45
	Fair value hedges (refer to note 49.2.1)	**(4)**	(23)
	Other gains	**145**	38
		3 496	3 724
	Net trading income excluding the impact of hedge accounting	**3 269**	3 402
	Gains/(losses) on financial instruments designated at fair value through profit or loss	**1 326**	(750)
	Net gains on financial assets designated at fair value through profit or loss	**142**	1 292
	Net gains/(losses) on financial liabilities designated at fair value through profit or loss	**1 184**	(2 042)
	Gains on financial instruments held for trading	**1 943**	4 152
	Other gains	**146**	38
	Gains/(losses) on financial instruments designated at fair value through profit or loss	**7**	(27)
	Gains on financial instruments held for trading	**139**	65
31.	**Gains and losses from investment activities**		
	Available-for-sale unwind from reserves	**3**	4
	Net losses on investments	**(1)**	—
	Other gains	**2**	285
		4	289
32.	**Other operating income**		
	Foreign exchange differences	**44**	39
	(Loss)/profit on disposal of property and equipment	**(20)**	80
	Profit on sale of repossessed properties	**14**	15
	Gross sales	**356**	551
	Cost of sales	**(342)**	(536)
	Rental income	**53**	104
	Sundry income[1]	**231**	166
		322	404

Note
[1]Includes service fees levied on as well as the profit on disposal of sundry non-core business activities.

	Company 2013 Rm	Company 2012 Rm
33. Operating expenses		
Amortisation of intangible assets (refer to note 16)	**210**	143
Auditors' remuneration	**187**	149
Audit fees – current reporting period	**113**	103
Audit fees – under provision	**8**	9
Audit-related fees[1]	**44**	31
Other services	**22**	6
Cash transportation	**597**	591
Depreciation (refer to note 15)	**1 189**	1 153
Equipment costs	**175**	177
Rentals	**101**	105
Maintenance	**74**	72
Information technology[2]	**1 756**	1 925
Marketing costs	**1 115**	941
Operating lease expenses on properties	**886**	912
Other[3]	**1 732**	586
Printing and stationery	**211**	183
Professional fees[2]	**1 253**	668
Property costs	**1 151**	1 342
Staff costs	**12 240**	11 176
Bonuses	**1 184**	828
Other[4]	**526**	385
Salaries and current service costs on post-retirement benefits	**9 902**	9 349
Share-based payments (refer to note 51 of the Bank's financial statements)	**387**	431
Training costs	**242**	183
Telephone and postage	**680**	635
	23 383	20 581
34. Other impairments		
Financial instruments[5]	**(4)**	258
Other	**5**	238
Computer software development costs (refer to note 16)	**—**	68
Repossessed properties	**3**	—
Subsidiaries[6]	**2**	170
	1	496

The current and previous reporting periods' impairment losses reported by segment are disclosed in note 53 of the Bank's financial statements.

Notes

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

[2]"Information technology" and "professional fees" include research and development costs totalling **R246 million** (2012: R113 million).

[3]Includes fraud losses, travel and entertainment costs as well as administration fees related to the Edcon portfolio.

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

[5]In the previous reporting period, the impairments related to impairment of loans advanced by Absa Bank to CPF Equity subsidiaries.

[6]In the previous reporting period, the impairments in subsidiaries relates to the following: Barrie Island R10 million, Ballito R57 million; Ngwenya R83 million and Sugarloaf Investments R20 million.

	Company 2013 Rm	Company 2012 Rm
35. Indirect taxation		
Training levy	99	90
VAT net of input credits	696	445
	795	535
36. Taxation expense		
Current		
Foreign tax	46	39
South African current tax	3 368	2 834
South African current tax – previous reporting period	(377)	(236)
STC	—	45
	3 037	2 682
Deferred		
Deferred tax (refer to note 17.1)	222	(90)
Accelerated tax depreciation	61	(46)
Allowances for loan losses	(110)	(19)
Other provisions	—	6
Other temporary differences	264	(38)
Retirement benefit fund asset	7	7
	3 259	2 592
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	11 512	10 045
Tax calculated at a tax rate of 28%	3 223	2 813
Effect of different tax rates in other countries	4	—
Expenses not deductible for tax purposes	108	20
Income not subject to tax	(169)	(311)
Other	93	25
STC	—	45
	3 259	2 592

37. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holder, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the reporting period.

Diluted earnings are determined by adjusting the profit or loss attributable to the ordinary equity holder and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares. There are currently no instruments in issue that would have a dilutive impact.

	Company 2013 Rm	Company 2012 Rm
Basic and diluted earnings attributable to the ordinary equity holder of the Company	7 958	7 158
Weighted average number of ordinary shares in issue (millions)	379,1	375,3
Issued shares at the beginning of the reporting period	378,8	374,1
Effect of shares issued during the reporting period (weighted)	0,30	1,2
Basic earnings per share/diluted earnings per share (cents)	2 099,2	1 907,3

	Company			
	2013		2012	
	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm
38. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to the ordinary equity holder:		**7 958**		7 158
Total headline earnings adjustment:		**(117)**		143
IFRS 5 – Gains and losses on disposal of non-current assets held for sale	**(171)**	**(138)**	—	—
IAS 16 and IAS 36 – Loss/(profit) on disposal and impairment of property and equipment (refer to note 32)	**20**	**14**	(80)	(62)
IAS 36 – Impairment of investment in subsidiary	**2**	**2**	170	149
IAS 36 – Impairment of intangible assets (refer to note 34)	**—**	**—**	68	49
IAS 39 – Release of available-for-sale reserves (refer to note 30)	**10**	**7**	10	7
IAS 39 – Disposal and impairment of available-for-sale assets	**(3)**	**(2)**	—	—
Headline earnings/diluted headline earnings		**7 841**		7 301
Headline earnings per share/diluted headline earnings per share (cents)		**2 068,3**		1 945,4

	Company	
	2013 Rm	2012 Rm
39. Dividends per share		
39.1 Dividends declared		
Dividends declared to ordinary equity holder		
Interim dividend (30 July 2013: **2 233,4 cents**) (27 July 2012: 695,5 cents)	**8 459**	2 602
Special dividend (4 December 2013: **264,0 cents**) (27 September 2012: 267,3 cents)	**1 000**	1 000
Final dividend (11 February 2014: **754,3 cents**) (12 February 2013: 605,5 cents)	**2 890**	2 293
	12 349	5 895
Dividends declared to preference equity holders		
Interim dividend (30 July 2013: **2 999,4521 cents**) (27 July 2012: 3 134,6575 cents)	**148**	155
Final dividend (11 February 2014: **2 979,3151 cents**) (12 February 2013: 2 950,5479 cents)	**147**	146
	295	301
39.1 Dividends paid		
Dividends paid to ordinary equity holder		
Final dividend (12 February 2013: **605,5 cents**) (10 February 2012: 620,1 cents)	**2 293**	2 320
Interim dividend (30 July 2013: **2 233,4 cents**) (27 July 2012: 695,5 cents)	**8 459**	2 602
Special dividend (4 December 2013: **264,0 cents**) (27 September 2012: 267,3 cents)	**1 000**	1 000
Dividends paid to preference equity holder		
Final dividend (12 February 2013: **2 950,5479 cents**) (10 February 2012: 2 827,2329 cents)	**146**	140
Interim dividend (30 July 2013: **2 999,4521 cents**) (27 July 2012: 3 134,6575 cents)	**148**	155
	12 046	6 217

Note
[1]The net amount is reflected after taxation.

40. Transfer of financial assets

40.1 Assets transferred, but not derecognised

In the ordinary course of business, the Company enters into transactions that result in the transfer of assets to third parties or SEs that are not derecognised.

Where the holders of the associated liabilities only have recourse to the transferred assets, the fair value of the transferred assets, the fair value of the liabilities and the net asset or liability were as follows:

	Company			
	2013		2012	
	Carrying amount of assets Rm	Associated liabilities Rm	Carrying amount of assets Rm	Associated liabilities Rm
Loans and advances to customers				
Commissioner Street 1	**300**	**(271)**	383	(381)

	Company					
	2013			2012		
	Fair value of assets Rm	Fair value of liabilities Rm	Net asset/ (liabilities) Rm	Fair value of assets Rm	Fair value of liabilities Rm	Net asset/ (liabilities) Rm
Loans and advances to customers						
Commissioner Street 1	**316**	**(284)**	**32**	383	(381)	2

Details of the Company's current securitisations are described below:

Commissioner Street No. 1 Proprietary Limited (Commissioner Street 1)

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

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

The Company invested in 100% of the B notes. External investors invested in 100% of the A1 notes and A2 notes. Due to the Company being exposed to the majority of risks and rewards of Commissioner Street 1, the Company failed to derecognise the exposures in terms of IAS 39. The Company therefore continues to recognise the exposures. The loans are included in the statement of financial position under "Loans and advances to customers".

40. Transfer of financial assets *(continued)*

40.2 Assets recognised to the extent of continuing involvement

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

	Company					
	2013			2012		
	Carrying amount of assets before transfer Rm	Current carrying amount of assets Rm	Associated liabilities Rm	Carrying amount of assets before transfer Rm	Current carrying amount of assets Rm	Associated liabilities Rm
Loans and advances to customers						
Corporate overdrafts and specialised finance loans	1 185	1 188	—	1 185	1 146	—

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

Commissioner Street No. 3 Proprietary Limited (Commissioner Street 3)

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

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

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

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

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

Commissioner Street No. 4 Proprietary Limited (Commissioner Street 4)

The Company sold certain exposures to Commissioner Street 4, an SE established by the Company. Commissioner Street 4 issued various classes of notes to investors consisting of:

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

The Company invested in 67% of the A3 floating rate notes, 100% of the A4 floating rate notes and 100% of the A6 notes. External investors invested in 100% of the A1, A2, A3 fixed rate notes, A4 fixed rate notes and A5 notes, as well as 33% of the A3 floating rate notes. The loans are included in the statement of financial position under 'Loans and advances to customers'.

40.3 Securities lending and repurchase agreements

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

	Company			
	2013		2012	
	Carrying amount of assets at the reporting date Rm	Associated liabilities at the reporting date Rm	Carrying amount of assets at the reporting date Rm	Associated liabilities at the reporting date Rm
Trading portfolio assets				
Equity instruments	1 197	(1 257)	1 149	(1 405)
Debt instruments	20 504	(20 504)	14 599	(14 599)
	21 701	(21 761)	15 748	(16 004)

	Company 2013 Rm	Company 2012 Rm
41. Related parties		
Refer to note 44 of the Bank's financial statements for the full disclosure of related party transactions.		
41.1 Balance and transactions with the parent company[1]		
Balances		
Other assets	—	64
Deposits from banks	(507)	(708)
Transactions		
Dividends paid	11 752	5 922
41.2 Balance and transactions with subsidiaries[1]		
The following are balances with and transactions entered into with, subsidiaries:		
Balances		
Loans to Group companies	(54)	1 282
Subsidiary shares	1 376	1 834
Trading and hedging portfolio assets	—	13
Transactions		
Interest and similar income	(72)	(126)
Interest expense and similar charges	—	(44)
Net fee and commission income	5	9
Operating expenditure	(62)	(18)
Various terms and conditions are agreed upon, taking into account transfer pricing and relevant tax requirements.		
41.3 Balances and transactions with fellow subsidiaries[1]		
Balances		
Cash, cash balances and balances with central banks	(1)	—
Loans and advances to banks	196	82
Trading and hedging portfolio assets	2 476	27
Loans to Group companies	19 247	10 956
Deposits from banks	(3 921)	(3 455)
Debt securities in issue	(41)	(242)
Transactions		
Interest and similar income	(696)	(476)
Interest expense and similar charges	330	615
Net fee and commission income	(452)	(418)
Gains and losses from banking and trading activities	(1 115)	1 905
Gains and losses from investment activities	1	—
Other operating income	(19)	(32)
Operating expenditure	(57)	(412)

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

	Company 2013 Rm	Company 2012 Rm
42. Assets under management and administration		
Portfolio management	**6 147**	5 942
Unit trusts	**1 297**	551
	7 444	6 493
43. Financial guarantee contracts		
Financial guarantee contracts	**4 530**	876

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

44. Commitments

	Company 2013 Rm	Company 2012 Rm
Authorised capital expenditure		
Contracted but not provided for	**175**	208

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

	Company 2013 Rm	Company 2012 Rm
Operating lease payments due		
No later than one year	**820**	893
Later than one year and no later than five years	**1 417**	1 816
Later than five years	**230**	303
	2 467	3 012

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

	Company 2013 Rm	Company 2012 Rm
Sponsorship payments due		
No later than one year	**272**	289
Later than one year and no later than five years	**541**	884
	813	1 173

The Company has sponsorship commitments in respect of sports, arts and culture sponsorships.

	Company 2013 Rm	Company 2012 Rm
45. Contingencies		
Guarantees	**15 862**	15 540
Irrevocable debt facilities	**46 679**	46 191
Irrevocable equity facilities	**—**	543
Letters of credit	**5 666**	5 894
Other	**3**	6
	68 210	68 174

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

Guarantees include performance guarantee contracts and payment guarantee contracts.

45. Contingencies *(continued)*

Legal proceedings

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

- Pinnacle Point Holdings Proprietary Limited ("PPG"): New Port Finance Company and the trustees of the Winifred Trust ("the plaintiffs") allege a local bank conducted itself unlawfully, and that the Company was privy to such conduct. They have instituted proceedings against the Company for damages in an amount of R1 387 million. The Company has entered an appearance to defend the claim. The matter has not progressed from the previous reporting period.
- Ayanda Collective Investment Scheme (the Scheme): Absa Capital Investor Services was the trustee of Ayanda Collective Investment Scheme. CMM (Corporate Money Managers) managed a portfolio of assets within the Scheme under the terms of a white label agreement with Ayanda, the authorised manager of the Scheme. CMM further acted as an investment adviser in accordance with the statutory definition of the Collective Investment Scheme Act. As such, CMM procured discretionary mandates from investors and invested funds in segregated assets held in safe custody by the Company. The plaintiffs are the joint curators of the CMM group of companies and the Altron Pension Fund, an investor in the CMM cash management fund. In April 2012, the plaintiffs instituted action against the Company as well as Absa nominees ("the defendants") for approximately R1 157 million. It is alleged that the defendants caused damages to the plaintiffs arising from the their alleged failure to meet their obligations in the trust deed together with their statutory obligations set out in the Collective Investment Scheme Act. Alternatively, it is contended that the defendants recklessly facilitated the fraudulent conduct of CMM, thereby causing loss. However, the claim is poorly formulated, in response to which the defendants have lodged a series of exceptions, in respect of the latest of which a hearing date is awaited.
- Net 1 UEPS Technologies Incorporated ("Net 1"): A claim has been brought by Net 1 against the Company for loss of profit and damages. It is alleged that the Company caused a reduction in Net 1's share price by allegedly providing incorrect information to the media thereby "manipulating" media reports. It is also claimed that in view of the alleged manipulation, the Company caused an investigation by the United States Department of Justice, in terms of the Foreign Corrupt Practices Act, and the Securities Exchange Commission, into the award of the social grants tender by the South African Social Security Agency ("SASSA") to Net 1's subsidiary, Cash Paymaster Services Proprietary Limited. The Company has filed a plea in answer to the summons. The amount of the claim is R478 million.
- Ovation Global Investment Holdings Proprietary Limited ("Ovation"): the Company has been accused of negligently opening various bank accounts, which were used by one Cruickshank (the fund administrator), to embezzle funds belonging to the investors in the fund. It is the Company's position that investors have a claim against the fund manager and not against the Company. The matter is currently in the discovery phase and it is still expected that the trial date will be late 2014 or early 2015. The value of the claim instituted is R129,5 million.

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

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

Regulatory matters

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

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

	Company	
	2013 Rm	2012 Rm
46. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**8 665**	8 094
Loans and advances to banks	**1 839**	692
	10 504	8 786

	Company			
	2013		2012	
	Assets Rm	Liabilities and equity Rm	Assets Rm	Liabilities and equity Rm
47. Consolidated statement of financial position summary – IAS 39 classification				
Fair value through profit or loss	97 782	86 164	113 510	90 030
Designated at fair value	18 381	33 714	25 919	38 286
Statutory liquid asset portfolio	—	—	800	—
Loans and advances to banks	6 140	—	9 728	—
Other assets	16	—	16	—
Loans and advances to customers	9 761	—	11 144	—
Investment securities	2 464	—	4 231	—
Deposits from banks	—	12 267	—	14 977
Deposits due to customers	—	17 863	—	19 090
Debt securities in issue	—	3 584	—	3 441
Borrowed funds	—	—	—	778
Held for trading	76 057	50 059	82 152	47 889
Trading portfolio assets	76 057	—	82 152	—
Trading portfolio liabilities	—	50 059	—	47 889
Hedging instruments	3 344	2 391	5 439	3 855
Hedging portfolio assets	3 344	—	5 439	—
Hedging portfolio liabilities	—	2 391	—	3 855
Available-for-sale	64 558	—	64 047	—
Designated as available-for-sale	39 080	—	36 874	—
Statutory liquid asset portfolio	36 577	—	35 047	—
Investment securities	2 503	—	1 827	—
Hedged items				
Statutory liquid asset portfolio	25 478	—	27 173	—
Amortised cost	610 273	640 297	571 294	605 683
Held at amortised cost	605 861	623 138	566 324	589 688
Cash, cash balance and balance with central banks	21 081	—	20 433	—
Loans and advances to banks	37 794	—	31 321	—
Other assets	8 064	—	9 860	—
Loans and advances to customers	519 729		492 468	—
Loans to group companies	19 193		12 242	
Deposits from banks	—	51 833	—	28 226
Other liabilities	—	8 973	—	12 000
Deposits due to customers	—	470 134	—	448 045
Debt securities in issue	—	81 516	—	89 494
Borrowed funds	—	10 682	—	11 923
Hedged items	4 412	17 159	4 970	15 995
Loans and advances to customers	4 412	—	4 970	—
Debt securities in issue	—	12 079	—	11 988
Borrowed funds	—	5 080	—	4 007
Other assets and liabilities	13 921	4 481	12 644	6 039
Total equity	—	55 592	—	59 743
	786 534	786 534	761 495	761 495

48. Assets and liabilities not held at fair value

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

	Company			
	2013 Carrying value Rm	2013 Fair value Rm	2012 Carrying value Rm	2012 Fair value Rm
Financial assets				
Balances with the SARB	12 416	12 416	12 339	12 339
Coins and bank notes	8 665	8 665	8 094	8 094
Cash, cash balances and balances with central banks (refer to note 2)	21 081	21 081	20 433	20 433
Loans and advances to banks (refer to note 4)	37 794	37 794	31 321	31 321
Other assets (refer to note 6)	8 064	8 049	9 860	9 860
Retail Banking South Africa	339 021	338 858	332 134	332 638
Cheque accounts	2 015	2 015	1 892	1 892
Credit cards	27 830	27 830	25 855	25 855
Instalment credit agreements	62 465	62 162	56 090	56 322
Loans to associates and joint ventures	10 287	10 287	8 393	8 393
Mortgages	222 106	222 170	225 619	225 772
Personal and term loans	14 318	14 394	14 285	14 404
Business Banking South Africa	60 000	60 069	62 345	62 820
Cheque accounts	17 074	17 074	17 998	17 998
Commercial property finance	30 683	30 752	32 390	32 865
Instalment credit agreement	13	13	19	19
Loans to associates and joint ventures	559	559	627	627
Term loans	11 671	11 671	11 311	11 311
CIBW	124 969	119 166	102 584	102 584
Head office, inter-segment eliminations and Other	151	151	375	375
Loans and advances to customers net of impairment losses (refer to note 9)	524 141	518 244	497 438	498 417
Loans to Group companies (refer to note 11)	19 193	19 318	12 242	12 242
Total assets	610 273	604 486	571 294	572 273
Financial liabilities				
Deposits from banks (refer to note 18)	51 833	51 833	28 226	28 269
Other liabilities (refer to note 20)	8 973	8 973	12 000	12 000
Call deposits	52 829	52 829	56 648	56 648
Cheque account deposits	139 224	139 224	139 795	139 795
Credit card deposits	1 914	1 914	1 938	1 938
Fixed deposits	116 420	116 462	107 733	108 174
Foreign currency deposits	14 108	14 108	9 723	9 723
Notice deposits	56 349	56 350	55 728	55 935
Other deposits	1 425	1 425	948	948
Saving and transmission deposits	87 865	87 865	75 532	75 532
Deposits due to customers (refer to note 22)	470 134	470 177	448 045	448 693
Debt securities in issue (refer to note 23)	93 595	93 595	101 482	101 482
Borrowed funds (refer to note 25)	15 762	16 308	17 129	15 762
Total liabilities	640 297	640 886	606 882	606 206

48. Assets and liabilities not held at fair value *(continued)*

	Company				
	2013				
	Carrying value Rm	Fair value Rm	Valuations with reference to observable prices Level 1 Rm	Valuations with reference to observable inputs Level 2 Rm	Valuations with reference to unobservable inputs Level 3 Rm
Financial assets					
Balances with the SARB	12 416	12 416	11 851	565	—
Coins and bank notes	8 665	8 865	8 865	—	—
Cash, cash balances and balances with central banks (refer to note 2)	21 081	21 081	20 516	565	—
Loans and advances to banks (refer to note 4)	37 794	37 794	4 729	33 065	—
Other assets (refer to note 6)	8 064	8 049	1 711	5 669	669
Retail Banking South Africa	339 021	338 858	1 659	4 819	332 380
Cheque accounts	2 015	2 015	806	—	1 209
Credit cards	27 830	27 830	—	381	27 449
Instalment credit agreements	62 465	62 162	—	354	61 808
Loans to associates and joint ventures	10 287	10 287	—	—	10 287
Mortgages	222 106	222 170	—	—	222 170
Personal and term loans	14 318	14 394	853	4 084	9 457
Business Banking South Africa	60 000	60 069	—	—	60 069
Cheque accounts	17 074	17 074	—	—	17 074
Commercial property finance	30 683	30 752	—	—	30 752
Instalment credit agreements	13	13	—	—	13
Loans to associates and joint ventures	559	559	—	—	559
Term loans	11 671	11 671	—	—	11 671
CIBW	124 969	119 166	9 534	13 107	96 525
Head office, inter-segment eliminations and Other	151	151	—	—	151
Loans and advances to customers net of impairments (refer to note 9)	524 141	518 244	11 193	17 926	489 125
Loans to Group companies (refer to note 11)	19 193	19 318	—	—	19 318
Total assets	610 273	604 486	38 149	57 225	509 112
Financial liabilities					
Deposits from banks (refer to note 18)	51 833	51 833	15 140	29 462	7 231
Other liabilities (refer to note 20)	8 973	8 973	4 536	1 378	3 059
Call deposits	52 829	52 829	52 799	30	—
Cheque account deposits	139 224	139 224	126 797	3 584	8 843
Credit card deposits	1 914	1 914	—	—	1 914
Fixed deposits	116 420	116 462	—	116 462	—
Foreign currency deposits	14 108	14 108	244	13 864	—
Notice deposits	56 349	56 350	—	56 350	—
Other deposits	1 425	1 425	1 090	—	335
Saving and transmission deposits	87 865	87 865	87 865	—	—
Deposits due to customers (refer to note 22)	470 134	470 177	268 795	190 290	11 092
Debt securities in issue (refer to note 23)	93 595	93 595	22 462	69 260	1 873
Borrowed funds (refer to note 25)	15 762	16 308	15 620	688	—
Total liabilities	640 297	640 886	326 553	291 078	23 255

48. Assets and liabilities not held at fair value *(continued)*

48.1 Valuation methodology – non-fair value items

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a wide range of valuation techniques are available, it may be inappropriate to compare the Company's fair value information to independent market or other financial institutions. Assumptions changes and different valuation methodologies can have significant impact on fair values which are based on unobservable inputs.

The carrying values of certain financial assets and financial liabilities have been determined using measurement bases other than fair value. IFRS 13 Fair Value ("IFRS 13") imposes specific fair value disclosure requirements on these items that fall within the scope of the standard. The valuation methodology described below has been applied in order to determine the disclosed fair values for such financial assets and financial liabilities that are not carried at fair value.

Financial assets

The carrying value of financial assets held at amortised cost (including loans and advances, and other lending such as reverse repurchase agreements and cash collateral on securities borrowed) is determined in accordance with the Company's accounting policy.

Loans and advances to banks and customers

The disclosed fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

Financial liabilities

The carrying value of financial liabilities held at amortised cost (including customer accounts and other deposits such as repurchase agreements and cash collateral on securities lent, debt securities in issue and subordinated liabilities) is determined in accordance with the Company's accounting policy.

In many cases, the disclosed fair value approximates the carrying value because the instruments are short term in nature or have interest rates that reprice frequently such as customer accounts and other deposits and short-term debt securities.

The disclosed fair value for deposits repayable on demand is considered to be equal to their carrying value. The fair value for all other deposits is determined using discounted cash flows applying either market rates or current rates for deposits of similar remaining maturities.

Fair values of other debt securities in issue are based on quoted prices where available, or where these are unavailable, are determined using valuation models.

Fair values for dated and undated convertible and non-convertible loan capital are based on quoted market rates for the issue concerned or issues with similar terms and conditions.

Valuation inputs

IFRS 13 requires an entity to classify disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instrument fair values are classified as Level 1 if they have been determined using observable prices in an active market. Such fair values are determined by 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.

Financial instruments measured at amortised cost, such as loans and advances to banks and customers, are generally not traded in active markets which precludes the classification of their fair values as Level 1 fair values.

Valuation technique using observable inputs – Level 2

Financial instrument fair values classified as Level 2 have been determined using models for which inputs are observable in an active market. A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. The determination of financial instrument fair values for instruments not measured at fair value usually relies on unobservable inputs which have a significant impact on their fair values, precluding their classification as Level 2 fair values.

48. Assets and liabilities not held at fair value *(continued)*

48.1 Valuation methodology – non-fair value items *(continued)*

Valuation technique using significant unobservable inputs – Level 3

Financial instrument fair values are classified as Level 3 if their determination incorporates significant inputs that are not based on observable market data (unobservable inputs). An input is deemed significant if it is shown to contribute more than 10% to the fair value of a financial instrument. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

48.2 Measurement of financial instruments at Level 2

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments not held at fair value categorised as Level 2.

A description of the nature of the techniques used to calculate valuations based on observable inputs, is set out in the table below:

Category of asset/liability	Types of financial instruments	Valuation techniques applied	Significant observable inputs
Cash, cash balances and balances with central banks	Balances with other central banks, balances with the SARB, coins and bank notes and money market assets	Discounted cash flow	Interest rate curves and money market curves
Loans and advances to banks	Loans and advances and reverse repurchase agreements	Discounted cash flow	Interest rate curves and money market curves
Other assets	Accounts receivable and prepayments, initial margin and settlement accounts	Discounted cash flow	Interest rate curves and money market curves
Loans and advances to customers	Loans and advances and reverse repurchase agreements	Discounted cash flow	Interest rate curves and money market curves
Deposits from banks	Fixed deposits, foreign currency deposits and repurchase agreements	Discounted cash flow	Interest rate curves and money market curves
Other liabilities	Creditors, liabilities under finance leases and settlement balances	Discounted cash flow	Interest rate curves and money market curves
Deposits due to customers	Bills, repurchase agreements with non-banks, buy sellback agreements, floating rate notes, deposits, certificates of deposit, commercial paper and other money market instruments	Discounted cash flow	Interest rate curves and money market curves
Debt securities in issue	Bonds and index linked bonds	Discounted cash flow	Underlying price of the market traded instrument, interest rate curves and money market curves
Borrowed funds	Subordinated callable notes	Discounted cash flow	Interest rate curves and money market curves

48. Assets and liabilities not held at fair value *(continued)*

48.3 Measurement of financial instruments at Level 3

The table below sets out information about significant unobservable inputs used at the end of the reporting period in measuring financial instruments not held at fair value categorised as Level 3.

Category of asset/liability	Types of financial instruments	Valuation techniques applied	Significant unobservable inputs
Cash, cash balances and balances with central banks	Balances with other central banks, balances with the SARB, coins and bank notes and money market assets	Discounted cash flow	Interest rate curves and money market curves
Loans and advances to banks	Loans and advances and reverse repurchase agreements	Discounted cash flow	Interest rate curves and money market curves
Other assets	Accounts receivable and prepayments, initial margin and settlement accounts	Discounted cash flow	Interest rate curves and money market curves
Loans and advances to customers	Loans and advances and reverse repurchase agreements	Discounted cash flow	Interest rate curves and money market curves
Investment securities	Debt instruments	Discounted cash flow	Interest rate curves and money market curves
Deposits from banks	Fixed deposits, foreign currency deposits and repurchase agreements	Discounted cash flow, discounted average balance	Interest rate curves and money market curves
Other liabilities	Creditors, liabilities under finance leases and settlement balances	Discounted cash flow	Interest rate curves and money market curves
Deposits due to customers	Bills, repurchase agreements with non-banks, buy sellback agreements, floating rate notes, deposits, certificates of deposit, commercial paper and other money market instruments	Discounted cash flow	Interest rate curves and money market curves
Debt securities in issue	Bonds and index linked bonds	Discounted cash flow	Underlying price of market traded instrument, interest rate curves and money market curves
Borrowed funds	Subordinated callable notes	Discounted cash flow	Interest rate curves and money market curves

49. Derivatives

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

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

49.1 Derivatives held for trading

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

49.2 Derivatives held for hedging

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

49.2.1 Derivatives designated as fair value hedges

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

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

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

	Company	
	2013 Rm	2012 Rm
(Losses)/gains on hedged items (assets) (refer to note 27)	**(2 450)**	1 780
Gains/(losses) on hedging instruments (assets) (refer to note 27)	**2 818**	(1 591)
Gains/(losses) on hedged items (liabilities) (refer to note 28)	**820**	(446)
(Losses)/gains on hedging instruments (liabilities) (refer to note 28)	**(899)**	388

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 or loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Company	
	2013 Rm	2012 Rm
Ineffectiveness (outside range) (refer to note 31)	**(4)**	(23)
Ineffectiveness (inside range)	**2**	(21)

49.2.2 Derivatives designated as cash flow hedges – interest rate risk

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

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

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

	Company						
	2013						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast receivable cash flow[1]	1 446	403	62	16	4	39	1 970
Forecast payable cash flow[1]	(33)	(65)	(221)	(251)	(161)	77	(654)
Net cash flow before taxation	1 413	338	(159)	(235)	(157)	116	1 316

Note
[1]These balances are shown before taxation.

49. Derivatives *(continued)*

49.2 Derivatives held for hedging *(continued)*

49.2.2 Derivatives designated as cash flow hedges – interest rate risk (continued)

	Company 2012						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast receivable cash flow[1]	1 947	1 324	634	198	20	—	4 123
Forecast payable cash flow[1]	(11)	—	—	(1)	(2)	(26)	(40)
Net cash flow before taxation	1 936	1 324	634	197	18	(26)	4 083

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

	Company	
	2013 Rm	2012 Rm
Interest and similar income (refer to note 27)	**1 730**	1 990
Interest expense and similar charges (refer to note 28)	**52**	79
Gains and losses from banking and trading activities (refer to note 30)	**(234)**	45
	1 548	2 114

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

	Company	
	2013 Rm	2012 Rm
Ineffectiveness (outside range) (refer to note 30)	**(234)**	33
Ineffectiveness (inside range)	**158**	66

49.2.3 Derivatives designated as cash flow hedges – share-based payment transactions

The objective of share-based payment cash flow hedges is to protect against changes in the settlement cash flows of cash-settled share-based payment schemes resulting from the impact of changes in the market price of Barclays Africa Group Limited's shares.

The Company uses forward contracts referencing the Barclays Africa Group Limited share price to protect against changes in cash flows of its Deferred Award Plan and Share Value Plan cash-settled share-based payment schemes.

The Company is exposed to variability in future cash-settled share-based payment cash flows. The Company designates the spot component of the forward contracts as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows due to changes in the Barclays Africa Group Limited share price.

The following schedule indicates the periods when the cash flows from the hedged share-based payment liabilities are expected to occur and when they are expected to affect the profit or loss component of the statement of comprehensive income as at the reporting date. The cash flows and profit or loss impact presented below are on an undiscounted basis (before taxation) and have been calculated using the Barclays Africa Group Limited 31 December 2013 closing share price:

	Company 2013						
	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 payable cash flow[1]	**(306)**	**(171)**	**(77)**	**—**	**—**	**—**	**(554)**
Forecast profit or loss impact[1]	**(29)**	**(82)**	**(57)**	**—**	**—**	**—**	**(168)**
Net cash flow before taxation	**(335)**	**(253)**	**(134)**	**—**	**—**	**—**	**(722)**

Note

[1]These balances are shown before taxation.

49. Derivatives *(continued)*

49.2 Derivatives held for hedging *(continued)*

49.2.3 Derivatives designated as cash flow hedges – share-based payment transactions (continued)

	Company 2012						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast payable cash flow	(364)	(229)	(100)	—	—	—	(693)
Forecast profit or loss impact	(30)	(106)	(71)	—	—	—	(207)
Net cash flow before taxation	(394)	(335)	(171)	—	—	—	(900)

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

	Company	
	2013 Rm	2012 Rm
Operating expenses – staff costs – share-based payments	**(37)**	—

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

	Company	
	2013 Rm	2012 Rm
Ineffectiveness (outside range) (refer to note 36)	**—**	—

The spot element of the forward contracts that were designated as hedging instruments were 100% effective during the periods and therefore no ineffectiveness was recognised in profit or loss.

Detailed breakdown of derivatives

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

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

49. Derivatives *(continued)*

49.3 Detailed breakdown of derivatives *(continued)*

	Company					
	2013				2012	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Trading						
Foreign exchange derivatives						
Foreign exchange forwards	41 651	(842)	906	(1 748)	50 085	(393)
Currency swaps	366 996	(15)	5 323	(5 338)	534 508	437
Over-the-counter ("OTC") foreign exchange options	53 097	127	822	(695)	35 237	160
OTC foreign exchange options purchased	26 340	778	782	(4)	18 820	401
OTC foreign exchange options written	26 757	(651)	40	(691)	16 417	(241)
Other OTC foreign exchange derivatives	—	—	—	—	247	(1)
Exchange-traded derivatives	88 263	4	4	—	97 174	1
Eurodollar futures	83 115	—	—	—	96 533	—
Exchange-traded options purchased	—	—	—	—	496	1
Exchange-traded futures	5 148	4	4	—	145	—
Total foreign exchange derivatives	**550 007**	**(726)**	**7 055**	**(7 781)**	717 251	204
Interest rate derivatives						
Forward rate agreements ("FRAs")	2 076 796	103	770	(667)	1 281 461	(131)
Currency interest rate swaps	178 906	(1 066)	7 575	(8 641)	174 075	(827)
Swaps	6 414	(199)	26	(225)	62 362	24
Interest rate swaps	1 847 814	(905)	26 721	(27 626)	1 122 885	1 729
OTC options on FRAs and swaps	25 445	10	113	(103)	109 669	(142)
OTC options on FRAs and swaps purchased	12 351	110	113	(3)	71 196	455
OTC options on FRAs and swaps written	13 094	(100)	—	(101)	38 473	(597)
Other OTC interest rate derivatives	24 306	(43)	45	(88)	12 319	4
Exchange-traded derivatives	27 095	(3)	2	(5)	7 647	4
Exchange-traded derivatives purchased	27 032	2	2	—	7 647	4
Exchange-traded derivative swaps written	63	(5)	—	(5)	—	—
Embedded derivatives	1	(2)	(2)	—	11 791	(436)
Total interest rate derivatives	**4 186 777**	**(2 105)**	**35 250**	**(37 355)**	2 782 209	225
Equity derivatives						
OTC options purchased	4 944	271	286	(15)	7 991	512
OTC options written	6 103	(1 172)	(739)	(433)	8 331	(544)
Equity futures	—	—	—	—	1 989	(6)
Other OTC equity derivatives	41 847	1 034	2 490	(1 456)	30 505	(659)
OTC equity derivatives	52 894	133	2 037	(1 904)	48 816	(697)
Exchange-traded derivatives	52 828	7	16	(9)	3 361	5
Exchange-traded options purchased	1 860	—	—	—	544	5
Exchange-traded options written	2 996	(1)	—	(1)	14	—
Exchange-traded futures	47 972	8	16	(8)	2 803	—
Embedded derivatives	1	(1 324)	(1 324)	—	1 028	(121)
Total equity derivatives	**105 723**	**(1 184)**	**729**	**(1 913)**	53 205	(813)
Balance carried forward	**4 842 507**	**(4 015)**	**43 034**	**(47 049)**	3 552 665	(384)

49. Derivatives *(continued)*

49.3 Detailed breakdown of derivatives *(continued)*

	Company 2013 Notional amount Rm	2013 Net fair value Rm	2013 Fair value assets Rm	2013 Fair value liabilities Rm	2012 Notional amount Rm	2012 Net fair value Rm
Trading *(continued)*						
Balance brought forward	4 842 507	(4 015)	43 034	(47 049)	3 552 665	(384)
Commodity derivatives						
Agricultural forwards	8 121	—	12	(12)	361	(32)
OTC agricultural options	9	2	2	—	132	(9)
OTC agricultural options purchased	9	2	2	—	54	(1)
OTC agricultural options written	—	—	—	—	78	(8)
OTC options on gold – purchased	54	2	2	—	28	—
Other OTC commodity derivatives	13 587	95	226	(131)	4 768	502
OTC commodity derivatives	21 771	99	242	(143)	5 289	461
Exchange-traded agricultural derivatives	772	—	—	—	2 218	2
Exchange-traded agricultural derivatives purchased	772	—	—	—	2 218	2
Embedded derivatives	—	—	—	—	—	(32)
Total commodity derivatives	22 543	99	242	(143)	7 507	431
Credit derivatives						
Credit derivatives purchased (swaps)	7 212	(122)	16	(138)	4 327	(48)
Credit derivatives written (swaps)	23 805	(4)	253	(257)	11 865	18
Embedded derivatives	—	—	—	—	11 201	43
Total credit derivatives	31 017	(126)	269	(395)	27 393	13
Total trading	4 896 067	(4 042)	43 545	(47 587)	3 587 565	60
Hedging						
Cash flow hedges						
Interest rate swaps	173 822	1 161	1 595	(434)	149 992	3 845
Total cash flow hedges	173 822	1 161	1 595	(434)	149 992	3 845
Fair value hedges						
Currency swaps	1 859	(147)	—	(147)	137 150	(2 261)
Interest rate swaps	147 479	(61)	1 749	(1 810)	—	—
Total fair value hedges	149 338	(208)	1 749	(1 957)	137 150	(2 261)
Total hedges	323 160	953	3 344	(2 391)	287 142	1 584
Total derivative instruments	5 219 227	(3 089)	46 889	(49 978)	3 874 707	1 644

49. Derivatives *(continued)*

49.3 Detailed breakdown of derivatives *(continued)*

Derivative assets and liabilities subject to counterparty netting agreements amounted to **R43 652 million** (2011: R41 778 million). Additionally, the Company held **R7 786 million** (2011: R3 908 million) of collateral against the net derivative asset exposure. OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association ("ISDA") Master Agreement is used by the Company. The ISDA Master Agreement and all the confirmations entered into under it form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and replace them with a single net amount payable by one party to the other.

Notional amount

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

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

Fair value

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

50. Fair value hierarchy disclosures

50.1 Valuation methodology

The table below shows the Company's assets and liabilities that are recognised and subsequently measured at fair value and are analysed by valuation techniques. The classification of assets and liabilities is based on the lowest level input that is significant to the fair value measurement in its entirety.

	Company			
	2013			
Recurring fair value measurements	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
Financial assets				
Statutory liquid asset portfolio (refer to note 3)	62 055	—	—	62 055
Loans and advances to banks (refer to note 4)	—	6 140	—	6 140
Trading and hedging portfolio assets (refer to note 5)	24 382	53 982	1 037	79 401
Debt instruments	23 928	174	873	24 975
Derivative assets	—	46 725	164	46 889
Commodity derivatives	—	242	—	242
Credit derivatives	—	258	11	269
Equity derivatives	—	729	—	729
Foreign exchange derivatives	—	7 016	39	7 055
Interest rate derivatives	—	38 480	114	38 594
Equity instruments	454	77	—	531
Money market assets	—	7 006	—	7 006
Other assets (refer to note 6)	—	—	16	16
Loans and advances to customers (refer to note 9)	—	4 069	5 692	9 761
Investment securities (refer to note 12)	2 654	—	2 313	4 967
Total financial assets	89 091	64 191	9 058	162 340
Financial liabilities				
Deposits from banks (refer to note 18)	—	12 267	—	12 267
Trading and hedging portfolio liabilities (refer to note 19)	2 472	49 436	542	52 450
Derivative liabilities	—	49 436	542	49 978
Commodity derivatives	—	149	—	149
Credit derivatives	—	350	45	395
Equity derivatives	—	1 607	306	1 913
Foreign exchange derivatives	—	7 747	49	7 796
Interest rate derivatives	—	39 583	142	39 725
Short positions	2 472	—	—	2 472
Other liabilities (refer to note 20)	—	—	—	—
Deposits due to customers (refer to note 22)	—	10 725	7 138	17 863
Debt securities in issue (refer to note 23)	—	3 549	35	3 584
Borrowed funds (refer to note 24)	—	—	—	—
Total financial liabilities	2 472	75 977	7 715	86 164
Non-financial assets				
Trading and hedging portfolio asset (refer to note 5)				
Commodities	1 080	—	—	1 080
Non-recurring fair value measurements				
Non-current assets held for sale (refer to note 8)	98	—	460	558

Notes

[1]The nature of the valuation techniques is summarised in note 50.2.

[2]The nature of the valuation techniques is summarised in note 50.3.

Notes to the Company financial statements

for the reporting period ended 31 December

Company			
2012			
Valuations with reference to observable prices Level 1[1] Rm	Valuations based on observable inputs Level 2[1] Rm	Valuations based on un-observable inputs Level 3[2] Rm	Total Rm
63 017	3	—	63 020
—	9 728	—	9 728
25 567	61 072	952	87 591
23 079	662	873	24 614
1	52 182	79	52 262
1	604	—	605
—	152	43	195
—	964	5	969
—	5 813	1	5 814
—	44 649	30	44 679
600	141	—	741
563	9 411	—	9 974
—	—	16	16
—	5 523	5 621	11 144
2 068	2	3 988	6 058
90 652	76 328	10 577	177 557
—	14 977	—	14 977
1 131	50 539	74	51 744
5	50 539	74	50 618
5	169	—	174
—	158	24	182
—	1 756	26	1 782
—	5 653	—	5 653
—	42 803	24	42 827
1 126	—	—	1 126
—	—	—	—
—	11 418	7 672	19 090
—	3 254	187	3 441
778	—	—	778
1 909	80 188	7 933	90 030
514	—	—	514
20	—	333	353

50. Fair value hierarchy disclosures *(continued)*

50.1 Valuation methodology *(continued)*

50.1.1 Fair value measurement and valuation processes

Financial assets and financial liabilities

The Company has an established control framework with respect to the measurement of fair values. The framework includes a Valuation Committee and an Independent Valuation Control ("IVC") team, where IVC are independent of front office management.

The Valuation Committee is responsible for overseeing the valuation control process and will therefore consider the appropriateness of valuation techniques and inputs for fair value measurement.

The IVC team independently verifies the results of trading and investment operations and all significant fair value measurements. The team sources independent data from various external sources as well as internal risk areas when performing independent price verification for all fair value positions. IVC assesses and documents the inputs obtained from independent sources to measure fair value to support conclusions that such valuations are in accordance with IFRS and internal valuation policies.

The Valuation Committee which, comprises representatives from senior management, will formally approve valuation policies and any changes to valuation methodologies. Significant valuation issues are reported to the Group Audit and Compliance Committee.

50.1.2 Significant transfers between levels

During the reporting period trading portfolio assets to the value of R237 million as well as trading portfolio liabilities of R165 million were transferred from Level 2 to Level 3. The transfers relate to equity securities for which there are no longer a quoted price in an active market and for which the significant inputs to determine the fair value have become unobservable.

50.2 Valuation techniques using observable inputs

Valuations based on observable inputs include:

Level 1

Assets and liabilities 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

Asset and liabilities 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.

50. Fair value hierarchy disclosures *(continued)*

50.3 Valuation techniques using unobservable inputs

Valuations based on unobservable inputs include:

Level 3

Asset and liabilities valued using inputs that are not based on observable market data (unobservable data) such as an entity's own 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.

(viii) Investment properties

The significant inputs for the valuation of investment properties include but are not limited to estimates of periods in which rental units will be disposed of, selling prices per unit, selling price escalations per year, rental income per unit, rental escalations per year, expense ratios, vacancy rates, income capitalisation rates and risk adjusted discount rates.

50. Fair value hierarchy disclosures *(continued)*

50.3 Valuation techniques using 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 and other eligible bills

These instruments are valued, based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or, in the case of certain mortgage-backed securities, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Equity instruments

Equity instruments are valued, based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Also included in equity instruments are non-public investments, which include investments in venture capital organisations. The fair value of these investments is determined using appropriate valuation methodologies which, dependent on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price:earnings comparisons. For each investment, the relevant methodology is applied consistently over time.

Derivatives

Derivative contracts can be exchange-traded or traded OTC. OTC derivative contracts include forward, swap and option contracts related to interest rates, bonds, foreign currencies, credit spreads, equity prices and commodity prices or indices on these instruments. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models.

Loans and advances

The disclosed fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

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.

50. Fair value hierarchy disclosures *(continued)*

50.4 Fair value adjustments

The main valuation adjustments required to arrive at a fair value are described below:

Bid-offer valuation adjustments

For assets and liabilities where the Company is not a market maker, mid prices are adjusted to bid and offer prices respectively. Bid-offer adjustments reflect expected close out strategy and, for derivatives, the fact that they are managed on a portfolio basis. The methodology for determining the bid-offer adjustment for a derivative portfolio will generally involve netting between long and short positions and the bucketing of risk by strike and term in accordance with hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the Company is a market maker and has the ability to transact at, or better than, mid-price (which is the case for certain equity, bond and vanilla derivative markets), the mid-price is used, since the bid-offer spread does not represent a transaction cost.

Uncollateralised derivative adjustments

A fair value adjustment is incorporated into uncollateralised derivative valuations to reflect the impact on fair value of counterparty credit risk, the Company's own credit quality, as well as the cost of funding across all asset classes.

Model valuation adjustments

Valuation models are reviewed under the Company's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependent on the size of portfolio, complexity of the model, whether the model is market standard and to what extent it incorporates all known risk factors. All models and model valuation adjustments are subject to review on at least an annual basis.

50.5 Third-party credit enhancements

There were no significant liabilities measured at fair value and issued with inseparable third-party credit enhancements.

50. Fair value hierarchy disclosures *(continued)*

50.6 Movements on assets and liabilities 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 assets and liabilities is set out below:

	Company			
	2013			
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm
Opening balance at the beginning of the reporting period	**952**	**16**	**5 621**	**3 988**
Movement in other comprehensive income	—	—	—	20
Net interest income	55	—	295	(11)
Gains and losses from banking and trading activities	(165)	—	208	(203)
Gains and losses from investment activities	—	—	(99)	(218)
Purchases	13	—	762	20
Sales	—	—	(44)	(704)
Issues	—	—	—	5
Settlements	—	—	(924)	(579)
Transferred to/(from) assets/liabilities	(55)	—	(127)	(5)
Movement in/(out) of Level 3[1]	237	—	—	—
Closing balance at the end of the reporting period	**1 037**	**16**	**5 692**	**2 313**

	2012			
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm
Opening balance at the beginning of the reporting period	1 072	16	6 011	6 184
Movement in other comprehensive income	—	—	—	—
Net interest income	(10)	—	11	32
Gains and losses from banking and trading activities	—	—	—	175
Gains and losses from investment activities	70	—	691	(215)
Purchases	33	—	630	114
Sales	(46)	—	(868)	(2 083)
Issues	39	—	154	—
Settlements	(102)	—	(1 008)	(108)
Transferred to/(from) assets/liabilities	—	—	—	(111)
Movement in/(out) of Level 3	(104)	—	—	—
Closing balance at the end of the reporting period	952	16	5 621	3 988

Note

[1]Refer to note 50.1.2.

Company

2013				
Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
10 577	74	7 672	187	7 933
20	—	—	—	—
339	—	9	—	9
(160)	306	153	(152)	307
(317)	—	(1)	—	(1)
795	—	27	—	27
(748)	(3)	427	—	424
5	—	—	—	—
(1 503)	—	(1 149)	—	(1 149)
(187)	—	—	—	—
237	165	—	—	165
9 058	542	7 138	35	7 715

2012				
Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
13 283	199	7 612	209	8 020
—	—	—	—	—
33	—	—	—	—
175	2	735	7	744
546	—	—	—	—
777	26	—	—	26
(2 997)	—	—	—	—
193	3	920	—	923
(1 218)	(6)	(1 595)	(29)	(1 630)
(111)	—	—	—	—
(104)	(150)	—	—	(150)
10 577	74	7 672	187	7 933

50. Fair value hierarchy disclosures *(continued)*

50.7 Unrealised gains and losses on Level 3 positions

The total unrealised gains and losses for the reporting period on Level 3 positions held at the reporting date are set out below:

Company

	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm	Non-current assets held for sale Rm	Total assets at fair value Rm
	2013						
Gains and losses from banking and trading activities	**337**	**—**	**(136)**	**—**	**—**	**—**	**201**
	2012						
Net interest income	—	—	29	7	—	—	36
Gains and losses from banking and trading activities	30	—	437	316	—	—	783
Gains and losses from investment activities	—	—	—	(215)	—	—	(215)
	30	—	466	108	—	—	604

Company

	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
	2013				
Gains and losses from banking and trading activities	**(311)**	**—**	**1**	**0**	**(310)**
	2012				
Net interest income	—	—	—	—	—
Gains and losses from banking and trading activities	(1)	—	(735)	—	(736)
Gains and losses from investment activities	—	—	—	—	—
	(1)	—	(735)	—	(736)

50. Fair value hierarchy disclosures *(continued)*

50.8 Unrecognised (losses)/gains as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in the statement of comprehensive income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	Company 2013 Rm	Company 2012 Rm
Opening balance at the beginning of the reporting period	**(93)**	(51)
New transactions	**17**	38
Amounts recognised in the profit or loss component of the statement of comprehensive income during the reporting period	**(9)**	(80)
Closing balance at the end of the reporting period	**(85)**	(93)

50.9 Sensitivity analysis of valuations using unobservable inputs

As part of the Company's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The assets and liabilities 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 charge to the profit or loss section of the statement of comprehensive income, or a change in the fair value asset or liability of more than 10% of the underlying value of the affected item. This is demonstrated by the following sensitivity analysis which includes reasonable ranges of possible outcomes:

Company 2013

	Significant unobservable parameters[1]	Potential effect recorded in profit or loss Favourable Rm	Potential effect recorded in profit or loss Unfavourable Rm	Potential effect recorded directly in equity Favourable Rm	Potential effect recorded directly in equity Unfavourable Rm
Trading and hedging portfolio assets	i, iii	43	43	—	—
Other assets	i, iii	2	2	—	—
Loans and advances to customers	i, iii, v, vi, vii	1 202	159	—	—
Investment securities	iv, v, vi	204	204	—	—
Trading and hedging portfolio liabilities	iii	13	5	—	—
Deposits due to customers	iv	221	220	—	—
		1 685	633	—	—

2012

	Significant unobservable parameters[1]	Potential effect recorded in profit or loss Favourable Rm	Potential effect recorded in profit or loss Unfavourable Rm	Potential effect recorded directly in equity Favourable Rm	Potential effect recorded directly in equity Unfavourable Rm
Trading and hedging portfolio assets	i, iii	126	113	—	—
Loans and advances to customers	i, iii, iv, v, vi, vii	245	306	—	—
Investment securities	iv, v, vi	1 527	1 735	5	4
Trading and hedging portfolio liabilities	iii	51	51	—	—
Other liabilities	vi	2	2	—	—
Deposits due to customers	iv	122	122	—	—
Debt securities in issue	iv	59	59	—	—
		2 132	2 388	5	4

Note
[1]Refer to note 50.3 for details of unobservable parameters.

50. Fair value hierarchy disclosures *(continued)*

50.9 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 assets and liabilities:

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
Investment securities (private equity, property equity, investments and other)	Future earnings and marketability discounts Comparator multiples Discount rates	15/(15)%
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100/(100) bps

50.10 Measurement of financial instruments at Level 2

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments categorised as Level 2 in the fair value hierarchy.

Category of asset/liability	Valuation techniques applied	Significant observable inputs	Fair value of asset/ liability Rm
Loans and advances to banks	Discounted cash flow	Interest rate curves, money market curves	6 140
Trading and hedging portfolio assets			
Debt instruments	Discounted cash flow	The underlying price of market traded instruments and interest rates	174
Derivative assets			46 721
Commodity derivatives	Discounted cash flow model, option pricing models, futures pricing model, ETF model	Spot price (physical or futures), interest rates, volatility	238
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Interest rate, recovery rate, credit spread, quanto ratio	258
Equity derivatives	Discounted cash flow model, option pricing models, futures pricing model	Spot price, interest rate, volatility, dividend stream	729
Foreign exchange derivatives	Discounted cash flow model, option pricing models	Spot price, interest rate, volatility	7 016
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rate curves, repo curves, money market curves, volatility	38 480
Equity instruments	Net asset value	The underlying price of market traded instruments	77
Money market assets	Discounted cash flow	Money market rates and interest rates	7 006
Loans and advances to customers	Discounted cash flow	Interest rate curves, money market curves	4 069

50. Fair value hierarchy disclosures *(continued)*

50.10 Measurement of financial instruments at Level 2 *(continued)*

Category of asset/liability	Valuation techniques applied	Significant observable inputs	Fair value of asset/ liability Rm
Deposits from banks	Discounted cash flow	Interest rate curves and money market curves	12 267
Trading and hedging portfolio liabilities			
Derivative liabilities			49 436
Commodity derivatives	Discounted cash flow model, option pricing models, futures pricing model, ETF model	Spot price (physical or futures), interest rates, volatility	149
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Interest rate, recovery rate, credit spread, quanto ratio	350
Equity derivatives	Discounted cash flow model, option pricing models, futures pricing model	Spot price, interest rate, volatility, dividend stream	1 607
Foreign exchange derivatives	Discounted cash flow model, option pricing models	Spot price, interest rate, volatility	7 747
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rate curves, repo curves, money market curves, volatility	39 583
Deposits due to customers	Discounted cash flow	Interest rate curves and money market curves	10 698
Debt securities in issue	Discounted cash flow	The underlying price of the market traded instrument and interest rate curves	3 546

50.11 Measurement of financial instruments at Level 3

The table below sets out information about significant unobservable inputs used at the end of the reporting period in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fair value measurement sensitivity to the unobservable inputs	Fair value of asset/ liability Rm
Loans and advances to customers	Discounted cash flow, and dividend yield models	Credit ratings	Credit spreads vary between 1,35% and 7,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	5 692
Investment securities	Discounted cash flows, third party valuations, earnings before interest tax depreciation and amortisation ("EBITDA") multiples, income capitalisation valuations, net asset value models	Weighted average cost of capital, EBITDA multiples, liquidity discounts, minority discounts, capitalisation rates	Discount rates between 9,7% and 18%, multiples between 5,5 and 6,1	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on value.	2 315

50. Fair value hierarchy disclosures *(continued)*

50.11 Measurement of financial instruments at Level 3 *(continued)*

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fair value measurement sensitivity to the unobservable inputs	Fair value of asset/ liability Rm
Trading and hedging portfolio assets					
Debt instruments	Discounted cash flow	Credit spreads used in the calculation of the counterparty credit risk adjustment	0,9% to 3,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	873
Derivative assets					164
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Illiquid credit curves, recovery rates, quanto ratio	0% to 3,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	11
Foreign exchange derivatives	Discounted cash flow model, option pricing models	African basis curves > 1 year	-2,5% to 1,7%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	39
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rates (ZAR-SWAP-SPREAD curves, ZAR-REAL < 1 year, ZAR-MM-FundingSPR > 5 years, repo curves > 1 year)	-1,5% to 8,3%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	114

50. Fair value hierarchy disclosures *(continued)*

50.11 Measurement of financial instruments at Level 3 *(continued)*

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fair value measurement sensitivity to the unobservable inputs	Fair value of asset/ liability Rm
Deposits due to customers	Discounted cash flow	ZAR MM funding spread greater than 5 years	0,85% to 1,2%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	7 138
Debt securities in issue	Discounted cash flow	Credit spread	10 to 20 bps	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	35

50. Fair value hierarchy disclosures *(continued)*

50.11 Measurement of financial instruments at Level 3 *(continued)*

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fare measurement sensitivity to the unobservable inputs	Fair value of asset/ liability Rm
Trading and hedging portfolio liabilities					
Derivative liabilities					542
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Illiquid credit curves, recovery rates, quanto ratio	0% to 3,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	45
Equity derivatives	Discounted cash flow model, option pricing models, futures pricing model	Volatility, dividend streams > 3 years	16,9% to 37,2%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	306
Foreign exchange derivatives	Discounted cash flow model, option pricing models	African basis curves > 1 year	-2,5% to 1,7%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	49
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rates (ZAR-SWAP-SPREAD curves, ZAR-REAL < 1 year, ZAR-MM-FundingSPR > 5 years, repo curves > 1 year)	– 1,5% to 8,3%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	142

51. Acquisitions and disposals of businesses

51.1 Acquisitions of businesses during the prior reporting period

There were no acquisitions of businesses during the prior reporting period.

51.2 Disposals of businesses during the current and previous reporting period

There were no acquisitions of businesses during the current and previous reporting periods.

51.3 Other similar transactions during the current reporting period

In 2013, the business of Absa Rewards was sold to Absa Bank in its entirety. Absa Rewards became a division of Absa Bank as a result of the sale and is no longer a subsidiary of the Bank. The effective date of the sale was 31 March 2013. The consideration 'paid' was the carrying value of the assets and liabilities as at 31 March 2013.

Assets and liabilities (excluding the tax liability and deferred tax arising from assessed losses) were disposed of at carrying value on the effective date with Absa Bank assuming all the liabilities with the exception of the tax liabilities, which remain the liability of Absa Rewards for statutory tax purposes on the effective date. Thus, for the purposes of applying the predecessor accounting method, the tax liabilities and deferred tax asset were not transferred to Absa Bank. However, all the other assets and liabilities were transferred.

52. Other disclosures

Additional disclosures can be found in the Bank's financial statements. Refer to notes 39, 41, 43, 45, 51, 53 and 58.

53. Going concern

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

54. Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2013 and the date of authorisation of these stand-alone financial statements (as defined per IAS 10 Events After The Reporting Period (IAS 10)).