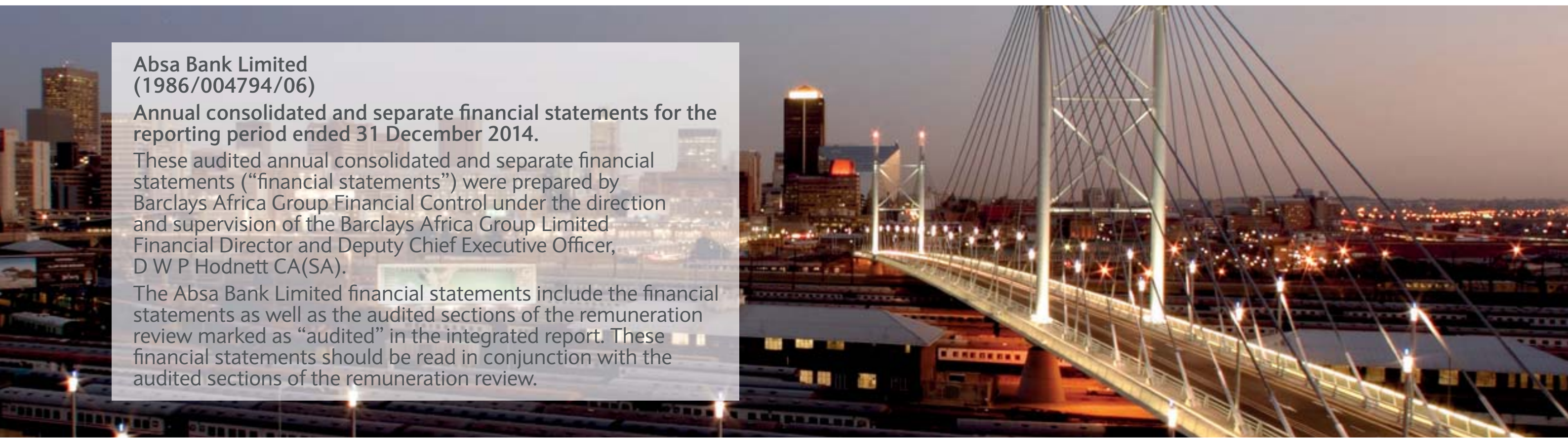
Absa Bank Limited

Annual consolidated and separate financial statements
for the reporting period ended 31 December 2014

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 2014.

These audited annual consolidated and separate financial statements ("financial statements") were prepared by Barclays Africa Group Financial Control under the direction and supervision of the Barclays Africa Group Limited Financial Director and Deputy Chief Executive Officer, 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" in the integrated report. These financial statements should be read in conjunction with the audited sections of the remuneration review.

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"). Although certain material subsidiaries have separate audit committees, these fall under the ambit of oversight of the GACC, to which all major issues are escalated. The GACC may review from time to time, together with the chairman of the audit committees of the material subsidiaries, the control environment of these subsidiaries.

Information on the membership and composition of the GACC, its terms of reference and its procedures, is 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 2015 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;
- Ensured that adequate time was set aside for private discussions with the external auditors;
- Confirmed that the external auditors would attend and address queries at any general shareholders meeting;
- 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 and comply, in all material respects, with the relevant provisions of the Companies Act, International Financial Reporting ("IFRS"), and Interpretations of IFRS and the SAICA Reporting Guides;
- Reviewed and recommended for approval by the board the reporting changes contained in the Stock Exchange News Services announcement ("SENS") issued on the Johannesburg Stock Exchange on 30 July 2014 and 3 March 2015. The reporting changes in the SENS dealt with the impact of the amendments to IAS 32 Financial Instruments: Presentation ("IAS 32") relating to offsetting of financial assets and liabilities and internal accounting policy changes. These changes affected the comparatives for the 2012 and 2013 reporting periods and the interim results at 30 June 2014. The GACC satisfied itself that the changes disclosed in the annual financial statements and SENS result in fair presentation of the consolidated financial position as presented in the annual financial statements and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and interpretations of IFRS, and SAICA Reporting Guides;

Note

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

Activities of the GACC *(continued)*

- Reviewed the interim, final and special dividend proposals for approval by the board;
- Reviewed the solvency and liquidity tests undertaken for specific transactions and dividend declarations;
- Reviewed significant accounting and reporting issues, including complex or unusual transactions, sustainability of the control environment, significant judgemental areas, and recent professional and regulatory pronouncements, and ascertained their impact on the financial statements;
- 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; and
- Reviewed significant matters which are not a normal part of the Bank's business, but which are referred to the committee by the board or management.

In respect of internal control and internal audit:

- Reviewed and approved the internal audit ("IA") charter;
- Reviewed the current reporting period internal audit plan, including the adequacy of IA's skills, resources and budget;
- Reviewed the scope, nature and effectiveness of the work of 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;
- Considered a special report on the fraud risk management capability across the Bank;
- Considered and reviewed the adequacy of skills of resources and budget available to IA;
- Assessed the adequacy and effectiveness of IA's performance; and
- Considered a detailed assessment of the business continuity management ("BCM") programme across the Bank. The assessment of the BCM programme included all subsidiaries across the Bank and highlighted key focus areas for remediation. The GACC will continue to monitor the BCM programme enhancements and the finalisation of the BCM maturity plans to improve and standardise BCM programmes across the Rest of Africa.

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 validity, accuracy and completeness of 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. An independent review of the IA function is performed at least every five years. The last review was conducted by KPMG in 2013. Additionally, regular internal quality reviews by IA staff were performed during the year which proved satisfactory IA performance.

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

- Reviewed and approved the Bank compliance monitoring plan, compliance methodology and structure, 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;

Activities of the GACC *(continued)*

- Reviewed the relationship and material communications with the Bank's regulators;
- 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;
- Assessed the adequacy and effectiveness of Bank Compliance's performance, including receiving confirmation that there was no restriction on scope or access;
- Considered and reviewed the adequacy of the resources and budget available to Compliance;
- 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;
- Reviewed the Africa Compliance Plan and Resourcing Report, as well as the Africa Compliance Monitoring Plans;
- Together with the Group Risk Capital Management Committee ("GRCMC") oversaw the plan and progress of management together in improving compliance in respect of KAMLS requirements;
- Received confirmation that all matters that are significant to Barclays PLC (designated Control Issues of Group Level Significance ("CIGLS")) are reported in a timely manner to the relevant Barclays PLC governance structures;
- Reviewed all possibilities of compliance-related fines and implemented improvement in KAMLS compliance; and
- Reviewed the Bank Compliance report on the overall status of compliance in the Bank and any significant breakdowns that caused or could cause material loss or penalty.

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 Bank's key risks self-assessments, including the combined assurance assessments and the risk and control assessments;
- Reviewed the risk management report for the interim and year-end reporting periods;
- Monitored governance around the combined assurance framework, including the status of the combined assurance model; and
- 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.

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.

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 including obtaining confirmation that no restrictions had been placed upon PwC or EY that limited their scope of access;
- 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;
- The auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- Received a letter of confirmation from each of the joint External Auditors that they meet all the requirements for independence and report thereon to the JSE by way of confirmation in the GACC Report included in the Annual Consolidated Financial Statements.

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 2 March 2015.

On behalf of the GACC

C Beggs
Chairman of the GACC

Johannesburg
3 March 2015

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.

Based on forecasts and available cash resources, the directors have no reason to believe that the Bank and the Company will not be going concerns in the reporting period ahead, and 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 annual 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
Chairman

M Ramos
Chief Executive Officer (CEO)

Johannesburg
3 March 2015

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

In accordance with the provisions of the Companies Act of South Africa, I certify that, in respect of the year ended 31 December 2014, 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
3 March 2015

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 191, which comprise statements of financial position as at 31 December 2014, 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 51 and 56.

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 2014, 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 2014, 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.
Director: J P Bennett
Registered Auditor

2 Eglin Road, Sunninghill
Johannesburg
2 March 2015

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

102 Rivonia Road, Sandton

General information and nature of activities

Absa Bank Limited ("the Company"), which has preference shares listed on the JSE, is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, and wealth management products and services. The Company and its subsidiaries ("the Bank") operate primarily in South Africa and employ 27 446 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 3 March 2015.

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 2014.

Group Audit and Compliance Committee report

Refer to page 1.

Bank results

Main business and operations

The Bank recorded an increase of 6% in headline earnings to **R8 787m** (2013: R8 266m) for the reporting period. Headline earnings per share ("HEPS") and fully diluted HEPS both increased by 4% to **2 271,1 cents** (2013: 2 180,4 cents).

Some comparative information contained in this set of financial statements has been restated. Refer to note 1.19 of the accounting policies for further details.

Headline earnings was derived from the following activities:

	Bank	
	2014 Rm	2013 Rm
Retail and Business Banking ("RBB")	**7 308**	6 642
Retail Banking	**5 299**	5 098
Home Loans	**1 808**	1 145
Vehicle and Asset Finance	**1 148**	1 095
Card	**1 432**	1 802
Personal Loans	**434**	359
Transactional and deposits	**2 843**	2 840
Other	**(2 366)**	(2 143)
Business Banking	**2 009**	1 544
Corporate and Investment Bank ("CIB")	**2 406**	2 455
Head Office and other operations	**(917)**	(791)
Wealth	**(10)**	(40)
Headline earnings (refer to note 36)	**8 787**	8 266

Directors

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

C Beggs[1]
Y Z Cuba[1]
T Dingaan[1]
S A Fakie[1]
D W P Hodnett[2] (Financial Director/Deputy Chief Executive Officer)
M J Husain[1]
W E Lucas-Bull[3] (Chairman)
T M Mokgosi-Mwantembe[1]
T S Munday[1] (Lead independent director)
M Ramos[2] (Chief Executive Officer)

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.

Shareholder information

	2014 Number of shares	2014 %	2013 Number of shares	2013 %
Public and non-public shareholders				
Non-public				
Barclays Africa Group Limited		**100**		100
Ordinary shares	**302 609 359**		302 609 359	
"A" ordinary shares	**93 541 890**		80 507 857	
Public				
Preference shares	**4 944 839**	**100**	4 944 839	100
SBSA I.T.F. NGI Flex Inc FND	**278 011**	**5,6**	278 044	5,6
SCB A.T.F. CORO CAPITAL PLUS FUND	**334 796**	**6,8**	322 086	6,5
Other preference shareholders	**4 332 032**	**87,6**	4 344 709	87,9
	401 096 088		388 062 055	

Notes

[1]Independent non-executive director.
[2]Executive director.
[3]Non-executive director.

Directors’ interests in the Company’s preference shares

As at the reporting date, no director held any preference shares in the Company.

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 42.4 and 42.6 to the consolidated financial statements.

Acquisitions and disposals

Refer to notes 7 and 50 for additional information on the acquisitions and disposals of businesses and other significant assets.

Acquisitions of businesses during the current reporting period

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

Acquisitions of businesses during the previous reporting period

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

Dividends

- On 11 February 2014, a final dividend of 754,3 cents per ordinary share was announced to the ordinary shareholder registered on 4 April 2014.
- On 11 February 2014, a final dividend of 2 979,3151 cents per preference share was announced to the preference shareholders registered on 4 April 2014.
- On 30 July 2014, a dividend of 593,35 cents per ordinary share was announced to the ordinary shareholder registered on 12 September 2014.
- On 30 July 2014, a dividend of 3 197,4658 cents per preference share was announced to preference shareholders registered on 12 September 2014.
- On 8 April 2014, a special dividend of 638,38 cents per ordinary share was announced to the ordinary shareholder.
- On 5 December 2014, a special dividend of 516,1 cents per ordinary share was announced to the ordinary shareholder.
- On 2 March 2015, a dividend of 912,78268 cents per ordinary share was approved. The dividend was announced on 3 March 2015 to the ordinary shareholder registered on 17 April 2015. This dividend is payable on 20 April 2015.
- On 2 March 2015, a dividend of 3210,89041 cents per preference share was approved. The dividend was announced on 3 March 2015 to preference shareholders registered on 27 March 2015. The dividend is payable on 30 March 2015.

Special resolutions

The following special resolutions were passed by the Bank's ordinary shareholders at the AGM held on 19 May 2014, in accordance with the Companies Act:

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

  Resolved to approve the proposed remuneration to be payable to non-executive directors of the Company for the period 1 May 2014 to and including the last day of the month preceding the date of the next AGM thereafter.
- Special resolution number 2 – Financial assistance to a related or inter-related company/corporation

  Resolved that the Bank, in terms of a general authority contemplated in section 45(3)(a)(ii) of the Companies Act, for a period of two years from the date of this resolution, to provide direct or indirect financial assistance as regulated by section 45 of the Companies Act to a related or inter-related company/corporation and/or to a member of a related or inter-related company/corporation.

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 19 May 2015, shareholders will be requested to reappoint PwC and EY as auditors of the Bank for the 2015 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** (2013: R322 800 000) consists of:

- **320 000 000** (2013: 320 000 000) ordinary shares of R1,00 each;
- **250 000 000** (2013: 250 000 000) 'A' ordinary shares of R0,01 each; and
- **30 000 000** (2013: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each.

Issued

An additional **13 034 033** "A" ordinary shares were issued in the current reporting period (2013: 4 358 817).

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

- **302 609 359** (2013: 302 609 359) ordinary shares of R1,00 each;
- **93 541 890** (2013: 80 507 857) 'A' ordinary shares of R0,01 each; and
- **4 944 839** (2013: 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 2014 Rm	2013[1] Rm	2012[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**21 419**	21 087	20 435
Investment securities	3	**70 618**	67 275	69 609
Loans and advances to banks	4	**47 599**	45 953	44 033
Trading portfolio assets	5	**78 572**	78 864	86 374
Hedging portfolio assets	5	**2 335**	3 344	5 439
Other assets	6	**9 311**	9 299	11 134
Current tax assets		**17**	15	34
Non-current assets held for sale	7	**250**	1 857	1 438
Loans and advances to customers	8, 9	**554 521**	534 926	511 301
Loans to Group companies	10	**17 740**	19 247	10 956
Investments in associates and joint ventures	11	**839**	694	562
Investment properties	12	**252**	240	331
Property and equipment	13	**9 137**	8 504	7 653
Goodwill and intangible assets	14	**1 422**	1 303	1 160
Deferred tax assets	15	**29**	27	30
Total assets		**814 061**	792 635	770 489
Liabilities				
Deposits from banks	16	**54 104**	65 827	47 043
Trading portfolio liabilities	17	**44 580**	50 710	49 515
Hedging portfolio liabilities	17	**2 577**	2 391	3 855
Other liabilities	18	**13 809**	11 640	14 569
Provisions	19	**1 857**	1 362	1 394
Current tax liabilities		**65**	151	58
Non-current liabilities held for sale	7	**—**	175	177
Deposits due to customers	20	**521 656**	489 257	468 729
Debt securities in issue	21	**105 015**	97 179	104 923
Borrowed funds	22	**10 535**	15 762	17 907
Deferred tax liabilities	15	**937**	922	1 407
Total liabilities		**755 135**	735 376	709 577
Equity				
Capital and reserves				
Attributable to equity holders:				
Ordinary share capital	23	**303**	303	303
Ordinary share premium	23	**16 465**	13 465	12 465
Preference share capital	23	**1**	1	1
Preference share premium	23	**4 643**	4 643	4 643
Retained earnings		**33 713**	34 506	38 011
Other reserves	24	**3 799**	4 291	5 441
		58 924	57 209	60 864
Non-controlling interest		**2**	50	48
Total equity		**58 926**	57 259	60 912
Total liabilities and equity		**814 061**	792 635	770 489

Note
[1]Comparatives have been restated, refer to note 1.19 for reporting changes.

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

	Note	Bank 2014 Rm	Bank 2013 Rm
Net interest income		**25 928**	23 565
Interest and similar income	25	**54 810**	50 095
Interest expense and similar charges	26	**(28 882)**	(26 530)
Non-interest income		**18 400**	18 557
Net fee and commission income		**14 775**	14 421
Fee and commission income	27	**15 964**	15 486
Fee and commission expense	27	**(1 189)**	(1 065)
Gains and losses from banking and trading activities	28	**2 698**	3 491
Gains and losses from investment activities	29	**4**	6
Other operating income	30	**923**	639
Total income		**44 328**	42 122
Impairment losses on loans and advances	9.1	**(5 110)**	(5 881)
Operating income before operating expenditure		**39 218**	36 241
Operating expenditure	31	**(25 309)**	(23 560)
Other expenses		**(1 186)**	(794)
Other impairments	32	**(418)**	1
Indirect taxation	33	**(768)**	(795)
Share of post-tax results of associates and joint ventures	11.1	**147**	132
Operating profit before income tax		**12 870**	12 019
Taxation expense	34	**(3 570)**	(3 284)
Profit for the reporting period		**9 300**	8 735
Profit attributable to:			
Ordinary equity holder		**8 995**	8 439
Preference equity holders		**305**	294
Non-controlling interest		**—**	2
		9 300	8 735
Earnings per share:			
Basic earnings per share (cents)	35	**2 324,9**	2 226,1
Diluted earnings per share (cents)	35	**2 324,9**	2 226,1

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

	Note	Bank 2014 Rm	Bank 2013 Rm
Profit for the reporting period		**9 300**	8 735
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Movement in retirement benefit fund assets and liabilities		**2**	(19)
Increase/(decrease) in retirement benefit surplus	37	**3**	(26)
Deferred tax	15	**(1)**	7
Total items that will not be reclassified to profit or loss		**2**	(19)
Items that are or may be subsequently reclassified to profit or loss			
Movement in foreign currency translation reserve		**(327)**	488
Differences on translation of foreign operations		**70**	488
Gains released to profit or loss		**(397)**	—
Movement in cash flow hedging reserve		**(253)**	(1 826)
Fair value gains/(losses) arising during the reporting period		**1 092**	(907)
Amount removed from other comprehensive income and recognised in profit or loss		**(1 443)**	(1 629)
Deferred tax	15	**98**	710
Movement in available-for-sale reserve		**(37)**	90
Fair value (losses)/gains arising during the reporting period		**(98)**	112
Amortisation of government bonds – release to profit or loss	28	**44**	10
Deferred tax	15	**17**	(32)
Total items that are or may be subsequently reclassified to profit or loss		**(617)**	(1 248)
Total comprehensive income for the reporting period		**8 685**	7 468
Total comprehensive income attributable to:			
Ordinary equity holder		**8 380**	7 172
Preference equity holders		**305**	294
Non-controlling interest		**—**	2
		8 685	7 468

Consolidated statement of changes in equity
for the reporting period ended 31 December

	Number of ordinary shares[1] '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the reporting period	**383 117**	**303**	**13 465**	**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	13 034	—	3 000	—	—
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—
Disposal of subsidiary[2]	—	—	—	—	—
Balance at the end of the reporting period	**396 151**	**303**	**16 465**	**1**	**4 643**
Note	23	23	23	23	23

	Number of ordinary shares[1] '000	Share capital Rm	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 arrangements	—	—	—	—	—
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	23	23	23	23	23

Notes

All movements are reflected net of taxation, refer to note 15.

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

[2]The Bank sold its investment in a non-core subsidiary on 2 January 2014 and the subsidiary has been derecognised.

Bank

2014

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Total equity attributable to ordinary equity holders Rm	Non-controlling interest-ordinary shares Rm	Total equity Rm
34 506	4 291	974	604	600	1 422	25	666	57 209	50	57 259
9 302	(617)	(37)	(253)	(327)	—	—	—	8 685	—	8 685
9 300	—	—	—	—	—	—	—	9 300	—	9 300
2	(617)	(37)	(253)	(327)	—	—	—	(615)	—	(615)
(9 940)	—	—	—	—	—	—	—	(9 940)	—	(9 940)
—	—	—	—	—	—	—	—	3 000	—	3 000
(8)	—	—	—	—	—	—	—	(8)	—	(8)
—	(22)	—	—	—	—	(22)	—	(22)	—	(22)
—	—	—	—	—	—	—	—	—	—	—
—	(22)	—	—	—	—	(22)	—	(22)	—	(22)
(147)	147	—	—	—	—	—	147	—	—	—
—	—	—	—	—	—	—	—	—	(48)	(48)
33 713	3 799	937	351	273	1 422	3	813	58 924	2	58 926
		24	24	24	24	24	24			

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	Total equity attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares 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
		24	24	24	24	24	24			

Consolidated statement of cash flows
for the reporting period ended 31 December

	Note	Bank 2014 Rm	2013[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**68 214**	65 848
Interest, fee and commission expense		**(31 181)**	(26 230)
Net trading and other income		**5 936**	192
Cash payments to employees and suppliers		**(23 391)**	(22 447)
Dividends received from banking and trading activities		**75**	(96)
Income taxes paid		**(3 532)**	(2 969)
Cash flow from operating activities before changes in operating assets and liabilities		**16 121**	14 298
Net (increase)/decrease in trading and hedging portfolio assets		**(512)**	12 236
Net increase in loans and advances to customers		**(24 128)**	(30 256)
Net (increase)/decrease in investment securities		**(1 539)**	1 574
Net (increase) in other assets		**(915)**	(7 575)
Net decrease in trading and hedging portfolio liabilities		**(5 850)**	(1 755)
Net increase in amounts due to customers and banks		**19 423**	39 797
Net increase/(decrease) in other liabilities		**10 259**	(10 981)
Net cash generated from operating activities		**12 859**	17 338
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale		**335**	18
Purchase of investment properties	12	**—**	(4)
Purchase of property and equipment	13	**(2 184)**	(2 339)
Proceeds from disposal of property and equipment		**140**	71
Purchase of intangible assets	14	**(473)**	(386)
Proceeds from disposal of intangible assets		**—**	33
Dividends paid from investment activities		**3**	(4)
Net cash utilised from investing activities		**(2 179)**	(2 611)
Cash flow from financing activities			
Issue of ordinary shares		**3 000**	1 000
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment arrangements		**(8)**	(74)
Proceeds from borrowed funds		**500**	—
Repayment of borrowed funds		**(4 725)**	(1 886)
Dividends paid		**(9 940)**	(12 046)
Net cash utilised in financing activities		**(11 173)**	(13 006)
Net (decrease)/increase in cash and cash equivalents		**(493)**	1 721
Cash and cash equivalents at the beginning of the reporting period		**10 507**	8 786
Cash and cash equivalents at the end of the reporting period	48	**10 014**	10 507

Note

[1]Comparatives have been restated, refer to note 1.19 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 ("IFRIC"), 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 1.20 for new standards and interpretations not yet adopted.

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

Investment Entities (amendments to IFRS 10 Consolidated Financial Statements ("IFRS 10"), IFRS 12 Disclosures of Interests in Other Entities ("IFRS 12") and IAS 27 Separate Financial Statements ("IAS 27"))

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

These amendments have no impact to the Bank, since none of the entities in the Bank qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32 Financial Instruments: Presentation ("IAS 32"))

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.

The amendments have resulted in certain financial instruments positions (i.e. loans and advances to customers, loans and advances to banks, trading portfolio assets, deposits due to customers and deposits from banks) no longer being offset on the face of the statement of financial position. Refer to note 1.19 for reporting changes.

Novation of Derivatives and Continuation of Hedge Accounting (amendments to IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"))

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

These amendments have no impact to the Bank as the Bank has not novated derivative contracts during the current or prior reporting periods.

Recoverable Amount Disclosures for Non-Financial Assets (amendments to IAS 36 Impairment of Assets ("IAS 36"))

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement ("IFRS 13") on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units ("CGUs") for which an impairment loss has been recognised or reversed during the reporting period.

These amendments had no impact on the consolidated financial results as no impairment losses recognised were determined based on value in use rather than fair value less costs of disposal.

IFRIC 21 Levies

The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers 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, no liability is recognised before the specified minimum threshold is reached.

The interpretation had no impact on the financial statements as levies are already accounted for in terms of these requirements.

1.1 Basis of presentation

The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out as follows. These policies have been consistently applied. Refer to note 1.19 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. Summary of significant accounting policies *(continued)*

1.2 Process of determination, and use, of estimates, assumptions and judgements

A description of the accounting estimates and judgements that were critical to preparing specific financial statement items as well as the processes employed to do so, are set out as follows:

1.2.1 Approach to credit risk and impairment of loans and advances

The Bank has an established governance process with respect to its approach to credit risk and any resultant impairment of loans and advances. The governance process includes the existence of Retail and Wholesale Credit Risk Technical Committees, whose remit includes:

- the development, implementation and evaluation of risk and impairment models;
- periodic assessment (at least annually) of the accuracy of the models against actual results; and
- approval of new models or changes to models, in line with the model validation framework.

The Post Model Adjustment Committee approves post model adjustments as well as any capital adjustments applied to models. Furthermore, model related adjustments and changes that result in a change in impairment of over £3m must be approved by the Barclays Africa Group Chief Risk Officer. Retail impairment allowances are subject to quarterly impairment adequacy reviews and approval by the Retail Impairment Adequacy Forum. Wholesale impairment allowances are subject to monthly impairment adequacy reviews and approval by the Wholesale Governance Forum.

The consideration of credit risk is a fundamental process for the Bank, as it is ultimately a driver included in the determination of impairment losses. This section describes the process utilised in determining the assumptions used in estimating impairment allowances.

Approach to credit modelling/internal ratings

The principal objective of credit 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 level. 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.

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.

EAD denotes the total amount that is expected to be outstanding from a particular customer at the time of default.

LGD measures the loss expected on a particular credit facility in the event of default and recognises credit risk mitigation, such as collateral or credit risk derivatives.

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 retail 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 and retail credit grading employs a 21-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.

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

1.2 Process of determination, and use, of estimates, assumptions and judgements *(continued)*

- 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 and updated monthly thereafter and used in decisions concerning underwriting, current/delinquency and assignment of accounts to risk grades used to calculate RC and impairments. 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 Bank requirements came into effect and the mortgage Basel model suite was 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 Transactional 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.

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, impairment 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 the 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.

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

1.2 Process of determination, and use, of estimates, assumptions and judgements *(continued)*

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

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 South African Reserve Bank's ("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 as follows:

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.

Exposure at default

We calculate these estimates for each facility using models incorporating internal and external default data as well as the experience of credit experts in relation to particular products or customer groups.

Loss given default

LGD estimates are calculated as a percentage of EAD using models based on internal and external loss data and the judgement of credit experts, and are primarily driven by the type and value of collateral held. The Bank's LGD estimates are modified to distinguish between expected losses over the course of an economic cycle and loss estimates during periods of economic stress (downturn LGD).

Approach to impairment of loans and advances

The Bank's accounting policy for losses arising from the impairment of loans and advances is described in note 1.7.6. 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.

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.

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

1.2 Process of determination, and use, of estimates, assumptions and judgements *(continued)*

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.

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.

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. 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. 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.

LGD estimates are based on historical loss 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. Historical loss experience data is then 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.

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.

The replacement of IAS 39 with IFRS 9 Financial Instruments ("IFRS 9") will have a significant impact on the Bank's financial results, 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

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.

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.

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

1.2 Process of determination, and use, of estimates, assumptions and judgements *(continued)*

In the wholesale portfolio, the identified impairment is calculated on accounts reflected on management's early watch lists 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. Refer to Notes 9 and 56.2.

1.2.2 Goodwill impairment

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 cash-generating unit ("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 recoverable amount in the aforementioned calculation is based on the value in use for the CGU.

The review of goodwill impairment represents management's best estimate of the following factors:

- The future cash flows of the 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 growth rate in the impairment calculation is **3%** (2013: 5 – 6%) and the projected cash flow period is five years (2013: five years).

- 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.

The discount rate used in the impairment calculations is **12,33%** (2013: 12%).

Note 14 includes details of the amount recognised by the Bank as goodwill.

1.2.3 Fair value measurements

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. Assumption changes and different valuation methodologies can have a significant impact on fair values which are based on unobservable inputs.

Valuation inputs

IFRS 13 requires an entity to classify fair values measured and/or disclosed according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined as follows:

Quoted market prices – Level 1

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

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

1.2 Process of determination, and use, of estimates, assumptions and judgements *(continued)*

Valuation technique using observable inputs – Level 2

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.

Valuation technique using significant unobservable inputs – Level 3

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 an item. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

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 team ("IVC"), which is independent from the front office. 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 GACC. 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 independently verifies the results of trading and investment operations and all significant fair value measurements. They source independent data from external independent parties, as well as internal risk areas when performing independent price verification for all financial instruments held at fair value. They also assess and document the inputs obtained from external independent sources to measure the fair value which supports conclusions that valuations are performed in accordance with IFRS and internal valuation policies.

Investment properties

The fair value of investment properties is determined based on the most appropriate methodology applicable to the specific 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. Where possible, the fair value of the Bank's investment properties is determined through valuations performed by external independent valuators. When the Bank's internal valuations are different to that of the external independent valuers, detailed procedures are performed to substantiate the differences, whereby the IVC verifies the procedures performed by front office and considers the appropriateness of any differences to external independent valuations.

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 with 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.

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

1.2 Process of determination, and use, of estimates, assumptions and judgements *(continued)*

Derivatives

Derivative contracts can be exchange-traded or traded Over The Counter ("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 pricing models.

Loans and advances

The 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.

The fair value of amortised cost deposits repayable on demand is considered to be equal to their carrying value. For other financial liabilities at amortised cost the disclosed fair value approximates the carrying value because the instruments are short-term in nature or have interest rates that reprice frequently.

Fair value adjustments

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

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, unless the relevant mid prices are reflective of the appropriate exit price as a practical expendient given the nature of the underlying instruments. 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 the 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 the 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, as well as the cost of funding across all asset classes.

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.

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

1.2 Process of determination, and use, of estimates, assumptions and judgements *(continued)*

Measurement of assets and liabilities at Level 2

The following table presents information about the valuation techniques and significant observable inputs used in measuring assets and liabilities categorised as Level 2 in the fair value hierarchy:

Category of asset/liability	Valuation techniques applied	Significant observable inputs
Cash, cash balances and balances with central banks	Discounted cash flow models	Underlying price of market traded instruments and/or interest rates
Loans and advances to banks	Discounted cash flow models	Interest rates and/or money market curves
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discounted cash flow models	Underlying price of market traded instruments and/or interest rates
Derivative assets		
Commodity derivatives	Discounted cash flow, option pricing, futures pricing, Exchange Traded Fund ("ETF") models	Spot prices of physicals/futures, interest rates and/or volatility
Credit derivatives	Discounted cash flow, credit default swap models	Interest rates, recovery rates, credit spreads and/or quanto ratio
Equity derivatives	Discounted cash flow, option pricing, futures pricing models	Spot prices, interest rates, volatility and/or dividend streams
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	Spot prices, interest rates and/or volatility
Interest rate derivatives	Discounted cash flow and/or option pricing models	Interest rate curves, repurchase agreement curves, money market curves and/or volatility
Equity instruments	Net asset value	Underlying price of market traded instruments
Money market assets	Discounted cash flow models	Money market and/or interest rates
Loans and advances to customers	Discounted cash flow models	Interest rates and/or money market curves
Investment securities	Listed equity: market bid price Other items: discounted cash flow models	Underlying price of market traded instruments Interest rate curves
Deposits from banks	Discounted cash flow models	Interest rates and/or money market curves
Deposits due to customers	Discounted cash flow models	Interest rates and/or money market curves
Debt securities in issue and other liabilities	Discounted cash flow models	Underlying price of market traded instruments and/or interest rate curves

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

1.2 Process of determination, and use, of estimates, assumptions and judgements *(continued)*

Measurement of assets and liabilities at Level 3

The following table presents information about the valuation techniques and significant unobservable inputs used in measuring assets and liabilities categorised as Level 3 in the fair value hierarchy:

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	2014	2013
			Range of estimates utilised for the unobservable inputs	
Loans and advances to customers	Discounted cash flow, and/or dividend yield models	Credit spreads	0,96% to 3,99%	1,35% to 7,5%
Investment securities	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Risk adjusted yield curves, future earnings, marketability discounts and/or comparator multiples	Discount rates between 9,1% and 17,9%, comparable multiples between 5 and 6	Discount rates between 9,7% and 18%, comparator multiples between 5,5 and 6,1
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	0,9% to 3,5%	0,9% to 3,5%
Derivative assets				
Credit derivatives	Discounted cash flow, credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	0% to 13,45%	0% to 3,5%
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Volatility and/or dividend streams (greater than 3 years)	18,16% to 48,20%	16,9% to 37,2%
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	African basis curves (greater than 1 year)	-10,74% to 6,53%	-2,5% to 1,7%
Interest rate derivatives	Discounted cash flow and/or option pricing models	Real yield curves (less than 2 years), repo curves funding spreads	-1,56% to 10,04%	-1,5% to 8,3%
Deposits due to customers	Discounted cash flow models	BAGL funding spreads (> 5 years)	0,85% to 1,2%	0,85% to 1,2%
Debt securities in issue	Discounted cash flow models	ZAR-MM-Funding (greater than 5 years)	1,28 to 1,38%	0,1% to 0,2%
Investment properties	Discounted cash flow models	Estimates of periods in which rental units will be disposed of	2 to 7 years	2 to 7 years
		Annual selling price escalations	0% to 6%	0% to 6%
		Annual rental escalations	0% to 10%	0% to 10%
		Expense ratios	22% to 75%	22% to 75%
		Vacancy rates	2% to 15%	2% to 15%
		Income capitalisation rates	10% to 12%	10% to 12%
		Risk adjusted discount rates	14% to 16%	14% to 16%

For assets or liabilities held at amortised cost and disclosed in levels 2 or 3 of the fair value hierarchy, the discounted cash flow valuation technique is used. Interest rates and money market curves are considered unobservable inputs for items which mature after five years. However, if the items mature in less than five years, these inputs are considered observable.

For debt securities in issue held at amortised cost, a further significant input would be the underlying price of the market traded instrument.

The sensitivity of the fair value measure is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on fair values.

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

1.2 Process of determination, and use, of estimates, assumptions and judgements *(continued)*

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 32.

1.2.5 Consolidation of structured and sponsored 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 as follows:

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 more than 20%; and
- the remuneration to which the Bank is entitled.

Assessment of sponsored entities

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.

Refer to notes 42 and 43.

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.

Exposure to actuarial risks

The defined benefit funds expose the Bank to the risk that the benefits promised in the various funds 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.

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

1.2 Process of determination, and use, of estimates, assumptions and judgements *(continued)*

Investment risk

The actuarial funding valuations make assumptions about the returns that may be available on invested assets. If the return on pension plan assets is below this rate, it may lead to a strain on the fund, which over time, may result in a pension plan deficit. Typically the funds have a relatively balanced investment in equity securities, debt securities and real estate to mitigate any concentration risk. Due to the long-term nature of the pension plan liabilities, the boards of the pension funds consider 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 these plans are to some extent tied to inflation, so increased inflation levels represent a risk that could increase the costs of paying the funds' 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 funds' 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.

Measurement risk

The IAS 19 Employee Benefits ("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, with all else equal, increase the plan liability; this may be partially offset by an increase in the value of assets, to the extent that the funds' 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.

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 19.

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 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 final 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.

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

1.2 Process of determination, and use, of estimates, assumptions and judgements *(continued)*

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and ongoing developments will determine the recognition of deferred tax. The most significant management assumption in determining the deferred tax asset to be recognised is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the Bank in order to utilise the deferred tax assets.

Further information is included in notes 15, 34 and 47 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.

Cash-settled share-based payment arrangements

The initial fair value of the Bank's cash-settled share-based payment arrangement awards 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

Note 49 includes details of the Bank's share awards. Refer to note 18 for the carrying amount of liabilities arising from cash-settled arrangements.

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 41.

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

1.3 Consolidation

The consolidated financial statements include those of Absa Bank Limited and all its subsidiaries and controlled SEs.

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 assessment of control is based on the consideration of all facts and circumstances.

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.

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 separate financial statements of the Company.

1.3.2 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 separate financial statements of the Company.

1.3.3 Structured entities ("SE")

An interest in a SE is any form of investment or arrangement which creates variability in returns arising from the performance of the SE 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. These SEs are therefore consolidated on the same basis as subsidiaries as set out in 1.3.1.

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 equity. 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 are restated as if the entities had always been combined, regardless of the date of the transaction.

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

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 Chief Operation Decision Maker ("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

1.5.1 Foreign currency translations

The Bank's foreign operations (including subsidiaries, SEs 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.

1.5.2 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 profit or loss.

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 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. All financial instruments are measured initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

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 "gains and losses from banking and trading activities" in profit or loss.

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 profit or loss 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. This 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.

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

1.7 Financial instruments *(continued)*

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 risk are recognised in "net interest income" in profit or loss.

1.7.2 Available-for-sale financial assets

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 profit or loss. However, interest on available-for-sale financial instruments calculated using the effective interest rate method is recognised directly in profit or loss.

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

1.7.3 Loans and receivables

Loans and receivables 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 either separated from the host and accounted for the same way as a derivative or the entire contract is designated 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 premiums, discounts, 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 profit or loss.

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)*

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 profit or loss.

Following impairment, interest income is recognised at the original effective interest rate on the reduced carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans. 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. 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 impairment losses on loans and advances in profit or loss.

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. Refer to note 1.2.1 in this regard.

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.

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 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. 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.

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.

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 profit or loss. 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 profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

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 profit or loss. Further declines in the fair value of equity instruments after impairment are recognised in profit or loss. Reversals of impairment of equity instruments are not recognised in profit or loss. Increases in the fair value of equity instruments after impairment are recognised directly in other comprehensive income.

1.7.7 Subordinated debt

The majority of subordinated debt is measured at amortised cost using the effective interest rate method under IAS 39.

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

1.7 Financial instruments *(continued)*

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 profit or loss.

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 Day One profits or losses

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 profit or loss either on a straight-line basis over the term of the transaction, or over the reporting period until all model inputs will become observable where appropriate, or released in full when previously unobservable inputs become observable.

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 hedge accounting of a net investment in a foreign operation, as appropriate to the risks being hedged.

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

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

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

1.7 Financial instruments *(continued)*

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

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in profit or loss, 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 profit or loss.

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 profit or loss 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 profit or loss 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 profit or loss.

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

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 either at 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. Summary of significant accounting policies *(continued)*

1.7 Financial instruments *(continued)*

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 profit or loss, any fee income earned over the reporting 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 profit or loss. Any liability remaining is credited to profit or loss 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 profit or loss.

1.9 Revenue recognition

1.9.1 Net interest income

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 profit or loss, 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 profit or loss.

Gains or losses on assets or liabilities reported in the trading portfolio are included in profit or loss under "gains and losses from banking and trading activities" together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

1.9.3 Net fee and commission income

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. Summary of significant accounting policies *(continued)*

1.9 Revenue recognition *(continued)*

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 profit or loss over the terms of the lease using the effective interest rate method (before tax) which reflects a constant periodic rate of return.

1.10 Commodities

Commodities where the Bank has a 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 Business Combinations ("IFRS 3") and 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.

Goodwill is tested 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 CGU to which the goodwill relates, or the CGU'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

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 profit or loss 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 fair value at acquisition date) 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 following table.

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

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

1.11 Intangible assets *(continued)*

	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 use on a straight-line basis.
Internally generated or acquired	Acquired	Internally generated	Acquired
Annual amortisation rate (%)	8 – 20	20 – 33	10

1.12 Property and equipment

1.12.1 Property and equipment not subject to lease agreements

Property and equipment is 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
Leasehold improvements	10 – 15

Gains and losses on disposal of property and equipment are reported in “other operating income” or “operating expenses”.

1.12.2 Property and equipment subject to lease agreements

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.

Leased assets are depreciated over the shorter of the term of the lease and the useful life of the asset.

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 profit or loss on a straight-line basis over the lease term unless another systematic basis is more appropriate.

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

1.12 Property and equipment *(continued)*

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 profit or loss.

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 profit or loss. 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.

1.15 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

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. Summary of significant accounting policies *(continued)*

1.17 Employee benefits

1.17.1 Post-retirement benefits

The Bank operates a number of pension schemes including defined contribution and defined benefit schemes.

Defined contribution schemes

The Bank recognises contributions due in respect of the reporting period in profit or loss. Any contributions unpaid at the reporting date are included as a liability.

Defined benefit schemes

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

Costs arising from regular pension cost, interest on net defined benefit liability or asset, past service cost settlements or contributions to the plan are recognised in profit or loss.

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.

Remeasurements comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

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.

1.17.2 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.

1.17.3 Share-based payments

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 profit or loss 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.

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.

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 costs in profit or loss. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

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

1.18 Tax

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 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, 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 or expense; and
- receivables and payables that are stated with the amount of VAT included.

Non-recoverable VAT on operating expenditure is disclosed separately in "other expenses" in profit or loss.

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 Reporting changes overview

The financial reporting changes that have had an impact on the Bank's results for the comparative reporting periods ended 31 December 2013 and 31 December 2012 include:

- The implementation of amended IFRS, specifically amendments to IAS 32, relating to offsetting of financial assets and financial liabilities. All other amendments to IFRS, and new interpretations, effective for the current reporting period had no significant impact on the Bank's reported results.
- Certain changes in internal accounting policies.
- Changes in reportable segments.

1.19.1 Accounting policy changes due to amended IFRS

The amendments to IAS 32 provide further application guidance on when the criteria for offsetting would be considered to be met and became effective for reporting periods beginning on or after 1 January 2014.

The offsetting requirements in IAS 32 have been retained such that a financial asset and liability shall be offset and the net amount presented in the statement of financial position, only when an entity currently has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments to IAS 32 provide more application guidance on when the criteria for offsetting would be considered to be met.

The netting applied to certain financial instruments (i.e. variation margins on certain derivatives as well as certain hybrid customer products) has been assessed in light of the amendments and it has been determined that netting is no longer permitted under IFRS.

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

1.19 Reporting changes overviews *(continued)*

1.19.2 Internal accounting policy changes

The Bank elected to make an internal accounting policy change involving the classification of items in the statement of financial position. Investment securities across the Bank have been appropriately grouped together as "Investment securities", following the acquisition by the holding company of Barclays Africa Limited, with remaining investments linked to investment contracts being disclosed separately.

This has resulted in the old "statutory liquid asset portfolio" line item in the statement of financial position no longer being displayed.

This reclassification has no impact on the overall financial position or net earnings of the Bank. To ensure comparability, the comparative reporting periods have been restated.

1.19.3 Changes in reportable segments

Refer to note 51 for changes affected to reportable segments, in line with the requirements of IFRS 8.

1.19.4 Impact of reporting changes on the Bank's results

The impact of these changes on the statement of financial position is as follows:

Consolidated statement of financial position as at 31 December 2013

	As previously reported Rm	IFRS accounting policy changes Rm	Internal accounting policy changes Rm	Restated Rm
Assets				
Loans and advances to customers	534 040	886	—	534 926
Loans and advances to banks	45 302	651	—	45 953
Trading portfolio assets	77 137	1 727	—	78 864
Statutory liquid asset portfolio	62 055	—	(62 055)	—
Investment securities	5 220	—	62 055	67 275
Liabilities				
Deposits due to customers	488 371	886	—	489 257
Deposits from banks	64 100	1 727	—	65 827
Trading portfolio liabilities	50 059	651	—	50 710

Consolidated statement of financial position as at 31 December 2012

	Bank			
	As previously reported Rm	IFRS accounting policy change Rm	Internal accounting policy changes Rm	Restated Rm
Assets				
Loans and advances to customers	510 316	985	—	511 301
Loans and advances to banks	42 407	1 626	—	44 033
Trading portfolio assets	82 416	3 958	—	86 374
Statutory liquid asset portfolio	63 020	—	(63 020)	—
Investment securities	6 589	—	63 020	69 609
Liabilities				
Deposits due to customers	467 744	985	—	468 729
Deposits from banks	43 085	3 958	—	47 043
Trading portfolio liabilities	47 889	1 626	—	49 515

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

1.20 New standards and interpretations not yet adopted

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

IFRS 9 Financial Instruments ("IFRS 9") the new accounting standard that represents a package of reform to financial instrument accounting was issued in July 2014. IFRS 9 replaces the previous standard on financial instruments, IAS 39 and encompasses requirements in the following areas:

- Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the recognition of an entity's own credit risk.
- Impairment: IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, therefore it is no longer necessary for a credit event to have occurred before a credit loss is recognised.
- Hedge accounting: IFRS 9 introduces a new hedge accounting model that is designed to be more closely aligned with how an entity undertakes risk management activities when hedging financial and non-financial risk exposures.
- Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 9 is applicable to reporting periods beginning on or after 1 January 2018. The standard is required to be retrospectively applied, but comparative information is not compulsory. The Bank is currently in the process of assessing IFRS 9's full impact, and the related disclosures, which will need to be provided on first-time adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15") provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

IFRS 15 is applicable to reporting periods beginning on or after 1 January 2017. A choice of modified or full retrospective application is allowed. The Bank is in the process of assessing the impact.

IAS 19 Employee Benefits ("IAS 19") (amendments) clarify the requirements for how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contribution is independent of the number of years of an employee's service. The amendments are required to be applied retrospectively and will first be applicable to reporting periods beginning on or after 1 July 2014.

The Bank is in the process of assessing the impact.

IFRS 11 Joint Arrangements ("IFRS 11") (amendments) require an acquirer of an interest in a joint operation in which the activity constitutes a business, to apply the accounting principles and disclosures provided by IFRS 3 when accounting for the acquisition. The amendments are required to be applied prospectively and will first be applicable to reporting periods beginning on or after 1 January 2016.

The Bank is in the process of assessing the impact.

IAS 27 Separate Financial Statements ("IAS 27") and IAS 28 Investments in Associates ("IAS 28") (amendments) allow an entity to use the equity method to account for investments in subsidiaries, joint ventures and associates in its separate financial statements. These amendments are required to be applied retrospectively and will first be applicable to reporting periods beginning on or after 1 January 2016.

The Bank is in the process of assessing the impact.

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

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

IFRS 10 Consolidated Financial Statements ("IFRS 10") and IAS 28 Investments in Associates and Joint Ventures ("IAS 28") (amendments) clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognised depends on whether the assets sold or contributed constitute a business. The amendments are required to be applied prospectively and will first be applicable to reporting periods beginning on or after 1 January 2016.

The Bank is in the process of assessing the impact.

IAS 1 Presentation of Financial Statements ("IAS 1") (amendments) further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. The amendments are effective for reporting periods beginning on or after 1 January 2016.

The Bank is in the process of assessing the impact.

IFRS 10 Consolidated Financial Statements ("IFRS 10"), IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") and IAS 28 Investments in Associates and Joint Ventures ("IAS 28") (amendments) introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances. The amendments are required to be applied retrospectively and will first be applicable to reporting periods beginning on or after 1 January 2016.

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.

Annual improvements for the 2012 – 2014 cycle were issued in September 2014. These improvements affect various standards and are effective for periods beginning on or after 1 January 2016.

The Bank is in the process of assessing the impact.

	Bank 2014 Rm	Bank 2013 Rm
2. Cash, cash balances and balances with central banks		
Balances with the SARB	**12 621**	12 417
Coins and bank notes	**8 777**	8 665
Money market assets	**21**	5
	21 419	21 087

	Bank 2014 Rm	Bank 2013 Rm
3. Investment securities		
Government bonds	**47 128**	41 536
Listed equity instruments	**362**	299
Other debt securities	**3 117**	3 178
Treasury bills	**18 526**	20 519
Unlisted equity and hybrid instruments	**1 485**	1 743
	70 618	67 275

RSA government bonds, SARB debentures and treasury bills valued at **R5 689m** (2013: R7 055m) have been pledged with the SARB.

Comparatives have been restated, refer to note 1.19.

	Bank 2014 Rm	Bank 2013 Rm
4. Loans and advances to banks		
Loans and advances to banks	**47 599**	45 953

Loans with variable rates are **R18 008m** (2013: R26 683m) and fixed rates are **R29 591m** (2013: R19 270m).

Included above are loans and advances to banks with a carrying value of **R6 380m** (2013: R3 597m) that have been pledged as security, including collateralised loans of **R2 382m** (2013: R1 098m) relating to securities borrowed, which excludes reverse repurchase agreements. 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 217m** (2013: R15 541m).

Comparatives have been restated, refer to note 1.19.

	Bank 2014 Rm	Bank 2013 Rm
5. Trading and hedging portfolio assets		
Commodities	**1 701**	1 080
Debt instruments	**30 046**	24 975
Derivative assets (refer to note 52.4)	**40 295**	45 272
Commodity derivatives	**350**	324
Credit derivatives	**375**	269
Equity derivatives	**1 040**	802
Foreign exchange derivatives	**8 328**	8 626
Interest rate derivatives	**30 202**	35 251
Equity instruments	**946**	531
Money market assets	**5 584**	7 006
Total trading portfolio assets	**78 572**	78 864
Hedging portfolio assets (refer to note 52.5)	**2 335**	3 344
	80 907	82 208

Trading portfolio assets with a carrying value of **R23 390m** (2013: R17 680m) were pledged as security for repurchase agreements. 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.

Comparatives have been restated, refer to note 1.19.

	Bank 2014 Rm	Bank 2013 Rm
6. Other assets		
Accounts receivable and prepayments	**7 439**	6 476
Deferred costs	**193**	129
Inventories	**19**	110
Cost	**48**	178
Write-down	**(29)**	(68)
Retirement benefit fund surplus (refer to note 37)	**466**	466
Settlement accounts	**1 194**	2 118
	9 311	9 299

		Bank	
		2014 Rm	2013 Rm
7.	**Non-current assets and non-current liabilities held for sale**		
7.1	**Non-current assets held for sale**		
	Balance at the beginning of the reporting period	**1 857**	1 438
	Disposals	**(1 638)**	(20)
	Transfer from investment securities	**29**	4
	Transfer from investment properties (refer to note 12)	**—**	193
	Transfer from property and equipment (refer to note 13)	**3**	209
	Fair value adjustment of investment securities	**(1)**	15
	Adjustments to underlying assets of subsidaries held for sale	**—**	18
	Balance at the end of the reporting period	**250**	1 857
7.2	**Non-current liabilities held for sale**		
	Balance at the beginning of the reporting period	**175**	177
	Disposals	**(175)**	(2)
	Balance at the end of the reporting period	**—**	175

The following transfers to non-current assets held for sale were effected:

- RBB transferred investment securities and investment properties with a carrying value of **R29m** (2013: R4m) and Rnil (2013: R193m) respectively.
- The Head Office and other operations segment transferred property and equipment with a carrying value of **R3m** (2013: R209m).

The fair value adjustments of investment securities relate to assets within RBB which were classified as held for sale during 2012. At the reporting date, these investment securities remain classified as non-current assets held for sale as the delay of the disposal is as a consequence of events outside the Bank's control. The Bank remains, however, committed to dispose of the asset in 2015.

All the above assets are expected to be disposed of in 2015.

The Commercial Property Finance ("CPF") Equity division in RBB disposed of a non-core subsidiary with investment property with a carrying value of **R1 315m** (2013: Rnil). The remaining disposals of non-current assets and liabilities held for sale occurred in RBB, Wealth and Head Office and other operations segments. The profit on disposal of the non-current assets held for sale has been recognised in Other operating income in the statement of comprehensive income.

	Bank 2014 Rm	Bank 2013 Rm
8. Loans and advances to customers		
Corporate overdrafts and specialised finance loans	**7 428**	5 729
Credit cards	**32 684**	30 178
Foreign currency loans	**21 151**	21 076
Instalment credit agreements (refer to note 8.1)	**71 849**	65 822
Gross advances	**88 307**	80 221
Unearned finance charges	**(16 458)**	(14 399)
Loans to associates and joint ventures (refer to note 42.6)	**14 761**	12 039
Microloans	**2 282**	1 962
Mortgages	**265 239**	273 050
Other advances	**3 685**	2 895
Overdrafts	**29 698**	31 179
Overnight finance	**18 607**	14 082
Personal and term loans	**28 152**	29 050
Preference shares	**11 850**	8 955
Reverse repurchase agreements	**5 819**	3 893
Wholesale overdrafts	**53 639**	47 772
Gross loans and advances to customers	**566 844**	547 682
Impairment losses on loans and advances (refer to note 9)	**(12 323)**	(12 756)
	554 521	534 926

Included above are loans and advances to customers with a carrying value of **R7 854m** (2013: R4 149m)[1] that have been pledged as security, including collateralised loans of **R2 827m** (2013: R3 024m) relating to securities borrowed. 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.

Other advances include customer liabilities under acceptances, working capital solutions and collateralised loans.

Comparatives have been restated, refer to note 1.19.

	Bank 2014 Gross advances Rm	2014 Unearned finance charges Rm	2014 Net advances Rm	2013 Gross advances Rm	2013 Unearned finance charges Rm	2013 Net advances Rm
8.1 Instalment credit agreements						
Maturity analysis						
Less than one year	**26 884**	**(4 481)**	**22 403**	25 126	(4 330)	20 796
Between one and five years	**58 662**	**(11 328)**	**47 334**	52 688	(9 574)	43 114
More than five years	**2 761**	**(649)**	**2 112**	2 407	(495)	1 912
	88 307	**(16 458)**	**71 849**	80 221	(14 399)	65 822

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 805m** (2013: R4 533m).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R777m** (2013: R1 232m).

Note

[1]The comparatives have been restated to include cash and non-cash collateral. In the prior reporting period only cash collateral of R3 659m was reported.

	Bank 2014 Rm	Bank 2013 Rm
9. Impairment losses on loans and advances		
Comprising:		
Identified impairments	10 779	11 572
Unidentified impairments	1 544	1 184
	12 323	12 756

Reconciliation of allowance for impairment losses on loans and advances to customers (2014)	Retail Banking Rm	Business Banking Rm	CIB Rm	Wealth Rm	Head Office and other operations Rm	Total Rm
Balance at the beginning of the reporting period	9 681	2 283	489	193	110	12 756
Net present value unwind on non-performing book	(492)	(147)	—	(2)	—	(641)
Amounts written-off	(4 490)	(815)	(248)	(72)	(110)	(5 735)
Impairment raised – identified	4 929	687	95	8	—	5 719
Impairment raised – unidentified	110	20	69	25	—	224
Balance at the end of the reporting period	9 738	2 028	405	152	—	12 323

2013	Retail Banking Rm	Business Banking Rm	CIB Rm	Wealth Rm	Head Office and other operations Rm	Total Rm
Balance at the beginning of the reporting period	9 865	2 357	459	191	125	12 997
Net present value unwind on non-performing book	(695)	(153)	—	(3)	—	(851)
Amounts written-off	(5 200)	(887)	(53)	(56)	(1)	(6 197)
Impairment raised – identified	5 625	861	20	29	(14)	6 521
Impairment raised – unidentified	86	105	63	32	—	286
Balance at the end of the reporting period	9 681	2 283	489	193	110	12 756

	Bank 2014 Rm	Bank 2013 Rm
9.1 Statement of comprehensive income charge		
Impairments raised during the reporting period	5 943	6 807
Identified impairments	5 719	6 521
Unidentified impairments	224	286
Recoveries of loans and advances previously written off	(833)	(926)
	5 110	5 881
10. Loans to Group companies		
Fellow subsidiaries	17 740	19 247

	Bank 2014 Rm	Bank 2013 Rm
11. Investments in associates and joint ventures		
Unlisted investments	**839**	694
11.1 Movement in carrying value of associates and joint ventures accounted for under the equity method		
Balance at the beginning of the reporting period	**694**	562
Share of current reporting period post-tax results	**147**	132
Share of current reporting period results before taxation	**201**	185
Taxation on current reporting period results	**(54)**	(53)
Impairment (refer to note 32)	**(2)**	—
Balance at the end of the reporting period	**839**	694

11.2 Share of associates and joint ventures

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

Bank share	Associates 2014 Rm	Associates 2013 Rm	Joint ventures 2014 Rm	Joint ventures 2013 Rm
Post-tax profit from continuing operations	**17**	26	**130**	106
Total comprehensive income	**17**	26	**130**	106

Refer to note 42.6 for additional disclosure of the Bank's investments in associates and joint ventures.

There were no cumulative unrecognised share of losses for associates and joint ventures for the current and previous reporting periods.

	Bank 2014 Rm	Bank 2013 Rm
11.3 Analysis of carrying value of associates and joint ventures accounted for under the equity method		
Unlisted investments		
Shares at cost	**100**	102
Share of post-acquisition reserves	**739**	592
	839	694

	Bank 2014 Associates Rm	Bank 2014 Joint ventures Rm	Bank 2014 Total Rm	Bank 2013 Associates Rm	Bank 2013 Joint ventures Rm	Bank 2013 Total Rm
11.4 Carrying value of associates and joint ventures						
Equity accounted	**234**	**605**	**839**	219	475	694
Designated at fair value through profit or loss	**24**	**739**	**763**	90	735	825
	258	**1 344**	**1 602**	309	1 210	1 519

The investments in associates and joint ventures designated at fair value through profit or loss are disclosed in note 3.

There were no acquisitions or disposals of investments in associates and joint ventures in the current reporting period.

	Bank	
	2014 Rm	2013 Rm
12. Investment properties		
Balance at the beginning of the reporting period	**240**	331
Additions	**—**	4
Change in fair value (refer to notes 30 and 31)	**(8)**	60
Foreign exchange movements	**20**	38
Transfer to non-current assets held for sale (refer to note 7)	**—**	(193)
Balance at the end of the reporting period	**252**	240

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 one to ten years, depending on the use of the building being leased. Subsequent renewals are negotiated with the lessee. No contingent rentals are charged.

	Bank					
	2014			2013		
	Cost Rm	**Accumulated depreciation and/or impairments Rm**	**Carrying value Rm**	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
13. Property and equipment						
Computer equipment	**4 878**	**(2 854)**	**2 024**	4 512	(2 823)	1 689
Freehold property	**5 279**	**(324)**	**4 955**	4 439	(320)	4 119
Furniture and other equipment	**4 315**	**(2 157)**	**2 158**	5 079	(2 383)	2 696
Leasehold property	**—**	**—**	**—**	41	(41)	—
Motor vehicles	**3**	**(3)**	**—**	4	(4)	—
	14 475	**(5 338)**	**9 137**	14 075	(5 571)	8 504

13. Property and equipment *(continued)*

	Bank							
	2014							
	Opening balance Rm	Additions Rm	Disposals Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of property and equipment								
Computer equipment	**1 689**	**1 048**	**(3)**	**—**	**—**	**(632)**	**(78)**	**2 024**
Freehold property	**4 119**	**916**	**(64)**	**—**	**—**	**(16)**	**—**	**4 955**
Furniture and other equipment	**2 696**	**220**	**(57)**	**(3)**	**—**	**(523)**	**(175)**	**2 158**
	8 504	**2 184**	**(124)**	**(3)**	**—**	**(1 171)**	**(253)**	**9 137**
Note				7		31	32	

	Bank							
	2013							
	Opening balance Rm	Additions Rm	Disposals Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge 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				7		31	32	

Leasehold property and computer equipment with a carrying value of **R14m** (2013: R103m) are encumbered under finance leases (refer to note 18).

Additions include **R867m** (2013: R488m) of expenditure that have been capitalised to the cost of the asset during the course of its construction. During the current reporting period, an amount of **R80m** (2013: R571m) was transferred from assets under construction and brought into use.

	Bank					
	2014			2013		
	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
14. Goodwill and intangible assets						
Computer software development costs	**2 185**	**(1 298)**	**887**	1 781	(1 016)	765
Customer lists and relationships	**482**	**(87)**	**395**	413	(28)	385
Goodwill	**151**	**(39)**	**112**	200	(87)	113
Other	**53**	**(25)**	**28**	53	(13)	40
	2 871	**(1 449)**	**1 422**	2 447	(1 144)	1 303

	Bank 2014					
	Opening balance Rm	Additions Rm	Disposals Rm	Amorti-sation Rm	Impairment charge	Closing balance Rm
Reconciliation of goodwill and intangible assets						
Computer software development costs	**765**	**403**	**—**	**(154)**	**(127)**	**887**
Customer lists and relationships	**385**	**70**	**—**	**(60)**	**—**	**395**
Goodwill	**113**	**—**	**—**	**—**	**(1)**	**112**
Other	**40**	**—**	**—**	**(12)**	**—**	**28**
	1 303	**473**	**—**	**(226)**	**(128)**	**1 422**
Note				31	32	

	Bank 2013					
	Opening balance Rm	Additions Rm	Disposals Rm	Amorti-sation Rm	Impairment charge	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				31	32	

The majority of computer software development costs were internally generated with the remainder externally acquired. Included in computer software development costs is **R666m** (2013: R492m) relating to assets under construction.

	Bank	
	2014 Rm	2013 Rm
Composition of goodwill		
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
NewFunds Proprietary Limited	**—**	1
	112	113

In considering reasonably possible changes to key assumptions even if the estimated discount rate and/or growth rate was changed by 2% (2013: 2%), no additional impairment loss would be recognised (2013: no impairment loss).

	Bank 2014 Rm	Bank 2013 Rm
15. Deferred tax		
15.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the reporting period	**895**	1 377
Deferred tax on amounts charged directly to other comprehensive income	**(114)**	(685)
Charge to profit or loss (refer to note 34)	**128**	196
Tax effect of translation and other differences	**(1)**	7
Balance at the end of the reporting period	**908**	895
15.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Deferred tax liability	**937**	922
Accruals and provisions	**1 288**	1 455
Fair value adjustments on financial instruments	**155**	(400)
Impairment of loans and advances	**(360)**	(268)
Lease and rental debtor allowances	**(155)**	(84)
Other differences	**12**	12
Property allowances	**80**	60
Retirement benefit fund assets and liabilities	**147**	147
Share-based payments	**(230)**	—
Deferred tax asset		
Other differences	**(29)**	(27)
Net deferred tax liability	**908**	895

15.3 Future tax relief

The Bank has estimated tax losses of **Rnil** (2013: Rnil) which are available for set-off against future taxable income. The deferred tax asset of **R29m** (2013: R27m) includes **Rnil** (2013: Rnil) relating to tax losses carried forward.

Entities which have suffered a loss in either the current or prior reporting period have deferred tax assets of **R3m** (2013: R10m) relating to tax losses carried forward and temporary differences.

	Bank 2014 Rm	Bank 2013 Rm
16. Deposits from banks		
Call deposits	**10 550**	9 861
Fixed deposits	**8 800**	15 492
Foreign currency deposits	**6 520**	14 807
Notice deposits	**810**	702
Other	**6 199**	8 634
Repurchase agreements	**21 225**	16 331
	54 104	65 827

Deposits with variable rates are **R17 245m** (2013: R27 359m) and fixed rates are **R36 859m** (2013: R38 468m).

Comparatives have been restated, refer to note 1.19.

	Bank 2014 Rm	Bank 2013 Rm
17. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 52.4)	**41 785**	48 238
Commodity derivatives	**303**	290
Credit derivatives	**362**	395
Equity derivatives	**1 494**	2 026
Foreign exchange derivatives	**9 938**	8 172
Interest rate derivatives	**29 688**	37 355
Short positions	**2 795**	2 472
Total trading portfolio liabilities	**44 580**	50 710
Hedging portfolio liabilities (refer to note 52.5)	**2 577**	2 391
	47 157	53 101

Comparatives have been restated, refer to note 1.19.

	Bank 2014 Rm	Bank 2013 Rm
18. Other liabilities		
Accruals	**1 341**	1 061
Audit fee accrual	**60**	68
Creditors	**6 732**	4 811
Deferred income	**274**	487
Liabilities under finance leases (refer to note 18.1)	**14**	106
Settlement balances	**4 568**	4 640
Share-based payment liability	**820**	467
	13 809	11 640

	Bank 2014 Minimum lease payments due Rm	Bank 2014 Interest Rm	Bank 2014 Principal Rm
18.1 Liabilities under finance leases			
Less than one year	**14**	**—**	**14**

	Bank 2013 Minimum lease payments due Rm	Interest Rm	Principal Rm
18. Other liabilities *(continued)*			
18.1 Liabilities under finance leases *(continued)*			
Less than one year	93	(2)	91
Between one and two years	15	—	15
	108	(2)	106

Under the terms of the leases, no contingent rentals are payable. Refer to note 13 for details of property and equipment subject to finance leases.

18.1.1 Terms and conditions of finance leases

Description	Address	Details
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 2014 Rm	Bank 2013 Rm
18.1.2 Minimum future income receivable from subleasing		
Receivable within one year	—	1

	Bank 2014 Staff bonuses and incentive provisions Rm	Sundry provisions Rm	Total Rm
19. Provisions			
Balance at the beginning of the reporting period	**1 140**	**222**	**1 362**
Additions	1 276	595	1 871
Amounts used	(596)	(101)	(697)
Reversals	(531)	(148)	(679)
Balance at the end of the reporting period	**1 289**	**568**	**1 857**

Provisions expected to be settled within no more than 12 months after the reporting date were **R1 634m** (2013: R1 252m).
Sundry provisions are made with respect to fraud cases, litigation, onerous contracts and insurance claims.

	Bank 2014 Rm	Bank 2013 Rm
20. Deposits due to customers		
Call deposits	**56 985**	52 829
Cheque account deposits	**146 648**	140 112
Credit card deposits	**1 932**	1 914
Fixed deposits	**131 382**	132 678
Foreign currency deposits	**21 723**	14 108
Notice deposits	**49 764**	56 349
Other	**2 208**	2 194
Repurchase agreements	**2 165**	1 208
Saving and transmission deposits	**108 849**	87 865
	521 656	489 257

Other deposits due to customers include deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.

Comparatives have been restated, refer to note 1.19.

	Bank 2014 Rm	Bank 2013 Rm
21. Debt securities in issue		
Credit linked notes	**8 823**	8 155
Floating rate notes	**41 524**	44 718
Negotiable certificates of deposit	**29 567**	20 821
Other	**319**	11
Promissory notes	**949**	935
Structured notes and bonds	**435**	1 006
Senior notes	**23 398**	21 533
	105 015	97 179

22. Borrowed funds

Subordinated callable notes

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

Interest rate	*Final maturity date*	*Note*	Bank 2014 Rm	Bank 2013 Rm
8,80%	7 March 2019	i	**—**	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
10,84%	19 November 2019	v	**130**	—
Three-month Johannesburg Interbank Agreed Rate ("JIBAR") + 2,10%	3 May 2022	vi	**400**	400
Three-month JIBAR + 1,95%	21 November 2022	vii	**1 805**	1 805
Three-month JIBAR + 2,05%	21 November 2023	viii	**2 007**	2 007
Three-month JIBAR + 3,30%	19 November 2019	ix	**370**	—
Consumer Price Index ("CPI") linked notes, fixed at the following coupon rates:				
6,00%	20 September 2019	x	**—**	3 000
5,50%	7 December 2028	xi	**1 500**	1 500
Accrued interest			**572**	1 472
Fair value adjustments on total subordinated debt instruments			**(37)**	65
			10 535	15 762

22. Borrowed funds *(continued)*

i The 8,80% fixed rate notes were redeemed in full on 7 March 2014. Interest was paid semi-annually in arrears on 7 March and 7 September of each year.

ii The 8,10% fixed rate notes may be redeemed in full at the option of the Bank on 27 March 2015. Interest is paid semi-annually in arrears on 27 March and 27 September of each year, provided that the last date for payment shall be 27 March 2015. If the Bank does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 1,185% quarterly in 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 Bank 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 Bank 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 Bank on 21 November 2018. Interest is paid semi-annually in arrears on 21 May and 21 November of each year. If the Bank does not exercise the redemption option, there is no step-up in the coupon rate. The Bank has an option to exercise the redemption on any interest payment date after 21 November 2018.

v The 10,84% fixed rate notes may be redeemed in full at the option of the Bank on 19 November 2019. Interest is paid semi-annually in arrears on 19 May and 19 November. The Bank has an option to exercise the redemption on any date after the original redemption date of 19 November 2019.

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

vii The three-month JIBAR plus 1,95% floating rate notes may be redeemed in full at the option of the Bank on 21 November 2017. Interest is paid quarterly in 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 Bank has an option to exercise the redemption on any interest payment date after 21 November 2017.

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

ix The three-month JIBAR plus 3,30% floating rate notes may be redeemed in full at the option of the Bank on 19 November 2019. Interest is paid quarterly in arrears on 19 February, 19 May, 19 August and 19 November. The Bank has an option to exercise the redemption on any date after the original redemption date of 19 November 2019.

x The 6,00% CPI-linked notes were redeemed in full at the option of the Bank on 20 September 2014. Interest was paid semi-annually in arrears on 20 March and 20 September of each year.

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

All the above notes, excluding v and ix, are listed on the Bond Exchange of South Africa ("BESA").

In accordance with its MOI, the borrowing powers of the Company are restricted to the amount authorised by its listed holding company.

	Bank 2014 Rm	Bank 2013 Rm
23. Share capital and premium		
23.1 Ordinary share capital		
Authorised		
320 000 000 (2013: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2013: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2013: 302 609 359) ordinary shares of R1,00 each	**303**	303
93 541 890 (2013: 80 507 857) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**16 465**	13 465
	16 768	13 768

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 13 034 033 'A' ordinary shares were issued during the current reporting period.

Shares issued during the previous reporting period

An additional 4 358 817 '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 2014 Rm	Bank 2013 Rm
23.2 Preference share capital and premium		
Authorised		
30 000 000 (2013: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2013: 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 70% 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.

24. Other reserves

24.1 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 profit or loss.

24.2 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.

24.3 Foreign currency translation reserve

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

24.4 Capital reserve

The capital reserve arose on the amalgamation of the founding banks of Absa Bank Limited.

24.5 Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2 Share-based payments ("IFRS 2"). The standard requires that the expense be charged to profit or loss, 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.

24.6 Associates' and joint ventures' reserve

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

	Bank	
	2014 Rm	2013 Rm
25. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	**52**	12
Fair value adjustments on hedging instruments	**511**	3 803
Investment securities	**5 104**	1 785
Loans and advances to banks	**932**	785
Loans and advances to customers	**46 724**	42 580
Corporate overdrafts and specialised finance loans	**451**	123
Credit cards	**4 825**	4 649
Foreign currency loans	**409**	363
Instalment credit agreements	**6 666**	5 804
Interest on impaired financial assets	**641**	851
Loans to associates and joint ventures	**863**	657
Microloans	**500**	454
Mortgages	**20 919**	19 256
Other advances	**39**	717
Overdrafts	**2 884**	2 633
Overnight finance	**830**	786
Personal loans and term loans	**3 409**	3 097
Preference shares	**682**	484
Wholesale overdrafts	**3 606**	2 706
Other interest	**1 487**	1 130
	54 810	50 095

Interest income on other loans and advances to customers includes items such as interest on factored debtors' books.

Other interest 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 2014 Rm	Bank 2013 Rm
25. Interest and similar income *(continued)*		
Classification of interest and similar income		
Fair value adjustments on amortised cost and available-for-sale financial assets held in a fair value hedging relationship (refer to note 52.8)	**751**	(2 450)
Investment securities	**370**	(2 614)
Loans and advances to customers	**381**	164
Fair value adjustments on hedging instruments	**926**	4 549
Cash flow hedges (refer to note 52.6)	**1 494**	1 730
Economic hedges	**4**	1
Fair value hedges (refer to note 52.8)	**(572)**	2 818
Interest on financial assets held at amortised cost	**50 623**	46 064
Interest on financial assets held as available-for-sale	**1 474**	2 291
Interest on financial assets designated at fair value through profit or loss	**1 036**	(359)
Fair value hedging instruments (refer to note 52.8)	**(415)**	(746)
Investment securities	**1 135**	37
Loans and advances to customers	**316**	350
	54 810	50 095

Comparatives have been restated, refer to note 1.19.

	Bank 2014 Rm	Bank 2013 Rm
26. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 114**	1 316
Debt securities in issue	**6 550**	5 733
Deposits due to customers	**21 462**	20 104
Call deposits	**3 591**	2 799
Cheque account deposits	**3 251**	3 065
Credit cards deposits	**8**	8
Fixed deposits	**7 501**	8 486
Foreign currency deposits	**252**	348
Notice deposits	**3 010**	2 913
Other	**266**	195
Savings and transmission deposits	**3 583**	2 290
Deposits from banks	**1 384**	1 012
Call deposits	**394**	363
Fixed deposits	**987**	649
Foreign currency deposits	**3**	—
Fair value adjustments on hedging instruments	**(457)**	500
Interest incurred on finance leases	**—**	19
Other	**(1 171)**	(2 154)
	28 882	26 530
Classification of interest and similar charges		
Fair value adjustments on amortised cost financial liabilities held in a fair value hedging relationship (refer to note 52.8)	**(258)**	(820)
Borrowed funds	**(99)**	(126)
Debt securities in issue	**(159)**	(694)
Fair value adjustments on hedging instruments	**(214)**	893
Cash flow hedges (refer to note 52.6)	**(72)**	(52)
Economic hedges	**(49)**	46
Fair value hedges (refer to note 52.8)	**(93)**	899
Interest on financial liabilities designated at fair value through profit or loss	**(182)**	495
Borrowed funds	**—**	17
Debt securities in issue	**15**	156
Deposits due to customers	**46**	714
Fair value hedging instruments (refer to note 52.8)	**(243)**	(392)
Interest on financial liabilities held at amortised cost	**29 536**	25 962
	28 882	26 530

Other interest and similar charges 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 2014 Rm	Bank 2013 Rm
27. Net fee and commission income		
Asset management and other related fees	85	97
Consulting and administration fees	162	171
Credit-related fees and commissions	13 158	12 894
Cheque accounts	3 818	3 546
Credit cards	1 275	1 305
Electronic banking	4 300	4 203
Other	1 478	1 556
Savings accounts	2 287	2 284
Insurance commission received	504	485
Investment banking fees	312	255
Merchant income	1 623	1 492
Other	56	51
Trust and other fiduciary service fees	64	41
Portfolio and other management fees	49	22
Trust and estate income	15	19
Fee and commission income	15 964	15 486
Fee and commission expense	(1 189)	(1 065)
Cheque processing fees	(131)	(150)
Other	(838)	(658)
Transaction-based legal fees	(76)	(115)
Valuation fees	(144)	(142)
	14 775	14 421

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 2014 Rm	Bank 2013 Rm
27.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	3 818	3 546
Credit cards	1 275	1 305
Other	827	1 032
Savings accounts	2 287	2 284
Fee and commission income	8 207	8 167
Fee and commission expense	(991)	(890)
	7 216	7 277

Credit cards includes acquiring and issuing fees.

Other credit related fees and commission income includes service and credit-related fees and commissions on mortgage loans and foreign exchange transactions.

Retail and Business banking has refined the classification for particular note lines within net fee and commission income to account for the income from certain products more accurately based on the true nature of the products. This resulted in a decrease of R481m in Merchant income, an increase of R104m in Electronic Banking and an increase of R376m in Credit Cards, for the period ended 31 December 2013.

	Bank 2014 Rm	Bank 2013 Rm
28. Gains and losses from banking and trading activities		
Net (losses)/gains on investments	**(228)**	320
Debt instruments designated at fair value through profit or loss	**7**	163
Equity instruments designated at fair value through profit or loss	**(191)**	167
Available-for-sale unwind from reserves	**(44)**	(10)
Net trading result	**2 817**	3 031
Net trading income excluding the impact of hedge accounting	**3 064**	3 269
Ineffective portion of hedges	**(247)**	(238)
Cash flow hedges (refer to note 52.6)	**(239)**	(234)
Fair value hedges (refer to note 52.8)	**(8)**	(4)
Other gains	**65**	140
Profit on sale of subsidiary	**44**	—
	2 698	3 491
Classification of net trading results and other gains on financial instruments		
Net trading income excluding the impact of hedge accounting	**3 064**	3 269
(Losses)/gains on financial instruments designated at fair value through profit or loss	**(1 111)**	1 326
Net (losses)/gains on financial assets designated at fair value through profit or loss	**(329)**	142
Net (losses)/gains on financial liabilities designated at fair value through profit or loss	**(782)**	1 184
Gains on financial instruments held for trading	**4 175**	1 943
Other gains	**65**	140
Gains on financial instruments designated at fair value through profit or loss	**—**	7
Gains on financial instruments held for trading	**65**	133
29. Gains and losses from investment activities		
Other gains	**4**	6

	Bank 2014 Rm	Bank 2013 Rm
30. Other operating income		
Foreign exchange differences, including recycle from other comprehensive income	**410**	45
Income from investment properties	**52**	222
Change in fair value (refer to note 12)	**—**	60
Rentals[1]	**52**	162
Income from maintenance contracts	**28**	16
Profit/(loss) on disposal of property and equipment	**16**	(20)
Profit on sale of repossessed properties	**37**	14
Gross sales	**102**	356
Cost of sales	**(65)**	(342)
Rental income[1]	**28**	55
Sundry income	**352**	307
	923	639

Sundry income includes service fees levied on asset finance as well as profit on disposal of sundry non-core business activities.

	Bank 2014 Rm	Bank 2013 Rm
31. Operating expenses		
Administration fees	**839**	717
Amortisation of intangible assets (refer to note 14)	**226**	210
Auditors' remuneration	**191**	189
Audit fees – current reporting period	**122**	113
Audit fees – underprovision	**14**	8
Audit-related fees	**46**	44
Other services	**9**	24
Cash transportation	**698**	597
Depreciation (refer to note 13)	**1 171**	1 191
Equipment costs	**167**	175
Rentals	**62**	101
Maintenance	**105**	74
Information technology	**1 845**	1 760
Investment properties charges – change in fair value (refer to note 12)	**8**	—
Marketing costs	**1 379**	1 125
Operating lease expenses on properties	**1 022**	970
Other	**416**	978
Printing and stationery	**273**	212
Professional fees	**1 272**	1 257
Property costs	**1 378**	1 232
Staff costs	**13 774**	12 266
Bonuses	**1 270**	1 180
Other	**460**	544
Salaries and current service costs on post-retirement benefits	**11 143**	9 913
Deferred cash and share-based payments (refer to note 49)	**656**	387
Training costs	**245**	242
Telephone and postage	**650**	681
	25 309	23 560

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies.

Information technology and professional fees include research and development costs totalling **R299m** (2013: R246m).

Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

Other operating expenses include fraud losses, travel and entertainment costs.

Note

[1]Business Banking South Africa reviewed the classification of certain income streams, which resulted in a restatement of the 31 December 2013 values within "Other Operating Income". Investment Property rental increased by R162m and Rental Income decreased by R162m.

	Bank 2014 Rm	Bank 2013 Rm
32. Other impairments		
Financial instruments	17	(4)
Other	401	3
Goodwill (refer to note 14)	1	—
Intangible assets (refer to note 14)	127	—
Investments in associates and joint ventures (refer to note 11)	2	—
Property and equipment (refer to note 13)	253	—
Repossessed properties	—	3
Other	18	—
	418	(1)

The current and previous reporting periods' impairment losses reported by segment are disclosed in note 51.

	Bank 2014 Rm	Bank 2013 Rm
33. Indirect taxation		
Training levy	108	99
VAT net of input credits	660	696
	768	795

	Bank 2014 Rm	Bank 2013 Rm
34. Taxation expense		
Current		
Foreign tax	44	48
South African current tax	3 550	3 417
South African current tax – previous reporting period	(152)	(377)
	3 442	3 088
Deferred		
Deferred tax (refer to note 15.1)	128	196
Accelerated tax depreciation	(19)	58
Allowances for loan losses	(107)	(109)
Fair value adjustment	499	171
Other provisions	(177)	6
Other temporary differences	(68)	63
Retirement benefit fund assets and liabilities	—	7
	3 570	3 284
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	12 870	12 019
Share of post-tax results of associates and joint ventures (refer to note 11)	(147)	(132)
	12 723	11 887
Tax calculated at a tax rate of 28%	3 562	3 328
Effect of different tax rates in other countries	8	6
Expenses not deductible for tax purposes	178	99
Income not subject to tax	(423)	(255)
Non-taxable portion of capital gains	12	—
Other	233	106
	3 570	3 284

	Bank 2014 Rm	Bank 2013 Rm

35. 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 profit or loss, 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.

	Bank 2014 Rm	Bank 2013 Rm
Basic and diluted earnings attributable to the ordinary equity holder	**8 995**	8 439
Weighted average number of ordinary shares in issue (millions)	**386,9**	379,1
Issued shares at the beginning of the reporting period	**383,1**	378,8
Effect of shares issued during the reporting period (weighted)	**3,8**	0,3
Basic earnings per share/diluted earnings per share (cents)	**2 324,9**	2 226,1

36. Headline earnings

Headline earnings is determined as follows:

	Bank 2014 Gross Rm	Bank 2014 Net Rm	Bank 2013 Gross Rm	Bank 2013 Net Rm
Profit attributable to the ordinary equity holder:		**8 995**		8 439
Total headline earnings adjustment:		**(208)**		(173)
IFRS 3 – Goodwill impairment (refer to note 32)	**1**	**1**	—	—
IFRS 5 – Gains on disposal of non-current assets held for sale	**(105)**	**(94)**	(171)	(138)
IAS 16 – (Profit)/loss on disposal of property and equipment (refer to note 30)	**(16)**	**(13)**	20	14
IAS 21 – Recycled foreign currency translation reserve	**(397)**	**(397)**	—	—
IAS 27 – Profit on disposal of subsidiaries (refer to note 28)	**(44)**	**(35)**	—	—
IAS 28 – Impairment of investment in associates and joint ventures (refer to note 32)	**2**	**2**	—	—
IAS 36 – Other impairment (refer to note 32)	**18**	**15**	—	—
IAS 36 – Impairment of intangible assets (refer to note 32)	**127**	**91**	—	—
IAS 36 – Impairment of property and equipment (refer to note 32)	**253**	**183**	—	—
IAS 39 – Release of available-for-sale reserves (refer to note 28)	**44**	**31**	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 note 31 and note 30)	**8**	**8**	(60)	(54)
Headline earnings/diluted headline earnings		**8 787**		8 266
Headline earnings per share (cents)		**2 271,1**		2 180,4
Diluted headline earnings per share (cents)		**2 271,1**		2 180,4

The net amount is reflected after tax.

37. Retirement benefit fund obligations

37.1 Absa Pension Fund

The Absa Pension Fund ("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 2014 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 valuation has been performed using the projected unit credit method in respect of the defined benefit portion. The asset ceiling of The Fund is limited to the Employer Surplus Account ("ESA"). According to the Rules and The Fund, the ESA can be used for a number of purposes including funding a deficit in The Fund, enhancing benefits of the fund or enabling a contribution holiday.

In terms of Section 7 of the Pension Fund Act, notwithstanding the rules of a fund, every fund must have a board of trustees consisting of at least four board members, at least 50% of whom the members of the fund have the right to elect. The object of the board is to direct, control and oversee the operations of a fund in accordance with the applicable laws and the rules of the fund. In carrying out this objective, the board must take all reasonable steps to ensure that the interests of members in terms of the rules of the fund and the provisions of this Act are protected at all times, must act with due care, diligence and good faith; and avoid conflicts of interest. The board must act independently and with impartiality in respect of all members and beneficiaries. The members of the board have a fiduciary duty to members and beneficiaries in respect of accrued benefits or any amount accrued to provide a benefit, as well as a fiduciary duty to the fund, to ensure that the fund is financially sound and is responsibly managed and governed in accordance with the rules and the PF Act.

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 benefit. Should a retiree elect a conventional annuity, the Bank is thereafter exposed to longevity and other actuarial risk. However, the conventional annuity is calculated based on the defined contribution plan assets at the retirement date. The Bank is therefore not exposed to any asset return risk prior to the election of this option i.e. the retirement date. The classification rules within IAS 19 require that, where the employer is exposed to any actuarial risk, the entire fund be classified as a defined benefit plan. The valuation of the option is included in the defined benefit obligation. The assets and liabilities of the defined contribution active members are separately presented. 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 and liabilities relating to pensioners that have elected to receive a living annuity, amount to **R2 992,3m** (2013: R2 693m).

	Bank Absa Pension Fund	
	2014	2013
Categories of The Fund		
Defined benefit active members	**26**	29
Defined benefit deferred pensioners	**3**	3
Defined benefit pensioners	**8 535**	8 692
Defined contribution active members	**32 711**	31 666
Defined contribution pensioners	**2 347**	2 219
Duration of the scheme – defined benefit (years)	**10,2**	10
Duration of the scheme – defined contribution (years)	**23.2**	25
Expected contributions to The Fund for the next 12 months (Rm)	**1 574**	1 295

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.

While The Fund as a whole has been classified as a defined benefit fund for IAS 19 purposes, the defined contribution portion provides its members 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 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 profit or loss includes the current service cost, interest income on plan assets as well as interest expense on the defined benefit obligation and the irrecoverable surplus. It is the Bank's policy to ensure that The Fund is adequately funded to provide for the benefits due to members, and particularly to ensure that any shortfall with regard to the defined benefit portion will be met by way of additional contributions.

The Fund investments are managed on a target return basis. The primary objective of the portfolio managed for the defined benefit section of The Fund to achieve is a net real return of 4,5% per annum, measured over rolling 36-month periods. The secondary objective is to achieve a nominal net return of 4,5% per annum, measured over rolling 12-month periods.

	Bank 2014 Rm	Bank 2013 Rm
37. Retirement benefit fund obligations *(continued)*		
37.1 Absa Pension Fund *(continued)*		
37.1.1 Reconciliation of net defined benefit plan surplus		
Reconciliation of the net surplus		
Present value of funded obligations	(23 236)	(21 846)
Defined benefit portion	(7 372)	(7 347)
Defined contribution portion	(15 864)	(14 499)
Fair value of the plan assets	24 762	22 868
Defined benefit portion	8 898	8 369
Defined contribution portion	15 864	14 499
Funded status	1 526	1 022
Irrecoverable surplus (effect of asset ceiling)	(1 060)	(556)
Net surplus arising from the defined benefit obligation	466	466
37.1.2 Reconciliation of movement in the funded obligation		
Balance at the beginning of the reporting period	(21 846)	(18 483)
Defined benefit portion	(7 347)	(6 150)
Defined contribution portion	(14 499)	(12 333)
Reconciling items – defined benefit portion	(25)	(1 197)
Actuarial gains – financial	398	—
Actuarial gains/(losses) – experience adjustments	4	(665)
Benefits paid	518	464
Current service costs	(42)	(8)
Interest expense	(616)	(429)
Defined contribution member transfers	(287)	(559)
Reconciling items – defined contribution portion	(1 365)	(2 166)
Increase in obligation linked to plan assets return	(1 599)	(1 878)
Employer contribution	(760)	(764)
Employee contributions	(535)	(496)
Disbursements and member transfers	1 529	972
Balance at the end of the reporting period	(23 236)	(21 846)

	Bank 2014 Rm	Bank 2013 Rm
37. Retirement benefit fund obligations *(continued)*		
37.1 Absa Pension Fund *(continued)*		
37.1.3 Reconciliation of movement in the plan assets		
Balance at the beginning of the reporting period	**22 868**	19 868
Defined benefit portion	**8 369**	7 535
Defined contribution portion	**14 499**	12 333
Reconciling items – defined benefit portion	**529**	834
Benefits paid	**(518)**	(464)
Employer contributions	**—**	1
Interest income	**702**	527
Return on plan assets in excess of interest	**58**	211
Defined contribution member transfers	**287**	559
Reconciling items – defined contribution portion	**1 365**	2 166
Return on plan assets	**1 599**	1 878
Employer contributions	**760**	764
Employee contributions	**535**	496
Disbursements and member transfers	**(1 529)**	(972)
Balance at the end of the reporting period	**24 762**	22 868
37.1.4 Reconciliation of movement in the irrecoverable surplus		
Balance at the beginning of the reporting period	**(556)**	(919)
Interest on irrecoverable surplus	**(47)**	(65)
Changes in the irrecoverable surplus in excess of interest	**(457)**	428
Balance at the end of the reporting period	**(1 060)**	(556)

	Bank 2014 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
37.1.5 Nature of the pension fund assets				
Plan assets relating to the defined benefit plan				
Defined benefit portion	2 682	5 304	912	8 898
Quoted fair value	1 484	5 297	247	7 028
Unquoted fair value	982	—	228	1 210
Own transferable financial instruments	216	7	4	227
Investment in listed property entities/funds	—	—	433	433
Defined contribution portion	3 167	8 542	4 155	15 864
Quoted fair value	1 438	8 486	2 602	12 526
Unquoted fair value	1 334	41	703	2 078
Own transferable financial instruments	395	15	247	657
Investments in listed property entities/funds	—	—	603	603
	5 849	13 846	5 067	24 762

37. Retirement benefit fund obligations *(continued)*

37.1 Absa Pension Fund *(continued)*

37.1.5 Nature of the pension fund assets (continued)

	Bank 2013 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Plan assets relating to the defined benefit plan				
Defined benefit portion	2 281	4 927	1 161	8 369
Quoted fair value	1 588	4 834	788	7 210
Unquoted fair value	—	6	70	76
Own transferable financial instruments	693	87	—	780
Investment in listed property entities/funds	—	—	303	303
Defined contribution portion	2 877	7 468	4 154	14 499
Quoted fair value	2 829	5 111	3 440	11 380
Unquoted fair value	—	9	—	9
Own transferable financial instruments	48	2 348	714	3 110
	5 158	12 395	5 315	22 868

The "Other instruments" category of plan assets for the Absa Pension Fund comprises mainly cash and money market investments, with the remainder relating to property investments in property entities/funds.

	Bank 2014 Rm	Bank 2013 Rm
37.1.6 Movements in the defined benefit plan presented in the statement of comprehensive income		
Recognised in profit or loss:		
Net interest income	**(39)**	(33)
Current service cost	**42**	8
	3	(25)
Recognised in other comprehensive income:		
Actuarial (gains)/losses – financial	**(398)**	—
Actuarial (gains)/losses – experience adjustments	**(4)**	665
Return on the plan assets in excess of interest	**(58)**	(211)
Changes in the irrecoverable surplus in excess of interest	**457**	(428)
	(3)	26
37.1.7 Actuarial assumptions used:		
Discount rate (%) p.a.	**8,1**	8,5
Inflation rate (%) p.a.	**5,8**	6,1
Expected rate on the plan assets (%) p.a.	**9,8**	10,6
Future salary increases (%) p.a.	**6,8**	7,1
Average life expectancy in years of pensioner retiring at 60 – Male	**21,1**	21,0
Average life expectancy in years of pensioner retiring at 60 – Female	**26,0**	25,9

37. Retirement benefit fund obligations *(continued)*

37.1 Absa Pension Fund *(continued)*

37.1.8 Sensitivity analysis of the significant actuarial assumptions

	Bank	
	2014	
	Reasonable possible change	Increase/ (decrease) on defined benefit obligation Rm
Significant actuarial assumption		
Increase in discount rate (%)	**0,5**	**(467)**
Increase in inflation (%)	**0,5**	**512**
Increase in life expectancy (years)	**1**	**314**

	2013	
	Reasonable possible change	Increase/ (decrease) on defined benefit obligation Rm
Increase in discount rate (%)	0,5	(530)
Increase in inflation (%)	0,5	503
Increase in life expectancy (years)	1	298

37.1.9 Sensitivity analysis of the significant assumptions

Sensitivity analysis

The aforementioned sensitivity analysis indicates how changes in significant actuarial assumptions would affect the defined benefit portion of **R7 372m** (2013: R7 374m).

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. 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. 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.

The defined contribution obligation of **R15 864m** (2013: R14 499m) does not give rise to any actuarial risks as the measurement is derived from the defined contribution plan assets.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

	Bank 2014 Rm	Bank 2013 Rm
38. Dividends per share		
38.1 Dividends declared		
Dividends declared to ordinary equity holder		
Interim dividend (**30 July 2014: 593,35 cents**) (30 July 2013: 2 233,4 cents)	**2 299**	8 459
Special dividend (**5 December 2014: 516,1 cents**) (**8 April 2014: 638,38 cents**) (4 December 2013: 264,0 cents)	**4 446**	1 000
Final dividend (**3 March 2015: 912,78268 cents**) (11 February 2014: 754,3 cents)	**3 616**	2 890
	10 361	12 349
Dividends declared to preference equity holders		
Interim dividend (**30 July 2014: 3 197,4658 cents**) (30 July 2013: 2 999,4521 cents)	**158**	148
Final dividend (**3 March 2015: 3 210,8904 cents**) (11 February 2014: 2 979,3151 cents)	**159**	147
	317	295
38.2 Dividends paid		
Dividends paid to ordinary equity holder		
Final dividend (**11 February 2014: 754,3 cents**) (12 February 2013: 605,5 cents)	**2 890**	2 293
Interim dividend (**30 July 2014: 593,35 cents**) (30 July 2013: 2 233,4 cents)	**2 299**	8 459
Special dividend (**5 December 2014: 516,1 cents**) (**8 April 2014: 638,38 cents**) (4 December 2013: 264,0 cents)	**4 446**	1 000
Dividends paid to preference equity holders		
Final dividend (**11 February 2014: 2 979,3151** cents) (12 February 2013: 2 950,5479 cents)	**147**	146
Interim dividend (**30 July 2014: 3 197,4658** cents) (30 July 2013: 2 999,4521 cents)	**158**	148
	9 940	12 046

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

39.1 Reverse repurchase agreements and securities borrowed

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 **R21 036m** (2013: R19 434m) of which **Rnil** (2013: Rnil) have been sold or repledged.

39.2 Repurchase agreements and securities lent

	Bank 2014 Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Debt instruments	23 390	(23 390)	23 390	(23 390)	—
Equity instruments	2 930	(1 468)	2 930	(1 468)	1 462

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

39.2 Repurchase agreements and securities lent *(continued)*

	2013				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Debt instruments	20 504	(20 504)	20 504	(20 504)	—
Equity instruments	1 197	(1 257)	1 197	(1 257)	(60)

The transferred assets are presented in the "Trading portfolio assets" line on the statement of financial position.

40. Transfer of financial assets

Transfer of financial assets involving structured entities

In the ordinary course of its normal banking activities the Bank transfers financial assets to structured entities ("SEs"), either legally (where legal rights to the cash flows from the asset are transferred to the counterparty) or beneficially (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 of the assets or no derecognition of the assets.

40.1 Transfer of financial assets that does not result in derecognition

	Bank				
	2014				
	Carrying amount of transferred assets Rm	**Carrying amount of associated liabilities Rm**	**Fair value of transferred assets Rm**	**Fair value of associated liabilities Rm**	**Net fair value Rm**
Loans and advances to customers	**224**	**(224)**	**224**	**(224)**	**—**

	2013				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Loans and advances to customers	300	(271)	316	(284)	32

Balances included within loans and advances to customers represent instances where substantially all the risks and rewards (credit risk and prepayment risk) of the financial asset have been retained by the Bank.

The relationship between the transferred assets and the associated liabilities is that holders of the associated liabilities may only look to cash flows from the transferred assets for payments due to them, although the contractual terms may differ from those of the transferred assets.

40.2 Transfer of financial assets that results in partial derecognition

The Bank invests in notes of certain SEs. The interest on these notes represents a continuing exposure to the prepayment risk and credit risk of the underlying assets (the transferred assets) which comprise of corporate loans. The assets are included in the statement of financial position under 'Loans and advances to customers'. The carrying amount of the loans before transfer was **R1 175m** (2013: R1 185m) and the current carrying amount as at the reporting date is **R968m** (2013: R1 188m). There are no liabilities associated with the assets transferred.

40.3 Continuing involvement in financial assets that have been derecognised in their entirety

The instance may arise where the Bank transfers a financial asset to an SE in its entirety but may have continuing involvement in it. Continuing involvement largely arises from providing financing to the SE in the form of retained notes, which do not bear first losses as they are not considered equity instruments of the SE.

As at 31 December 2014, the Bank had no continuing involvement where financial assets have been derecognised in their entirety.
(31 December 2013: none)

41. Offsetting financial assets and financial liabilities

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							
	2014							
	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	40 685	—	40 685	(33 656)	(3 965)	3 064	1 945	42 630
Reverse repurchase agreements and other similar secured lending	41 068	(14 999)	26 069	—	(26 069)	—	—	26 069
Total assets	81 753	(14 999)	66 754	(33 656)	(30 034)	3 064	1 945	68 699
Derivative financial liabilities	(42 355)	—	(42 355)	33 656	2 633	6 066	(2007)	(44 362)
Repurchase agreements and other similar secured borrowing	(25 922)	—	(25 922)	—	25 922	—	(470)	(26 392)
Total liabilities	(68 277)	—	(68 277)	33 656	28 555	6 066	(2 477)	(70 754)

Notes

[1]Amounts offset for reverse repurchase agreements relate to a short sale financial liability of **R14,9bn** (2013: R14,4bn). 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".

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

	Bank 2013[1]							
	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[6] 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	—	46 278	(37 580)	(3 981)	4 717	2 338	48 616
Reverse repurchase agreements and other similar secured lending	36 515	(14 419)	22 096	—	(22 096)	—	515	22 611
Total assets	82 793	(14 419)	68 374	(37 580)	(26 077)	4 717	2 853	71 227
Derivative financial liabilities	(46 835)	—	(46 835)	37 580	907	(8 348)	(3 794)	(50 629)
Repurchase agreements and other similar secured borrowing	(18 204)	—	(18 204)	—	18 204	—	—	(18 204)
Total liabilities	(65 039)	—	(65 039)	37 580	19 111	(8 348)	(3 794)	(68 833)

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 56.2.

Notes

[1]Recent developments in considering the impact of the amended IAS 32 offsetting requirements resulted in a change to the approach followed for variation margin on SAFEX and Yield-X futures and options. The various margins on these contracts are considered a daily settlement of a derivative exposure as opposed to collateral that is offset against the derivative value. As a result, these contracts are excluded from the scope of the offsetting requirements in IAS 32 and the IFRS 7 offsetting disclosures. The change in approach has been applied retrospectively and only impacts the disclosure provided in this note.

[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".

[6]Amounts offset for reverse repurchase agreements relate to a short sale financial liability of **R14,9bn** (2013: R14,4bn). No other significant recognised financial assets and liabilities were offset in the statement of financial position.

42. Related parties

The Bank's ultimate parent company is Barclays Bank PLC, which owns **62,3%** (2013: 62,3%) of the ordinary shares in Barclays Africa Group Limited. The remaining **37,7%** (2013: 37,7%) of the shares are widely held on the JSE.

42.1 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"). 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 other employees. 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	
	2014 Rm	2013 Rm
Key management personnel compensation		
Directors		
Deferred cash payments	**6**	—
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**35**	28
Share-based payments	**51**	26
	93	55
Other key management personnel		
Deferred cash payments	**14**	—
Post-employment benefit contributions	**4**	3
Salaries and other short-term benefits	**97**	77
Share-based payments	**102**	50
	217	130

42. Related parties *(continued)*

42.1 Transactions with key management personnel *(continued)*

	Bank			
	2014		2013	
	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	25	12	27	428
Inception/(discontinuance) of related party relationships[1]	3	(8)	(1)	(407)
Loans issued and interest earned	56	35	39	10
Loans repaid	(46)	(25)	(40)	(19)
Balance at the end of the reporting period	38	14	25	12
Interest income	(2)	(1)	(2)	(2)
Deposits				
Balance at the beginning of the reporting period	11	1	12	3
Inception/(discontinuance) of related party relationships[1]	(1)	—	(16)	(1)
Deposits received	243	6	291	11
Deposits repaid and interest paid	(244)	(6)	(276)	(12)
Balance at the end of the reporting period	9	1	11	1
Interest expense	0	0	1	0
Guarantees	74	24	52	32
Other investments				
Balance at the beginning of the reporting period	27	7	22	18
Inception/(discontinuance) of related party relationships[1]	(1)	—	(6)	(0)
Value of new investments/contributions	30	5	55	6
Value of withdrawals/disinvestments	(24)	(5)	(56)	(10)
Fees and charges	(0)	(0)	(0)	(0)
Investment returns	5	(6)	12	(7)
Balance at the end of the reporting period	37	1	27	7

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

No loans to key management personnel or entities controlled by key management personnel were written off as irrecoverable.

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.

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R0,16m** (2013: R0,19m) and received claims of **Rnil** (2013: Rnil).

Note

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

42. Related parties *(continued)*

42.2 Balances and transactions with the ultimate parent company, fellow subsidiaries and associates and joint ventures of Barclays Bank PLC

	Bank			
	2014		2013	
	Ultimate parent company Rm	Fellow subsidiaries, associates and joint ventures of the ultimate parent company Rm	Ultimate parent company Rm	Fellow subsidiaries, associates and joint ventures of the ultimate parent company Rm
Balances				
Loans and advances to banks[1]	16 199	115	13 622	955
Derivative assets[1]	18 595	872	20 452	316
Other assets	130	128	1 244	157
Investment securities	314	—	534	
Deposits from banks[1]	(16 882)	(408)	(21 320)	(333)
Derivative liabilities[1]	(22 439)	(272)	(17 901)	—
Other liabilities	(275)	(123)	(102)	(318)
Transactions				
Interest and similar income	(183)	—	(215)	—
Interest expense and similar charges	22	—	50	
Net fee and commission income	—	(30)	—	(458)
Gains and losses from banking and trading activities	284	—	274	(1 115)
Other operating income	(84)	—	(70)	—
(Recovered expenses)/Operating expenditure	(5)	(375)	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 and fellow subsidiaries, associates and joint ventures of the ultimate parent company.

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

	Bank			
	2014		2013	
	Parent company Rm	Fellow subsidiaries, associates and joint ventures of the parent company Rm	Parent company Rm	Fellow subsidiaries, associates and joint ventures of the parent company Rm
Balances				
Cash, cash balances and balances with central banks	—	(0)	—	(1)
Loans and advances to bank	—	179	—	196
Trading portfolio assets	—	90	—	2 476
Loans to Absa Group companies	—	17 740	—	19 247
Deposits from banks	(812)	(3 647)	(507)	(3 921)
Debt securities in issue	—	(54)	—	(41)
Borrowed funds	—	(506)	—	—
Dividends paid	9 635	—	11 752	—
Transactions				
Interest and similar income	—	(1 460)	—	(773)
Interest expense and similar charges	—	1 243	—	439
Net fee and commission income	(1)	(436)	—	(458)
Gains and losses from banking and trading activities	53	(2 673)	—	(1 115)
Gains and losses from investment activities	—	0	—	1
Other operating income	—	(23)	—	(19)
Operating expenditure	—	(528)	—	(57)

Note

[1]An exercise was undertaken during the current reporting period to ensure that all balances with the ultimate parent company had been included in the IAS 24 disclosures. As a result, comparative amounts for 2013 have been restated. The impact thereof on the 2013 disclosures is as follows: Loans and advances to banks decreased by R98m, Derivative assets increased by R1 412m, Derivative liabilities increased by R669m, deposits from banks increased by R2 334m.

42. Related parties *(continued)*

42.4 Subsidiaries and consolidated structured entities[1]

The following information provided 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.

			Bank	
Name	Nature of business	Country of incorporation	2014 % holding	2013 % holding
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	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
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

42.5 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 regulatory and contractual requirements.

Regulatory requirements

The Bank's subsidiaries are subject to the regulatory capital ("RC") requirements of the countries in which they operate. These require, inter alia, that these entities maintain minimum capital ratios which restrict the ability of these entities to make distributions to the parent company. Distributions are also restricted by leverage constraints, large exposure limits and local legal licence requirements.

The requirements to maintain capital also affect certain equity and non-equity instruments in these subsidiaries such as Tier 1 and Tier 2 capital instruments and other subordinated liabilities which enable subsidiaries to meet their ratios. To the extent that these are retired, they must be replaced with instruments of similar terms.

The total amount of RC required to be maintained by regulated entities within the Bank was **R44,4bn** (2013: R38,6bn).

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 may 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 2014 was **R4bn** and **R2,5bn** respectively (2013: R5bn and R3,4bn respectively).

Note

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

42. Related parties *(continued)*

42.6 Associates, joint ventures and retirement benefit fund

The Bank provides certain banking and financial services to associates and joint ventures. The Bank also provides a number of current and interest-bearing cash accounts to the Absa 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		
	2014		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund investments managed by the Bank	—	8 898	8 898
Value of Absa defined contribution pension fund investments managed by the Bank	—	15 864	15 864
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	7	7
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	216	216
Statement of financial position			
Other assets	—	466	466
Loans and advances to customers (refer to note 8)	14 761	—	14 761
Statement of comprehensive income			
Interest and similar income	(860)	702	(158)
Interest expense and similar charges	24	663	687
Fee and commission income	39	—	39
Current service costs (refer to note 37)	—	42	42
Staff costs (contributions to Absa pension fund)	—	718	718

	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 pension fund investments managed by the Bank	—	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 customers (refer to note 8)	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 37)	—	8	8
Staff costs (contributions to Absa pension fund)	—	1 260	1 260

42. Related parties *(continued)*

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

The following information provided 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	2014 Ownership %	2013 Ownership %
Equity-accounted associates			
SBV Services Proprietary Limited[1]	Cash transportation services.	**25**	25
The Document Exchange Association	Facilitates the electronic exchange of documents between the banks.	**33**	33
The South African Bankers Services Company Proprietary Limited[1]	Automatic clearing house.	**23**	23
Equity-accounted joint ventures			
FFS Finance South Africa Proprietary Limited	Provides financing solutions to Ford Motor Company customers.	**50**	50
Integrated Processing Solutions Proprietary Limited	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	**50**	50
MAN Financial Services (S.A.)Proprietary Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	**50**	50
Associates and joint ventures designated at fair value through profit or loss	Various.	**Various**	Various

All associates and joint ventures are incorporated in South Africa.

43. Structured entities

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]SBV Services Proprietary Limited and The South African Bankers Services Company Proprietary Limited have a reporting date of 30 June 2014.

43. 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.

43.1 Consolidated structured entities

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

			Bank	
Name	Nature of support	Reason for providing support	2014 Rm	2013 Rm
The Absa Foundation Trust	Donation	The trust was constituted to fund community upliftment and social welfare programmes.	63	—

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 SE.

43. Structured entities *(continued)*

43.2 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 SEs 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					
	2014					
	Preference funding vehicles Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange-traded funds Rm	Funding vehicles Rm	Total Rm
Assets						
Trading portfolio assets	—	—	911	—	—	911
Investment securities	—	208	2 320	32	—	2 560
Debt securities	—	—	2 313	32	—	2 345
Equity securities	—	208	7	—	—	215
Loans and advances to customers	8 195	—	318	—	552	9 065
Derivatives held for trading	—	—	4	—	—	4
Interest rate derivatives (carrying value)	—	—	4	—	—	4
Interest rate derivatives (notional value)	—	—	1 946	—	—	1 946
Undrawn liquidity facilities (notional value)[3]	—	—	454	—	—	454
	8 195	208	4 007	32	552	12 994
Liabilities						
Deposits due to customers	63	—	1 630	68	—	1 761
	63	—	1 630	68	—	1 761
Maximum exposure to loss[1]	8 195	208	4 007	32	552	12 994
Total size of entities[2]	56 809	483	6 130	36 091	552	100 065

Notes

[1]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.

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

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

43. Structured entities *(continued)*

43.2 Unconsolidated structured entities *(continued)*

	Bank 2013					
	Preference funding vehicles Rm	Structured investment vehicles Rm	Securitisation 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[3]	—	—	460	—	133	593
	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[1]	5 106	216	3 372	9	878	9 581
Total size of entities[2]	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			
	2014 Losses recognised in profit or loss		2013 Losses recognised in profit or loss	
	Derivatives Rm	**Impairment losses Rm**	Derivatives Rm	Impairment losses Rm
Securitisation vehicles	**(28)**	**—**	(87)	—
Funding vehicles	**—**	**(45)**	—	—

Financial support provided or to be provided to unconsolidated structured entities

During the prior reporting period, R0,6m in short-term liquidity facility was provided to one of the Bank's unconsolidated SEs. No such facility was provided in the current year.

43.3 Sponsored entities

In addition to the unconsolidated SE's in which the Bank has an interest, it also sponsors some SEs in which it has no interest. The Bank did not earn material income from its involvement in the unconsolidated SEs 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	
	2014 Rm	2013 Rm
Loans and advances	**1 502**	—
Other	**—**	85

Notes

[1]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.

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

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

	Bank 2014 Rm	Bank 2013 Rm
44. Assets under management and administration		
Alternative asset management and exchange-traded funds	**35 920**	29 934
Portfolio management	**3 455**	6 147
Unit trusts	**2 031**	1 297
	41 406	37 378
45. Financial guarantee contracts		
Financial guarantee contracts	**96**	96

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.

During the current reporting period all financial guarantee contracts were reassessed and as a consequence the disclosure has been refined. The comparatives have been restated accordingly from R3bn to R96m.

	Bank 2014 Rm	Bank 2013 Rm
46. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**576**	175

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 2014 Rm	Bank 2013 Rm
Operating lease payments due		
No later than one year	**856**	820
Later than one year and no later than five years	**1 631**	1 417
Later than five years	**709**	230
	3 196	2 467

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 2014 Rm	Bank 2013 Rm
Sponsorship payments due		
No later than one year	**282**	272
Later than one year and no later than five years	**307**	541
	589	813

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

	Bank 2014 Rm	Bank 2013 Rm
47. Contingencies		
Guarantees	**28 076**	15 862
Irrecoverable debt facilities	**114 614**	116 357
Letters of credit	**3 756**	5 666
Other	**7**	3
	146 453	137 888

Guarantees includes performance and payment guarantee contracts.

During the reporting period, terms and conditions associated with unutilised customer facilities were reviewed and confirmed to be irrevocable in nature. These facilities are now disclosed as contingent liabilities and comparative numbers have been restated from R46bn to R116bn.

Irrevocable facilities are commitments to extend credit where the Bank does not have the right to immediately 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.

47. 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 Bank was privy to such conduct. They have instituted proceedings against the Bank for damages in an amount of R1 387m. The Bank 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 advisor 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 Bank. 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 Bank as well as Absa nominees ("the defendants") for approximately R1 157m. It is alleged that the defendants caused damages to the plaintiffs arising from 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.
The matter has not progressed from the previous reporting period.
- Net 1 UEPS Technologies Incorporated ("Net 1"): A claim has been brought by Net 1 against the Bank for loss of profit and damages in the amount of R478m. It is alleged that the Bank 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 Bank 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. Absa has filed a plea in answer to the summons, subsequent to which no further steps have been taken. In the matter brought by AllPay (a wholly owned subsidiary of the Bank) against SASSA and CPS ("Net 1") to have the SASSA social grants tender set aside on grounds of irregularity in the tender process, the Constitutional Court declared the award of the tender to CPS to be invalid on 29 November 2013 and subsequently directed that the tender process be run afresh. The Court's finding has substantially bolstered the Bank's defence to the damages claim.

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 and insurance 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.

Income taxes

The Bank is subject to income taxes in numerous jurisdictions and the calculations of the Bank's tax charge and provisions for income taxes necessarily involve 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 final 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 which such determination is made. These risks are managed in accordance with the Bank's Tax Risk Framework.

	Bank	
	2014 Rm	2013 Rm
48. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**8 777**	8 665
Loans and advances to banks	**1 237**	1 842
	10 014	10 507

	Bank 2014 Rm	Bank 2013 Rm
49. Deferred cash and share-based payments		
Share-based payments	**556**	387
Cash-settled arrangements:		
Barclays Africa Group Limited Long-Term Incentive Plan ("LTIP")	**43**	7
Barclays Africa Group Limited Deferred Award Plan ("DAP")	**44**	196
Barclays Africa Group Limited Phantom Joiners Share Award Plan ("JSAP")	**3**	30
Barclays Africa Group Limited Joiners Share Value Plan ("JSVP")	**105**	44
Barclays Africa Group Limited Share Value Plan ("SVP")	**190**	107
Barclays Africa Group Limited Share Incentive Award ("SIA")	**74**	—
Barclays Africa Group Limited Retention Share Value plan ("SVP Cliff")	**97**	—
Other cash-settled arrangements	**—**	3
Deferred cash payments		
Barclays Africa Group Limited Cash Value Plan ("CVP")	**100**	—
Total deferred cash and share-based payments staff cost (refer to note 31)	**656**	387
Total carrying amount of liabilities for cash-settled arrangements (refer to note 20)	**820**	467

Cash-settled share-based payment schemes are measured with reference to the Barclays Africa Group Limited share price as at the reporting date.

The Bank has entered into forward contracts referencing the number of Barclays Africa Group Limited shares to hedge a portion of the potential cash flow variability resulting from its DAP and SVP schemes.

The spot price of the forward contracts and an equal number of DAP and SVP phantom shares have been designated into cash flow hedging relationships.

Included in the 2014 share-based payments expenses are hedging gains of R18,1m relating to DAP and R80,1m for SVP schemes.

The comparatives for 2013 reflected hedging losses of R19m for DAP and R18m for SVP schemes.

At the reporting date **0,89m** (2013: 1,34m) SVP phantom shares granted in 2013 were hedged through forward contracts at a price of **R164,11** (2013: R164,11), **3,56m** (2013: Rnil) SVP phantom shares granted in 2014 were hedged through forward contracts at a price of **R141,32** (2013: Rnil) while **R0,47m** (2013: R1,55m) DAP phantom shares were hedged through forward contracts at a price of **R163,78** (2013: R163,78).

Barclays Africa Group Limited Long-Term Incentive Plan

The Long-Term Incentive Plan ("LTIP") is considered an equity-settled share-based payment arrangement at BAGL level. Qualifying participants will be entitled to Barclays Africa Group Limited ordinary shares either by way of a 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 in the Group. In order for the participant to be entitled to these awards, the participant needs to render three years of service and meet requisite performance conditions. Absa Bank Limited is obligated to purchase these shares for its employees and this scheme is therefore considered cash-settled for the Bank.

Barclays Africa Group Limited Deferred Award Plan

The Deferred Award Plan ("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 the Group 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.

Barclays Africa Group Limited Phantom Joiners Share Award Plan

The Phantom Joiners Share Award Plan ("JSAP") is a cash-settled share-based payment arrangement that enables the Group to attract and motivate new employees by buying out the "in the money" portion of a participant's shares or options under their previous employers' share scheme by offering the employees 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.

Barclays Africa Group Limited Joiners Share Value Plan

The Joiners Share Value Plan ("JSVP") is a cash-settled share-based payment arrangement that enables the Group to attract and motivate new employees by buying out the "in the money" portion of a participant's shares or options under their previous employers' share scheme by offering the employees 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.

49. Deferred cash and share-based payments *(continued)*

Barclays Africa Group Limited Share Value Plan

The Share Value Plan ("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 the Group 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.

Barclays Africa Group Limited Share Incentive Awards

The Share Incentive Award ("SIA") is a cash-settled share-based payment arrangement for employees identified as Code Staff for Barclays PLC. The award will vest six months from the date on which it is granted, which is 50% of the participant's non-deferred annual incentive in the form of Barclays Africa Group Limited Phantom Awards. The number of phantom shares awarded will be determined by dividing the rand value of the award by the volume-weighted average price of Barclays Africa shares, over the 20-day trading period immediately preceding the grant date.

Barclays Africa Group Limited Retention Share Value Plan

The Share Value Retention Plan ("SVP Cliff") is a cash-settled share-based payment arrangement. The SVP Cliff awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, 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's ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the vesting period.

	2014					2013				
	Opening balance	**Granted/ transferred**	**For-feited**	**Exer-cised**	**Closing balance**	Opening balance	Granted/ transferred	For-feited	Exer-cised	Closing balance
Cash-settled:					—					
LTIP	**1 866**	**(216)**	**(86)**	**—**	**1 564**	765	1 204	(103)	—	1 866
DAP	**1 836**	**9**	**(42)**	**(1 266)**	**537**	3 968	24	(163)	(1 993)	1 836
JSAP	**379**	**2**	**(34)**	**(217)**	**130**	669	3	(45)	(248)	379
JSVP	**474**	**458**	**(58)**	**(251)**	**623**	—	627	(67)	(86)	474
SVP	**1 596**	**1 685**	**(304)**	**(513)**	**2 464**	—	1 669	(71)	(2)	1 596
SIA	**—**	**419**	**—**	**(201)**	**218**	—	—	—	—	—
SVP Cliff	**—**	**2 061**	**(98)**	**—**	**1 963**	—	—	—	—	—

The terms and conditions of the above share-based payment arrangements dictate that awards be settled immediately on vesting and therefore there are no awards which have vested but have not yet been settled at any given time. Furthermore the awards outstanding in the aforementioned schemes have no exercise price.

LTIP number of shares was restated for the prior year due to options granted in 2013.

Weighted average excercise price during the reporting period	**Weighted average exercise price during the reporting period (cents)**		**Weighted average contractual life of awards outstanding (years)**	
	2014	2013	**2014**	2013
Cash-settled:				
LTIP	**—**	—	**1.6**	1.0
DAP	**128.68**	167.85	**0.8**	0.5
JSAP	**164.85**	166.96	**1.0**	1.1
JSVP	**165.33**	147.49	**1.4**	1.7
SVP	**133.61**	—	**1.2**	1.6
SIA	**168.19**	—	**0.7**	—
SVP Cliff	**—**	—	**2.2**	—

Deferred cash

Barclays Africa Group Limited Cash Value Plan

The Cash Value Plan ("CVP") is a deferred cash-settled-based payment arrangement. The award will vest in three equal tranches over a period of three years, subject to the Rules which includes a ten percent service credit for the third anniversary of the CVP award date. The service credit for awards granted in 2014 is 10% of the initial value of the award that vests.

50. Acquisitions of businesses and other similar transactions

50.1 Acquisitions of businesses during the current reporting period

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

50.2 Acquisitions of businesses during the previous reporting period

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

51. Segment report

51.1 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 provides a comprehensive range of commercial banking products and services to large, medium and small businesses.
  - Retail Banking offers various products and services to customers through the following divisions:
    - Home Loans: offers residential property-related finance solutions direct to the customer through 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.
    - Transactional and Deposits: offers a full range of transactional banking, savings and investment products, customer loyalty programme and services through a variety of touch points. These include physical branches, digital channels, ATMs, priority suites and call centres.
    - Other: includes Retail Banking central and head office costs, which are currently not allocated to business units along with branch distribution and channel net recoveries, and costs associated with the multi-channel investment programme.
- Corporate and Investment Bank ("CIB"): offers corporate and investment banking solutions. The business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and public sector bodies.
- Wealth has been created as a separate segment. The Wealth sub-segment was previously reported in Corporate, Investment Bank and Wealth.
- Head Office 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.

- Absa Technology Finance Solutions, previously reported in the Business Banking South Africa segment, was transferred to Retail Banking South Africa and integrated into the VAF division.
- Absa Private Bank, previously reported as a part of "Other" within the retail portfolio, became a focused sales and service channel with clients' product balances and associated revenue now being reflected within the individual product houses such as Home Loans and Transactional and Deposits. This will enable optimal use of both Private Banking resources and better leverage of related skills and processes residing within the product houses.

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51. Segment report *(continued)*

51.2 Segment report per market segment

	RBB 2014	RBB 2013[4]	CIB 2014	CIB 2013[4]
Statement of comprehensive income (Rm)				
Net interest income	**21 659**	20 577	**4 307**	3 205
Net interest income – external	**31 004**	29 543	**(9 416)**	(9 741)
Net interest income – internal	**(9 345)**	(8 966)	**13 723**	12 946
Non-interest income	**13 829**	13 591	**4 228**	4 898
Non-interest income – external	**13 096**	12 824	**4 832**	5 460
Non-interest income – internal	**733**	767	**(604)**	(562)
Total income	**35 488**	34 168	**8 535**	8 103
Impairment losses on loans and advances	**(4 919)**	(5 751)	**(163)**	(85)
Operating income before operating expenditure	**30 569**	28 417	**8 372**	8 018
Operating expenses	**(19 930)**	(18 603)	**(4 814)**	(4 467)
Depreciation and amortisation	**(298)**	(242)	**(12)**	—
Other operating expenses	**(19 632)**	(18 361)	**(4 802)**	(4 467)
Other expenses	**(291)**	(384)	**(104)**	(68)
Other impairments	**(39)**	(3)	**(1)**	—
Indirect taxation	**(252)**	(381)	**(103)**	(68)
Share of post-tax results of associates and joint ventures	**130**	106	**10**	14
Operating income before income tax	**10 478**	9 536	**3 464**	3 497
Taxation expense	**(2 935)**	(2 637)	**(877)**	(804)
Profit for the reporting period	**7 543**	6 899	**2 587**	2 693
Profit attributable to:				
Ordinary equity holder	**7 343**	6 708	**2 487**	2 594
Preference equity holders	**200**	189	**100**	99
Non-controlling interest	**—**	2	**—**	—
	7 543	6 899	**2 587**	2 693
Headline earnings	**7 308**	6 642	**2 406**	2 455
Operating performance (%)				
Net interest margin on average interest-bearing assets[2]	**3,75**	3,74	**1,15**	0,87
Impairment losses ratio[2]	**1,21**	1,44	**0,13**	0,08
Non-interest income as a % of revenue[3]	**39,0**	39,8	**49,5**	60,4
Revenue growth[3]	**4**	7	**5**	11
Cost growth[3]	**7**	9	**8**	8
Cost-to-income ratio[3]	**56,2**	54,4	**56,4**	55,1
Statement of financial position (Rm)				
Loans and advances to customers	**411 039**	403 255	**132 406**	120 635
Investment securities	**38 154**	38 737	**16 758**	15 514
Other assets	**211 864**	188 773	**331 231**	342 451
Total assets	**661 057**	630 765	**480 395**	478 600
Deposits due to customers	**247 197**	223 612	**270 457**	262 463
Debt securities in issue	**—**	—	**81 641**	75 674
Other liabilities	**405 754**	399 781	**125 051**	137 328
Total liabilities	**652 951**	623 393	**477 149**	475 465
Financial performance (%)				
Return on average risk-weighted assets[2]	**2,81**	2,57	**1,86**	1,93
Return on average assets[2]	**1,17**	1,12	**0,48**	0,51

Notes

[1]Head Office and other operations do not represent a reportable segment, but the reconciliation to the Bank results in terms of IFRS 8.

[2]These ratios are unaudited.

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

[4]Comparatives have been restated, refer to note 1.19.

Wealth		Head office and other operations[1]		Bank	
2014	2013[4]	2014	2013[4]	2014	2013[4]
380	333	(418)	(550)	25 928	23 565
685	681	3 438	2 747	25 711	23 230
(305)	(348)	(3 856)	(3 297)	217	335
165	140	178	(72)	18 400	18 557
151	118	(2 758)	(1 436)	15 321	16 966
14	22	2 936	1 364	3 079	1 591
545	473	(240)	(622)	44 328	42 122
(30)	(59)	2	14	(5 110)	(5 881)
515	414	(238)	(608)	39 218	36 241
(513)	(451)	(52)	(39)	(25 309)	(23 560)
(1)	—	(1 087)	(1 167)	(1 398)	(1 409)
(512)	(451)	1 035	1 128	(23 911)	(22 151)
(7)	(10)	(784)	(332)	(1 186)	(794)
—	—	(378)	4	(418)	1
(7)	(10)	(406)	(336)	(768)	(795)
—	—	7	12	147	132
(5)	(47)	(1 067)	(967)	12 870	12 019
1	13	241	144	(3 570)	(3 284)
(4)	(34)	(826)	(823)	9 300	8 735
(10)	(40)	(825)	(823)	8 995	8 439
6	6	(1)	—	305	294
—	—	—	—	—	2
(4)	(34)	(826)	(823)	9 300	8 735
(10)	(40)	(917)	(791)	8 787	8 266
n/a	n/a	n/a	n/a	3,83	3,64
0,28	0,54	n/a	n/a	0,94	1,14
30,3	29,6	n/a	n/a	41,5	44,1
15	(4)	n/a	n/a	5	6
14	11	n/a	n/a	7	12
94,1	95,3	n/a	n/a	57,1	55,9
10 507	10 885	569	151	554 521	534 926
473	507	15 233	12 517	70 618	67 275
279	287	(354 452)	(341 077)	188 922	190 434
11 259	11 679	(338 650)	(328 409)	814 061	792 635
5 276	4 878	(1 274)	(1 696)	521 656	489 257
—	—	23 374	21 505	105 015	97 179
5 992	6 840	(408 333)	(395 009)	128 464	148 940
11 268	11 718	(386 233)	(375 200)	755 135	735 376
n/a	n/a	n/a	n/a	2,05	2,03
(0,09)	(0,34)	n/a	n/a	1,08	1,08

51. Segment report *(continued)*

51.2 Segment report per market segment *(continued)*

	RBB 2014 Rm	RBB 2013[3] Rm
Statement of comprehensive income		
Net interest income	**21 659**	20 577
Non-interest income	**13 829**	13 591
Total income	**35 488**	34 168
Impairment losses on loans and advances	**(4 919)**	(5 751)
Operating income before operating expenditure	**30 569**	28 417
Operating expenses	**(19 930)**	(18 603)
Depreciation and amortisation	**(298)**	(242)
Other operating expenses	**(19 632)**	(18 361)
Other expenses	**(291)**	(384)
Other impairments	**(39)**	(3)
Indirect taxation	**(252)**	(381)
Share of post-tax results of associates and joint ventures	**130**	106
Operating income before tax	**10 478**	9 536
Taxation expense	**(2 935)**	(2 637)
Profit for the reporting period	**7 543**	6 899
Profit attributable to:		
Ordinary equity holder	**7 343**	6 708
Preference equity holders	**200**	189
Non-controlling interest	**—**	2
	7 543	6 899
Headline earnings	**7 308**	6 642
Operating performance (%)		
Net interest margin on average interest-bearing assets[1]	**3,75**	3,74
Impairment losses ratio[1]	**1,21**	1,44
Non-interest income as % of revenue[2]	**39,0**	39,8
Revenue growth[2]	**4**	7
Cost growth[2]	**7**	9
Cost-to-income ratio[2]	**56,2**	54,4
Statement of financial position (Rm)		
Loans and advances to customers	**411 039**	403 255
Investment securities	**38 154**	38 737
Other assets	**211 864**	188 773
Total assets	**661 057**	630 765
Deposits due to customers	**247 197**	223 612
Debt securities in issue	**—**	—
Other liabilities	**405 754**	399 781
Total liabilities	**652 951**	623 393
Financial performance (%)		
Return on average risk-weighted assets[1]	**2,81**	2,57
Return on average assets[2]	**1,17**	1,12

Notes

[1]These ratios are unaudited.

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

[3]Comparatives have been restated, refer to note 1.19.

Retail Banking		Business Banking	
2014 Rm	2013[3] Rm	2014 Rm	2013[3] Rm
16 062	15 356	5 597	5 221
10 795	10 594	3 034	2 997
26 857	25 950	8 631	8 218
(4 391)	(4 928)	(528)	(823)
22 466	21 022	8 103	7 395
(14 826)	(13 530)	(5 104)	(5 073)
(297)	(242)	(1)	—
(14 529)	(13 288)	(5 103)	(5 073)
(213)	(352)	(78)	(32)
(2)	(3)	(37)	—
(211)	(349)	(41)	(32)
130	106	—	—
7 557	7 246	2 921	2 290
(2 098)	(2 001)	(837)	(636)
5 459	5 245	2 084	1 654
5 311	5 111	2 032	1 597
148	134	52	55
—	—	—	2
5 459	5 245	2 084	1 654
5 299	5 098	2 009	1 544
3,26	3,23	6,63	7,03
1,27	1,46	0,87	1,34
40,2	40,8	35,2	36,5
3	8	5	4
10	11	1	5
55,2	52,1	59,1	61,7
350 039	342 547	61 000	60 708
28 463	28 730	9 691	10 007
181 611	166 054	30 253	22 719
560 113	537 331	100 944	93 434
150 432	135 697	96 765	87 915
—	—	—	—
403 605	395 810	2 149	3 971
554 037	531 507	98 914	91 886
2,75	2,69	2,98	2,23
1,00	1,01	2,14	1,79

52. Derivatives

52.1 Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks.

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.

Some derivative financial instruments have been designated as hedging instruments in fair value or cash flow hedging relationships.

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

The Bank trades the following derivative instruments:

Foreign exchange derivatives

The Bank's principal exchange rate-related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Interest rate derivatives

The Bank's principal interest rate related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount.

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate debt securities held and highly probable forecast financing transactions and reinvestments.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers as well as investments in fixed rate debt securities held.

Credit derivatives

The Bank's principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default, or downgrades by a rating agency.

A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer of the protection in return receives a predetermined amount.

Equity derivatives

The Bank's principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Bank also enters into fund-linked derivatives, being swaps and options which underlyings include mutual funds, hedge funds, indices and multi-asset portfolios, as underlyings.

Commodity derivatives

The Bank's principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are agricultural commodities and precious metals.

52.2 Notional amount

The gross notional amount is the sum of the absolute value of all 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, nor the credit exposure arising on such contracts.

The absolute value of all contracts is also not indicative of the Bank's net exposure to, or position in any of the markets that the Bank trades in.

52. Derivatives *(continued)*

52.3 Derivative financial instrument – overall

The Bank's total derivative asset and liability position as reported on the statement of financial position is as follows:

	2014			2013[1]		
	Assets	Liabilities	Notional contract amount	Assets	Liabilities	Notional contract amount
Derivatives held for trading	40 295	(41 785)	5 261 233	45 272	(48 238)	4 896 058
Derivatives designated as hedging instruments	2 335	(2 577)	201 779	3 344	(2 391)	182 298
Total derivatives	**42 630**	**(44 362)**	**5 463 012**	48 616	(50 629)	5 078 356

52.4 Derivatives held for trading – detail by market and instrument type

Derivatives held for trading by the Bank related to the various markets and instrument types the Bank trades in are as follows:

	2014			2013[1]		
	Assets	Liabilities	Notional contract amount	Assets	Liabilities	Notional contract amount
Foreign exchange derivatives	**8 328**	**(9 938)**	**688 879**	8 626	(8 172)	550 007
Forwards	5 582	(7 718)	33 596	906	(1 748)	41 651
Futures	4	(2)	173 000	4	—	88 263
Swaps	2 086	(1 485)	414 988	6 894	(5 729)	366 996
Options	656	(733)	67 295	822	(695)	53 097
Interest rate derivatives	**30 202**	**(29 688)**	**4 430 318**	35 251	(37 355)	4 186 777
Forwards	1 019	(910)	2 483 475	770	(667)	2 076 796
Swaps	29 113	(28 621)	1 916 895	34 324	(36 492)	2 033 134
Options	29	(68)	12 855	112	(102)	25 445
Other – OTC	40	(88)	7 483	35	(89)	24 307
Other – exchange traded	1	(1)	9 610	10	(5)	27 095
Equity derivatives	**1 040**	**(1 494)**	**98 969**	802	(2 026)	105 723
Forwards	161	(190)	4 433	76	(551)	5 307
Futures	0	(0)	39 929	16	(8)	52 668
Swaps	335	(238)	9 834	239	(476)	14 462
Options	123	(493)	5 033	423	(448)	11 047
Options – exchange traded	12	0	27 940	—	(1)	4 856
Other – OTC	409	(573)	11 800	48	(542)	17 383
Commodity derivatives	**350**	**(303)**	**17 318**	324	(290)	22 534
Forwards	25	(17)	15 765	14	(12)	20 632
Futures	—	—	—	—	—	772
Swaps	315	(278)	1 199	306	(278)	1 063
Options	10	(8)	354	4	—	67
Credit derivatives						
Default swaps	375	(362)	25 749	269	(395)	31 017
	40 295	**(41 785)**	**5 261 233**	45 272	(48 238)	4 896 058

Forwards, swaps and options in the table above have been traded on a bilateral OTC basis, unless specified otherwise. Futures have been traded on authorised exchanges.

Note
[1]Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

52. Derivatives *(continued)*

52.5 Derivatives designated as hedging instruments by market and instrument type

	2014			2013		
	Assets Rm	Liabilities Rm	Notional contract amount Rm	Assets Rm	Liabilities Rm	Notional contract amount Rm
Interest rate derivatives	**2 335**	**(2 577)**	**201 780**	3 344	(2 391)	182 298
Swaps – cash flow hedges	**1 116**	**(474)**	**137 276**	1 595	(434)	135 281
Swaps – fair value hedges	**1 219**	**(2 103)**	**64 504**	1 749	(1 957)	47 017
	2 335	**(2 577)**	**201 780**	3 344	(2 391)	182 298

During the current reporting period, the Bank reconsidered data available for identifying trade instruments, as a result the 2013 notional value for derivatives designated as hedging instruments, previously disclosed as R323 160m, was restated.

52.6 Derivatives designated as cash flow hedging instruments to protect against interest rate risk

Cash flow hedges for interest rate risk are used by the Bank to protect against the potential cash flow variability that results from the Bank's exposure to various floating rate instruments including certain loans and advances, available for sale financial assets and issued debt.

The Bank's cash flow hedging instruments for interest rate risk principally consist of interest rate swaps that are used to fix floating future cash flows.

Net gains/(losses) recycled from other comprehensive income to profit or loss:

	Bank	
	2014 Rm	2013 Rm
Interest and similar income (refer to note 25)	**1 494**	1 730
Interest expense and similar charges (refer to note 26)	**72**	52

The fair value movement recognised in profit or loss in relation to ineffectiveness (including fair value movements previously deferred to equity which subsequently exceeded the IAS 39 reserve limit) is:

	Bank	
	2014 Rm	2013 Rm
Gains and losses from banking and trading activities (refer to note 28)	**(239)**	(234)

52. Derivatives *(continued)*

The Bank has hedged forecast cash flows, which primarily vary with interest rates. These cash flows are expected to impact profit or loss in future financial periods as shown in the table below. The cash flows were projected using forward rates prevailing at year-end. The cash flows are presented on an undiscounted basis, before taxation and exclude any potential hedge accounting adjustments:

	Bank						
	2014						
	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	**908**	**255**	**106**	**49**	**15**	**2**	**1 335**
Forecast payable cash flow	**(75)**	**(162)**	**(190)**	**(128)**	**(80)**	**(59)**	**(694)**
	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	1 446	403	62	16	4	38	1 969
Forecast payable cash flow	(33)	(65)	(221)	(251)	(161)	(77)	(808)

52.7 Derivatives designated as cash flow hedging instruments to protect against equity price risk

The Bank uses cash flow hedging instruments for equity price risk to protect it against the potential cash flow variability of its cash-settled share-based payment schemes, which are referenced to the market price of the Barclays Africa Group Limited shares.

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

	Bank	
	2014 Rm	2013 Rm
Operating expenses – staff costs – share-based payments	**98**	(37)

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

The cash flows of the aforementioned cash flow hedges are expected to impact profit or loss in future financial periods as disclosed in the following table. The cash flows were projected using the Barclays Africa Group Limited share price at the reporting date. The cash flows are presented on an undiscounted basis, before taxation and exclude any potential hedge accounting adjustments:

	Bank						
	2014						
	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	**(339)**	**(219)**	**(612)**	**—**	**—**	**—**	**(1 170)**
Forecast profit or loss impact	**(36)**	**(110)**	**(452)**	**—**	**—**	**—**	**(598)**
	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	(306)	(171)	(77)	—	—	—	(554)
Forecast profit or loss impact	(29)	(82)	(57)	—	—	—	(168)

52. Derivatives *(continued)*

52.8 Derivatives designated as fair value hedging instruments to protect against interest rate risk

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.

Gains and losses on hedging instruments and hedged items:

	Bank	
	2014 Rm	2013 Rm
Financial assets – fair value hedges		
Gains/(losses) on hedged assets (refer to note 25)	**751**	(2 450)
(Losses)/gains on hedging instruments (refer to note 25)	**(572)**	2 818
Interest income on hedging instruments (refer to note 25)	**(415)**	(746)
Financial liabilities – fair value hedges		
Gains on hedged items (liabilities) (refer to note 26)	**258**	820
Gains/(losses) on hedging instruments (liabilities) (refer to note 26)	**93**	(899)
Interest expense on hedging instruments (refer to note 26)	**243**	392

Movement in fair value that was recognised in profit or loss in relation to hedge ineffectiveness is:

	Bank	
	2014 Rm	2013 Rm
Gains and losses from banking and trading activities (refer to note 28)	**(8)**	(4)

52.9 Counterparty netting and collateral

Derivative assets and liabilities subject to counterparty netting agreements amounted to **R48 685m** (2013: R46 278m). Additionally, the Bank held **R3 965m** (2013: R3 981m) 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.

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

	2014 Fair value through profit or loss			
	Designated at fair value Rm	Held for trading Rm	Hedging instruments Rm	Total
Assets				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	19 096	—	—	19 096
Loans and advances to banks	20 523	—	—	20 523
Trading portfolio assets	—	76 872	—	76 872
Hedging portfolio assets[2]	—	—	2 335	2 335
Other financial assets	17	—	—	17
Loans and advances to customers	10 895	—	—	10 895
Loans to Group company	—	—	—	—
Assets outside the scope of IAS 39	—	—	—	—
	50 531	76 872	2 335	129 738
Liabilities				
Deposits from banks	19 609	—	—	19 609
Trading portfolio liabilities	—	44 580	—	44 580
Hedging portfolio liabilities[3]	—	—	2 577	2 577
Other liabilities	—	—	—	—
Deposits due to customers	19 216	—	—	19 216
Debt securities in issue	5 280	—	—	5 280
Borrowed funds	—	—	—	—
Liabilities outside the scope of IAS 39	—	—	—	—
	44 105	44 580	2 577	91 262

	2013 Fair value through profit or loss			
	Designated at fair value Rm	Held for trading Rm	Hedging instruments Rm	Total
Assets				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	2 675	—	—	2 675
Loans and advances to banks	6 140	—	—	6 140
Trading portfolio assets	—	77 784	—	77 784
Hedging portfolio assets[2]	—	—	3 344	3 344
Other assets	16	—	—	16
Loans and advances to customers	10 547	—	—	10 547
Loans to Group companies	—	—	—	—
Assets outside the scope of IAS 39	—	—	—	—
	19 378	77 784	3 344	100 506
Liabilities				
Deposits from banks	12 267	—	—	12 267
Trading portfolio liabilities	—	50 710	—	50 710
Hedging portfolio liabilities[3]	—	—	2 391	2 391
Other financial liabilities	—	—	—	—
Deposits due to customers	17 863	—	—	17 863
Debt securities in issue	3 584	—	—	3 584
Borrowed funds	—	—	—	—
Liabilities outside the scope of IAS 39	—	—	—	—
	33 714	50 710	2 391	86 815

Notes
[1]Includes non-financial assets and liabilities and financial instruments outside the scope of IAS 39.
[2]Includes derivative assets to the amount of **R1 116m** (31 December 2013: R1 595m) and **R1 219m** (31 December 2013: R1 749m) that have been designated as cash flow and fair value hedging instruments respectively.
[3]Includes derivative liabilities to the amount of **R474m** (31 December 2013: R434m) and **R2 103m** (31 December 2013: R1 957m) that have been designated as cash flow and fair value hedging instruments respectively.
[4]Includes items designated as hedged items in fair value hedging relationships.

2014

Available-for-sale			Amortised cost				
Designated as available-for-sale Rm	Hedged items[4] Rm	Total Rm	Designated at amortised cost Rm	Hedged items[4] Rm	Total Rm	Assets/liabilities outside the scope of IAS 39[1] Rm	Total assets and liabilities Rm
—	—	—	21 419	—	21 419	—	21 419
11 602	39 920	51 522	—	—	—	—	70 618
—	—	—	27 076	—	27 076	—	47 599
—	—	—	—	—	—	1 700	78 572
—	—	—	—	—	—	—	2 335
—	—	—	7 914	—	7 914	1 380	9 311
—	—	—	539 799	3 827	543 626	—	554 521
—	—	—	17 740	—	17 740	—	17 740
—	—	—	—	—	—	11 946	11 946
11 602	39 920	51 522	613 948	3 827	617 775	15 026	814 061
—	—	—	34 495	—	34 495	—	54 104
—	—	—	—	—	—	—	44 580
—	—	—	—	—	—	—	2 577
—	—	—	11 316	—	11 316	2 493	13 809
—	—	—	502 440	—	502 440	—	521 656
—	—	—	86 880	12 855	99 735	—	105 015
—	—	—	6 825	3 710	10 535	—	10 535
—	—	—	—	—	—	2 859	2 859
—	—	—	641 956	16 565	658 521	5 352	755 135

2013

Available-for-sale			Amortised cost				
Designated as available-for-sale Rm	Hedged items[4] Rm	Total Rm	Designated at amortised cost Rm	Hedged items[4] Rm	Total Rm	Assets/liabilities outside the scope of IAS 39[1] Rm	Total assets and liabilities Rm
—	—	—	21 087	—	21 087	—	21 087
39 122	25 478	64 600	—	—	—	—	67 275
—	—	—	39 813	—	39 813	—	45 953
—	—	—	—	—	—	1 080	78 864
—	—	—	—	—	—	—	3 344
—	—	—	8 080	—	8 080	1 203	9 299
—	—	—	519 967	4 412	524 379	—	534 926
—	—	—	19 247	—	19 247	—	19 247
—	—	—	—	—	—	12 640	12 640
39 122	25 478	64 600	608 194	4 412	612 606	14 923	792 635
—	—	—	53 560	—	53 560	—	65 827
—	—	—	—	—	—	—	50 710
—	—	—	—	—	—	—	2 391
—	—	—	9 557	—	9 557	2 083	11 640
—	—	—	471 394	—	471 394	—	489 257
—	—	—	81 517	12 078	93 595	—	97 179
—	—	—	10 682	5 080	15 762	—	15 762
—	—	—	—	—	—	2 610	2 610
—	—	—	626 710	17 158	643 868	4 693	735 376

54. Fair value disclosures

54.1 Assets and liabilities held at fair value

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							
	2014				2013			
Recurring fair value measurements	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Investment securities	48 973	19 329	2 316	70 618	64 962	—	2 313	67 275
Loans and advances to banks	—	20 523	—	20 523	—	6 140	—	6 140
Trading and hedging portfolio assets	25 061	52 995	1 151	79 207	24 383	55 708	1 037	81 128
Debt instruments	24 433	4 743	870	30 046	23 929	174	873	24 976
Derivative assets	2	42 347	281	42 630	—	48 451	164	48 615
Commodity derivatives	2	348	—	350	—	324	—	324
Credit derivatives	—	284	91	375	—	258	11	269
Equity derivatives	—	1 011	29	1 040	—	802	—	802
Foreign exchange derivatives	—	8 327	1	8 328	—	8 587	39	8 626
Interest rate derivatives	—	32 377	160	32 537	—	38 480	114	38 594
Equity instruments	626	321	—	947	454	77	—	531
Money market assets	—	5 584	—	5 584	—	7 006	—	7 006
Other assets	—	—	17	17	—	—	16	16
Loans and advances to customers	4	6 160	4 731	10 895	—	4 070	6 477	10 547
Total financial assets	74 038	99 007	8 215	181 260	89 345	65 918	9 843	165 106
Financial liabilities								
Deposits from banks	—	19 609	—	19 609	—	12 267	—	12 267
Trading and hedging portfolio liabilities	2 795	44 042	320	47 157	2 472	50 087	542	53 101
Derivative liabilities	—	44 042	320	44 362	—	50 087	542	50 629
Commodity derivatives	—	308	—	308	—	290	—	290
Credit derivatives	—	324	39	363	—	350	45	395
Equity derivatives	—	1 296	198	1 494	—	1 720	306	2 026
Foreign exchange derivatives	—	9 931	7	9 938	—	8 123	49	8 172
Interest rate derivatives	—	32 183	76	32 259	—	39 604	142	39 746
Short positions	2 795	—	—	2 795	2 472	—	—	2 472
Deposits due to customers	80	13 606	5 530	19 216	—	10 725	7 138	17 863
Debt securities in issue	2	5 236	42	5 280	—	3 549	35	3 584
Total financial liabilities	2 877	82 493	5 892	91 262	2 472	76 628	7 715	86 815
Non-financial assets								
Investment properties	—	—	252	252	—	—	240	240
Trading and hedging portfolio assets								
Commodities	1 700	—	—	1 700	1 080	—	—	1 080
Non-recurring fair value measurements								
Non-current assets held for sale[1]	—	—	250	250	101	1 296	460	1 857
Non-current liabilities held for sale[1]	—	—	—	—	—	175	—	175

Comparatives have been restated, refer to note 1.19 and note 60.

Notes

[1]Includes certain items classified in terms of the requirements of IFRS which are measured in terms of their respective standards.

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54. Fair value disclosures *(continued)*

54.2 Reconciliation of Level 3 assets and liabilities

A reconciliation of the opening balances to closing balances for all movements on Level 3 assets and liabilities is set out below:

Bank 2014	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	**1 037**	**16**	**6 477**	**2 313**	**240**
Movement in other comprehensive income	—	—	—	5	—
Net interest income	—	1	373	69	—
Gains and losses from banking and trading activities	173	—	(29)	(7)	—
Gains and losses from investment activities	—	—	2	(83)	12
Purchases	—	—	143	9	—
Sales	(37)	—	(620)	(9)	—
Settlements	—	—	(1 615)	—	—
Transferred to/(from) assets/liabilities	—	—	—	—	—
Movement in/(out) of Level 3	(22)	—	—	19	—
Closing balance at the end of the reporting period	**1 151**	**17**	**4 731**	**2 316**	**252**

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	237	—	—	—	—
Closing balance at the end of the reporting period	1 037	16	6 477	2 313	240

54.2.1 Significant transfers between levels

During the current reporting period, it was determined that significant transfers between levels of the assets and liabilities held at fair value occurred. Treasury bills of R18,5bn have been transferred from level 1 to level 2, as these are held in an inactive market.

During the prior reporting period trading portfolio assets to the value of R237m, as well as trading portfolio liabilities of R165m, 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.

Transfers have been reflected as if they had taken place at the beginning of the year.

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
10 083	542	7 138	35	7 715
5	(8)	—	—	(8)
443	—	1	1	2
137	(62)	(1 501)	6	(1 557)
(69)	—	—	—	—
152	—	—	—	—
(666)	(75)	—	—	(75)
(1 615)	—	(81)	—	(81)
—	—	—	—	—
(3)	(77)	(27)	—	(104)
8 467	320	5 530	42	5 892

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

54. Fair value disclosures *(continued)*

54.3 Unrealised gains and losses on Level 3 assets and liabilities

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

Bank

	Trading and hedging portfolio 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
2014						
Gains and losses from banking and trading activities	**79**	**(28)**	**—**	**—**	**—**	**51**
2013						
Gains and losses from banking and trading activities	337	(136)	—	—	—	201

Bank

	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
2014					
Gains and losses from banking and trading activities	**(116)**	**—**	**—**	**—**	**(116)**
2013					
Gains and losses from banking and trading activities	(311)	—	1	—	(310)

54. Fair value disclosures *(continued)*

54.4 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 within 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.

The following table reflects how the unobservable parameters were changed in order to evaluate the sensitivities of Level 3 financial assets and liabilities:

Significant unobservable parameter	Positive/(negative) variance applied to parameters
Credit spreads	100/(100) bps
Volatilities	10/(10)%
Basis curves	100/(100) bps
Yield curves and repo curves	100/(100) bps
Future earnings and marketability discounts	15/(15)%
Funding spreads	100/(100) bps

A significant parameter has been deemed to be one which may result in a charge to profit or loss, 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:

		2014	
		Potential effect recorded in profit or loss	**Potential effect recorded directly in equity**
	Significant unobservable parameters	**Favourable/(Unfavourable) Rm**	**Favourable/(Unfavourable) Rm**
Deposits due to customers	**BAGL/Absa funding spread**	**—/—**	**—/—**
Investment securities	**Risk adjustment yield curves, future earnings and marketability discount**	**131/131**	**—/—**
Loans and advances to customers	**Credit spreads**	**1 037/23**	**—/—**
Other assets	**Volatility, credit spreads**	**3/3**	**—/—**
Trading and hedging portfolio assets		**—/—**	**—/—**
Trading and hedging portfolio liabilities	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**34/34**	**—/—**
		1 205/191	**—/—**

		2013	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	BAGL/Absa funding spread	224/223	—/—
Investment securities	Yield curves, future earnings and marketability discount, comparator multiples	204/204	—/—
Investment properties	Selling price per unit, selling price escalations, rental income per unit, rental escalations per year, expense ratios, vacancy rate, income capitalisation rate and risk client rates	1/1	—/—
Loans and advances to customers	Credit spreads	1 202/159	—/—
Other assets	Volatility, credit spreads	2/2	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, dividend stream, basis curves, yield curves, repo curves	43/43	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves	13/5	—/—
		1 689/637	—/—

54. Fair value disclosures *(continued)*

54.5 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 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	
	2014 Rm	2013 Rm
Opening balance at the beginning of the reporting period	**(55)**	(71)
New transactions	**(23)**	(17)
Amounts recognised in profit or loss during the reporting period	**26**	33
Closing balance at the end of the reporting period	**(52)**	(55)

54.6 Third-party credit enhancements

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

54. Fair value disclosures *(continued)*

54.7 Assets and liabilities not held at fair value

The following table summarises the carrying amount and fair value of those assets and liabilities not held at fair value.

	Bank				
	2014				
	Carrying value Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with the SARB	12 621	12 621	12 621	—	—
Coins and bank notes	8 777	8 777	8 777	—	—
Money market assets	21	21	21	—	—
Cash, cash balances and balances with central banks	21 419	21 419	21 419	—	—
Loans and advances to banks	27 076	27 021	3 800	21 152	2 069
Other assets	7 914	8 203	4 284	3 518	401
Retail Banking	350 040	349 612	—	—	349 612
Credit cards	29 338	29 338	—	—	29 338
Instalment credit agreements	70 557	69 995	—	—	69 995
Loans to associates and joint ventures	13 012	13 012	—	—	13 012
Mortgages	220 522	220 565	—	—	220 565
Other loans and advances	404	404	—	—	404
Overdrafts	2 222	2 222	—	—	2 222
Personal and term loans	13 985	14 076	—	—	14 076
Business Banking	60 863	60 861	1 036	—	59 825
Loans to associates and joint ventures	305	305	—	—	305
Mortgages (including CPF)	29 856	29 852	—	—	29 852
Overdrafts	18 083	18 063	1 036	—	17 027
Term loans	12 619	12 641	—	—	12 641
CIB	121 674	120 745	8 423	31 158	81 164
Wealth	10 507	10 507	—	—	10 507
Head Office and other operations	542	542	296	—	246
Loans and advances to customers – net of impairment losses	543 626	542 267	9 755	31 158	501 354
Loans to Group companies	17 740	21 762	—	21 369	393
Total assets	617 775	620 672	39 258	77 197	504 217
Financial liabilities					
Deposits from banks	34 495	35 834	11 925	23 905	4
Other liabilities	11 316	11 322	5 642	5 186	494
Call deposits	56 986	56 986	54 547	2 439	—
Cheque account deposits	146 568	146 568	146 568	—	—
Credit card deposits	1 932	1 932	1 932	—	—
Fixed deposits	114 646	115 371	826	114 521	24
Foreign currency deposits	21 723	21 723	354	21 369	—
Notice deposits	49 764	49 843	1 297	48 514	32
Other deposits	1 972	1 972	212	926	834
Saving and transmission deposits	108 849	108 849	108 849	—	—
Deposits due to customers	502 440	503 244	314 585	187 769	890
Debt securities in issue	99 735	100 100	3	100 097	—
Borrowed funds	10 535	10 885	—	10 885	—
Total liabilities	658 521	661 385	332 155	327 842	1 388

54. Fair value disclosures *(continued)*

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

	Bank 2013				
	Carrying value Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	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	21 087	21 087	20 521	566	—
Loans and advances to banks	39 813	39 813	4 694	34 153	966
Other assets	8 080	8 080	1 732	5 670	678
Retail Banking	342 547	342 386	1 644	4 759	335 983
Credit cards	27 830	27 830	—	381	27 449
Instalment credit agreements	64 571	64 268	—	365	63 903
Loans to associates and joint ventures	10 287	10 287	—	—	10 287
Mortgages	223 526	223 592	—	—	223 592
Other loans and advances	253	253	—	—	253
Overdrafts	2 015	2 015	806	—	1 209
Personal and term loans	14 065	14 141	838	4 013	9 290
Business Banking	60 036	60 206	—	—	60 206
Loans to associates and joint ventures	559	559	—	—	559
Mortgages (including CPF)	30 718	30 888	—	—	30 888
Overdrafts	17 075	17 075	—	—	17 075
Term loans	11 684	11 684	—	—	11 684
CIB	110 796	104 993	8 400	11 549	85 044
Wealth	10 885	10 885	—	—	10 885
Head Office and other operations	115	115	—	—	115
Loans and advances to customers – net of impairment losses	524 379	518 585	10 044	16 308	492 233
Loans to Group companies	19 247	19 340	—	19 340	—
Total assets	612 606	606 905	36 991	76 037	493 877
Financial liabilities					
Deposits from banks	53 560	50 348	10 018	32 560	7 770
Other liabilities	9 557	9 095	4 685	1 357	3 053
Call deposits	52 829	52 830	52 799	30	1
Cheque account deposits	140 032	140 031	127 532	3 606	8 893
Credit card deposits	1 914	1 914	—	—	1 914
Fixed deposits	116 420	116 462	—	116 462	—
Foreign currency deposits	14 108	14 114	244	13 870	—
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	471 394	471 441	243 308	203 979	24 154
Debt securities in issue	93 595	93 596	21 544	72 052	—
Borrowed funds	15 762	16 308	15 620	688	—
Total liabilities	643 868	640 788	295 175	310 636	34 977

Note
[1]Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

55. Credit risk of financial instruments designated at fair value

The following table represents the maximum exposure to credit risk of loans and advances designated at fair value through profit or loss at the reporting date before taking into account collateral held or other credit enhancements.

	Bank		Credit risk mitigation	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm
Assets				
Investment securities	**17 468**	799	**—**	—
Loans and advances to banks	**20 523**	6 140	**3 648**	800
Other assets	**17**	16	**—**	—
Loans and advances to customers	**10 895**	10 547	**6 217**	3 804
	48 903	17 502	**9 865**	4 604

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.

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. Refer to note 53 for additional details.

	Bank			
	2014		2013	
	Carrying value Rm	**Contractual obligation Rm**	Carrying value Rm	Contractual obligation Rm
Liabilities				
Deposits from banks	**19 609**	**21 898**	12 267	14 497
Deposits due to customers	**19 216**	**19 217**	17 863	18 045
Debt securities in issue	**5 280**	**7 319**	3 584	4 223
	44 105	**48 434**	33 714	36 765

Decrease in fair value attributable to changes in credit risk during the reporting period

	Bank	
	2014 Rm	2013 Rm
Liabilities		
Deposits from banks	**(183)**	(245)

Cumulative adjustment in fair value attributable to changes in own credit risk

	Bank	
	2014 Rm	2013 Rm
Liabilities		
Deposits from banks	**90**	(255)

In the current reporting period the fair value attributable to changes in the credit risk was reviewed and assessed. This resulted in the restatement of the previous reporting period. Previously reported as: Decrease in the fair value during the reporting period (R13m); cumulative adjustment due to own credit risk R20m.

55. Credit risk of financial instruments designated at fair value *(continued)*

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 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.

The following approach is used in determining changes in fair value due to changes in credit risk for deposits from banks designated at fair value through profit or loss:

- The carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data, such as spreads on Barclays Africa Group issued funding. 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.

56. Risk management

56.1 Effective risk management and control are essential for sustainable and profitable growth

The role of risk management is to evaluate, respond to and monitor risks (the ERM process) that arise in the execution of the strategy to become the 'Go-To' bank in Africa. It is essential that business growth plans are properly supported by an effective risk management infrastructure. Risk culture is closely aligned to that of the business, whilst retaining independence in analysis and objective decision-making.

Clear risk management objectives are in place, in addition to a well-established risk strategy, delivered through core risk management processes. The approach to managing risk is contained in the Enterprise Risk Management Framework ("ERMF"). The ERMF defines the risk management process and sets out the activities, tools, techniques and organisational arrangements so that material risks can be better identified and managed. It also ensures that appropriate responses are in place to protect the Bank and prevent detriment to its customers, colleagues or community, thereby enabling the Bank to meet its goals and enhancing its ability to respond to new opportunities.

The ERMF includes those risks incurred by the Bank that are foreseeable, continuous, and material enough to merit establishing specific bank-wide control frameworks. These are known as Key Risks and are grouped into five Principal Risk categories with Reputation Risk now a Key Risk under Conduct Risk. For each risk, a control framework with supporting policies and standards outlines risk, control, and governance.

The three lines of defence have been defined in the ERMF, the scope of which has been extended to all businesses and functions. The ERMF creates the proper context for setting standards and establishing the right practices throughout the Bank. The three lines of defence operating model enables the assignment of risk management activities appropriately between those parties that:

- Own and take risk, and implement controls (first line);
- Oversee and challenge the first line, provide independent second line risk management activity and support controls (second line); and
- Provide assurance that the ERM process is fit for purpose, and that it is being carried out as intended (third line).

The framework enables businesses and functions to be organised along the three lines, thereby enhancing the ERM process by formalising independence and challenge, while still promoting collaboration and the flow of information between all areas.

Credit risk

The risk of financial loss should the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations.

56. Risk management *(continued)*

56.1 Effective risk management and control are essential for sustainable and profitable growth *(continued)*

Factors that influence this risk

Specific scenarios which could impact credit risk in both the retail and wholesale portfolios include:

- Continuing uncertainty in the macroeconomic prospects of the Euro Monetary Area and increasing probability of normalisation of United States monetary policy is expected to stimulate increased levels of global risk aversion. This is evident in the rand and other emerging market currencies weakening in the final quarter of 2014.
- Slowdown in China's economy could further undermine commodity prices, especially copper, platinum and crude oil. This poses downside risks to the Investment Banking portfolio.
- Persistent electricity supply constraints in South Africa reduce growth prospects. Nevertheless, lower oil prices will help to constrain increases in the import bill, reduce inflation and increase consumer disposable income.

How the Bank manages this risk

- Define clear risk appetite thresholds and triggers, using applicable stress test measures.
- Understand the target market.
- Establish risk acceptance criteria.
- Undertake sound credit origination, monitoring and account management.
- Ensure appropriate risk infrastructure and controls.

Future priorities

The Bank will continue to focus on delivering effective and efficient risk management, while meeting regulatory requirements. The Bank will continue to keep its customers and clients at the centre of what it does and strive to deliver sustainable returns above the cost of equity. Specific risk management priorities for 2015 include:

- Embed the ERMF and the three lines of defence operating model.
- Continue to improve risk measurement models, and enhance risk-adjusted returns while reducing volatility in performance.
- Ensure performance is in line with risk appetite, and refine the risk appetite approach for insurance and country risk.
- Continue to strengthen controls and infrastructure, specifically in the areas of technology, financial crime, fraud and transactional operations.
- Continue to build upon the recovery plan and develop an approach to resolution.
- Embed conduct risk frameworks and strengthen controls. Enhance conduct risk management tools and reporting.

56.2 Credit risk

Performance

Wholesale credit risk (unaudited)

- **Growth:** Total loans and advances growth was fairly muted at 6,0% when compared to 14,7% in 2013. Growth continued to be dominated by Corporate and Investment Banking with Africa outside South Africa growing strongly at 12,7%.
  - New business within South Africa has been buoyed by increased corporate activity across the mining, transportation and retail sectors.
  - The Business Banking South Africa portfolio remained stable. The growth in other debt products was offset by a decline in the Commercial Property finance book of 9%, resulting from the inability of new business to outweigh both the significant repayment and early settlement of the loans.
- **Portfolio performance:** The non-performing coverage ratio continued to decrease to **34,7%** (2013: 42,4%).
- **Impairments:** The wholesale portfolio credit impairment charge decreased 18% to **R815m** (2013: R990m).

56. Risk management *(continued)*

56.2 Credit risk *(continued)*

Future priorities

- Continue to respond to regulatory changes while continuing to make efficient use of capital.
- Ensure that our delivery capability is grounded on a progressive and cost-effective infrastructure which will enable us to deliver forward thinking, relevant and scalable approaches to manage and report credit risk.
- Deliver a relevant and scalable risk appetite operating model under a fit for purpose stress loss framework.
- Refine stress testing and concentration risk methodologies to ensure all potential stresses are understood and quantified.
- Refine sovereign and country risk management approach.

Retail credit risk (unaudited)

- **Growth:** The 0,1% growth in Home Loans was offset by the reducing legal book, resulting in a net decrease of 1,4%. Both these drivers are positive developments. Vehicle and Asset Finance grew **9,1%** (2013: 8,9%). The Credit Card portfolio grew 10,0%, mainly due to a number of initiatives in the Absa Card book and the inclusion of the Edcon portfolio.
- **RWA:** Overall RWA as a percentage of gross credit extended has increased to 42,4% from 34,9% driven by asset growth in the VAF and Cards portfolios.
- **Non-performing loans:** Non-performing loans continued to decrease. The NPL coverage increased to **46,1%** (2013: 41,0%) primarily as coverage was increased on unsecured lending, including Cards.
- **Impairments:** The impairment loss ratio improved to 1,4% from 1,5%, reflecting our enhanced collections capability and improving quality of new business. The loss ratio decreased in Home Loans, increased in VAF and Credit Cards and remained stable in Personal Loans.

Future priorities

- Continue to invest in models/analytics to improve the Bank's risk profile, measurement and risk-adjusted returns, with a focus on unsecured lending.
- Respond effectively to the deteriorating macroeconomic environment.
- Improve debt counselling and other rehabilitation programmes to ensure appropriate management of customers in financial difficulty.
- Continue to improve risk infrastructure, processes and controls.

56. Risk management *(continued)*

56.2 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				
	2014				
	Gross maximum exposure Rm	Neither past due nor impaired[1] DG1 – 11 Rm	DG12 – 19 Rm	DG20 – 21 Rm	Total past due loans Rm
Balances with the SARB	12 621	12 621	—	—	—
Money market assets	21	21	—	—	—
Cash, cash balances and balances with central banks (refer to note 2)	12 642	12 642	—	—	—
Government bonds	47 128	47 128	—	—	—
Debt instruments	3 117	3 107	10	—	—
Treasury bills	18 526	18 526	—	—	—
Investment securities (refer to note 3)	68 771	68 761	10	—	—
Loans and advances to banks (refer to note 4)	47 599	45 839	1 760	—	—
Debt instruments	30 046	28 441	1 605	—	—
Derivative assets	40 295	39 709	586	—	—
Money market assets	5 584	5 262	322	—	—
Trading portfolio assets (refer to note 5)	75 925	73 412	2 513	—	—
Derivatives designated as cash flow hedging instruments	1 116	1 083	33	—	—
Derivatives designated as fair value hedging instruments	1 219	1 194	25	—	—
Hedging portfolio assets (refer to note 5)	2 335	2 277	58	—	—
Accounts receivable	6 737	6 271	454	4	8
Settlement accounts	1 194	1 194	—	—	—
Other assets (refer to note 6)	7 931	7 465	454	4	8
RBB	422 806	115 632	237 565	23 667	45 942
Retail Banking	359 778	100 799	198 665	21 474	38 840
Credit cards	32 684	3 701	11 342	10 637	7 004
Instalment credit agreements	71 587	12 218	53 582	1 751	4 036
Loans to associates and joint ventures	13 012	3 269	9 575	168	—
Mortgages	224 464	78 807	114 360	6 621	24 676
Other loans and advances	404	91	296	17	—
Overdrafts	2 337	318	1 731	5	283
Personal and term loans	15 290	2 395	7 779	2 275	2 841
Business Banking	63 028	14 833	38 900	2 193	7 102
Loans to associates and joint ventures	305	99	75	131	—
Mortgages (including commercial property finance)	31 035	6 746	19 615	1 167	3 507
Overdrafts	18 661	4 625	11 981	488	1 567
Term loans	13 027	3 363	7 229	407	2 028
CIB	132 810	95 709	35 043	1 769	289
Wealth	10 659	2 176	7 370	860	253
Head Office and other operations	569	559	10	—	—
Loans and advances to customers (refer to note 8)	566 844	214 076	279 988	26 296	46 484
Loans and advances to Group companies	17 740	17 740	—	—	—
Loans and advances to Group companies (refer to note 10)	17 740	17 740	—	—	—
Total gross maximum exposure to credit risk	799 787				
Impairments raised (refer to note 9)	(12 323)				
Total net exposure to credit risk as disclosed on the statement of financial position	787 464				
Assets not subject to credit risk	26 597				
Total assets per the statement of financial position	814 061				

Note

[1]Refer to note 1.2 for DG bucket definitions.

56. Risk management *(continued)*

56.2 Credit risk *(continued)*

Maximum exposure to credit risk *(continued)*

	Bank				
	2013[1]				
	Gross maximum exposure Rm	Neither past due nor impaired DG1 – 11 Rm	DG12 – 19 Rm	DG20 – 21 Rm	Total past due loans 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	—	—	—
Government bonds	41 536	41 536	—	—	—
Debt instruments	20 519	20 519		—	—
Treasury bills	3 178	2 614	564	—	—
Investment securities (refer to note 3)	65 233	64 669	564	—	—
Loans and advances to banks (refer to note 4)[2]	45 953	34 484	11 464	5	—
Debt instruments	24 975	24 789	186	—	—
Derivative assets	45 272	40 176	5 094	2	—
Money market assets	7 006	5 140	1 866	—	—
Trading portfolio assets (refer to note 5)[2]	77 253	70 105	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	415 219	114 463	240 331	11 319	49 106
Retail Banking	352 228	99 173	202 389	9 336	41 330
Credit cards	30 180	8 611	14 753	1 219	5 597
Instalment credit agreements[2]	65 592	12 491	47 971	946	4 184
Loans to associates and joint ventures	10 287	1 440	8 538	309	—
Mortgages	228 594	73 097	121 616	5 596	28 285
Other loans and advances	253	253	—	—	—
Overdrafts	2 102	379	1 475	4	244
Personal and term loans	15 220	2 902	8 036	1 262	3 020
Business Banking	62 991	15 290	37 942	1 983	7 776
Loans to associates and joint ventures	559	—	559	—	—
Mortgages (including commercial property finance)	32 750	7 170	19 847	1 331	4 402
Overdrafts	17 573	4 377	11 358	462	1 376
Term loans	12 109	3 743	6 178	190	1 998
CIB[3]	121 124	74 410	44 805	344	1 565
Wealth[3]	11 078	2 361	7 338	865	514
Head Office and other operations	261	125	26	—	110
Loans and advances to customers (refer to note 8)	547 682	191 359	292 500	12 528	51 295
Loans and advances to Group companies	19 247	19 247	—	—	—
Loans and advances to Group companies (refer to note 10)	19 247	19 247	—	—	—
Total gross maximum exposure to credit risk	779 230				
Impairments raised (refer to note 9)	(12 756)				
Total net exposure to credit risk as disclosed on the statement of financial position	766 474				
Assets not subject to credit risk	26 161				
Total assets per the statement of financial position	792 635				

The Bank reassessed its methodology to ensure that the DG grading represents a TTC view of the distribution of the book. Previously the grading for Business Banking South Africa was determined using a PIT basis. Comparatives have been restated. Previously the DG grading was disclosed as follows: DG 1 – 11 R20bn, DG 12 – 19 R35bn, DG 20 – 21 R2bn.

The segmental break-down has changed as a result of the change in the reporting structure in line with IFRS 8, refer to note 51.

Notes

[1]Refer to note 1.2 for DG definitions.

[2]Comparatives have been restated, refer to note 1.19.

56. Risk management *(continued)*

56.2 Credit risk *(continued)*

Credit exposures relating to off-statement of financial position items

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.

	Bank	
	2014 Rm	2013 Rm
Financial guarantee contracts (refer to note 45)[3]	**96**	96
Guarantees (refer to note 47)	**28 076**	15 862
Irrevocable debt facilities (refer to note 47)[2]	**114 614**	116 357
Letters of credit (refer to note 47)	**3 756**	5 666
Other (refer to note 47)	**7**	3
	146 549	137 984

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.

Concentrations of credit risk

Concentration of credit risk exists when a number of counterparties are located in a geographical region, such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions.

	Bank 2014				
Geographical concentration of risk	**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	21	—	17	12 604	12 642
Investment securities	—	—	29	68 742	68 771
Loans and advances to banks	3 575	26 414	3 667	13 943	47 599
Trading portfolio assets	83	23 961	2 381	49 500	75 925
Hedging portfolio assets	263	658	—	1 414	2 335
Other assets	187	234	46	7 464	7 931
Loans and advances to customers	874	4 736	6 999	541 912	554 521
Loans and advances to Group companies	—	—	—	17 740	17 740
Subject to credit risk	5 003	56 003	13 139	713 319	787 464
Off-statement of financial position exposures					
Financial guarantee contracts	—	—	—	96	96
Guarantees	1 373	281	1 151	25 271	28 076
Irrevocable debt facilities	—	—	—	114 614	114 614
Letters of credit	—	—	—	3 756	3 756
Other	—	—	—	7	7
Subject to credit risk	1 373	281	1 151	143 744	146 549

Notes

[1]The majority of the exposures to Europe relate to the exposure to Barclays PLC.

[2]Comparative has been restated, refer to note 47.

[3]Comparatives have been restated, refer to note 45.

56. Risk management *(continued)*

56.2 Credit risk *(continued)*

Geographical concentration of risk *(continued)*	2013 Asia, Americas and Australia Rm	Europe[1] Rm	Rest of Africa Rm	South[4] Africa Rm	Total exposure Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	6	—	—	12 416	12 422
Investment securities	—	—	4	65 229	65 233
Loans and advances to banks[4]	3 152	23 949	310	18 542	45 953
Trading portfolio assets[4]	1 238	27 077	990	47 948	77 253
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	519 037	534 926
Loans and advances to Group companies	—	—	—	19 247	19 247
Subject to credit risk	5 991	57 825	11 776	690 882	766 474
Off-statement of financial position exposures					
Financial guarantee contracts[3]	—	—	—	96	96
Guarantees	—	24	—	15 838	15 862
Irrevocable debt facilities[2]	—	4 227	—	112 130	116 357
Letters of credit	—	—	—	5 666	5 666
Other	—	—	—	3	3
Subject to credit risk	—	4 251	—	133 733	137 984

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 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.

Collateral includes:

- Guarantees and/or letters of credit from third parties.
- Credit default swaps and other credit derivatives.
- Credit insurance.
- Physical collateral including highly liquid securities held under reverse repo agreements and fixed charges over property.
- Cash collateral.
- Other forms including master netting agreements and put options.

Notes

[1]The majority of the exposures to Europe relates to the exposure to Barclays PLC.

[2]Comparative has been restated, refer to note 47.

[3]Comparatives have been restated, refer to note 45.

[4]Comparatives have been restated, refer to note 1.19.

56. Risk management *(continued)*

56.2 Credit risk *(continued)*

Analysis of credit risk mitigation and collateral	Bank 2014 Gross maximum exposure Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm
Loans and advances to banks (refer to note 4)	47 599	—	—	—	13 826	33 773
Debt instruments	30 046	—	—	—	—	30 046
Derivative assets	40 295	42	—	3 098	33 400	3 755
Money market assets	5 584	—	—	—	—	5 584
Trading portfolio assets (refer to note 5)	75 925	42	—	3 098	33 400	39 385
RBB	422 806	205	294 664	1 366	7	126 564
Retail Banking	359 778	2	249 511	37	—	110 228
Credit cards	32 684	2	67	37	—	32 578
Instalment credit agreements	71 587	—	50 838	—	—	20 749
Loans to associates and joint ventures	13 012	—	—	—	—	13 012
Mortgages	224 464	—	198 606	—	—	25 858
Other loans and advances	404	—	—	—	—	404
Overdrafts	2 337	—	—	—	—	2 337
Personal and term loans	15 290	—	—	—	—	15 290
Business Banking	63 028	203	45 153	1 329	7	16 336
Loans to associates and joint ventures	305	—	—	—	1	304
Mortgages (including property finance)	31 035	33	29 751	21	1	1 229
Overdrafts	18 661	127	7 641	1 097	3	9 793
Term loans	13 027	43	7 761	211	2	5 010
CIB	132 810	491	—	—	17 989	114 330
Wealth	10 659	—	6 301	—	—	4 358
Head Office and other operations	569	—	—	—	—	569
Loans and advances to customers (refer to note 8)	566 844	696	300 965	1 366	17 996	245 821

For financial assets not listed in the table above no credit risk mitigation or collateral was held during the reporting period.

56. Risk management *(continued)*

56.2 Credit risk *(continued)*

	Bank 2013					
Analysis of credit risk mitigation and collateral	Gross maximum exposure Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured[1] Rm
Loans and advances to banks (refer to note 4)[1]	45 953	—	—	—	17 362	28 591
Debt instruments	24 975	—	—	—	—	24 975
Derivative assets	45 272	58	—	3 804	35 139	6 271
Money market assets	7 006	—	—	—	—	7 006
Trading portfolio assets (refer to note 5)[1]	77 253	58	—	3 804	35 139	38 252
Accounts receivable	5 978	—	—	—	—	5 978
Settlement accounts	2 118	—	—	—	—	2 118
Other assets (refer to note 6)	8 096	—	—	—	—	8 096
RBB	415 219	224	288 304	1 143	—	125 548
Retail Banking	352 228	—	243 449	—	—	108 779
Credit cards	30 180	—	—	—	—	30 180
Instalment credit agreements[2]	65 592	—	45 158	—	—	20 434
Loans to associates and joint ventures	10 287	—	—	—	—	10 287
Mortgages	228 594	—	198 291	—	—	30 303
Other loans and advances	253	—	—	—	—	253
Overdrafts	2 102	—	—	—	—	2 102
Personal and term loans	15 220	—	—	—	—	15 220
Business Banking	62 991	224	44 855	1 143	—	16 769
Loans to associates and joint ventures	559	—	—	—	—	559
Mortgages (including property finance)	32 750	28	30 547	26	—	2 149
Overdrafts	17 573	139	7 349	888	—	9 197
Term loans	12 109	57	6 959	229	—	4 864
CIB[2]	121 124	1 869	2 106	1 357	1 377	114 415
Wealth[2]	11 078	—	6 036	47	448	4 547
Head Office and other operations	261	—	—	—	—	261
Loans and advances to customers (refer to note 8)	547 682	2 093	296 446	2 547	1 825	244 771

For financial assets not listed in the table above no credit risk mitigation or collateral was held during the reporting period.

Notes

[1]Comparatives have been restated, refer to note 1.19.

[2]The segmental break-down has changed as a result of the change in the reporting structure in line with IFRS 8, refer to note 51.

56. Risk management *(continued)*

56.2 Credit risk *(continued)*

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	
	2014 Rm	2013 Rm
Balance at the beginning of the reporting period	**16**	342
Acquisitions	**16**	16
Disposals	**(1)**	(342)
Provisions	**(31)**	—
Balance at the end of the reporting period	—	16

The number of properties in possession has reduced from 398 properties to 126. It was deemed prudent to de-risk and provide in full for the portfolio as 56% of the portfolio was bought more than a year ago. The PIP portfolio declined from R86m in the previous reporting period to **R36m** (pre-allowances for impairment losses). It must be noted that, despite the age of the portfolio, **53%** (2013: 67%) of the current inventory is sold pending registration.

The Bank has further reduced the stock of the property in possession ("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 R16m in the previous reporting period to **Rnil** (including a provision for impairment).

56. Risk management *(continued)*

56.2 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					
	2014					
		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	8	—	—	—	—	—
Other assets	**8**	—	—	—	—	—
RBB	45 942	984	230	42	20	185
Retail Banking	38 840	5	3	1	—	1
Credit cards	7 004	—	—	—	—	—
Instalment credit agreements	4 036	5	3	1	—	1
Loans to associates and joint ventures	—	—	—	—	—	—
Mortgages	24 676	—	—	—	—	—
Loans and other advances	—	—	—	—	—	—
Overdrafts	283	—	—	—	—	—
Personal and term loans	2 841	—	—	—	—	—
Business Banking	7 102	979	227	41	20	184
Loans to associates and joint ventures	—	—	—	—	—	—
Mortgages (including commercial property finance)	3 507	392	152	11	17	110
Overdrafts	1 567	164	5	12	2	16
Term loans	2 028	423	70	18	1	58
CIB	289	—	—	—	—	—
Wealth	253	—	—	—	—	—
Head Office and other operations	—	—	—	—	—	—
Loans and advances to customers	**46 484**	**984**	**230**	**42**	**20**	**185**

Note

[1]For financial assets not disclosed in the table above did not have any past due exposures.

Bank

2014

Past due not impaired Non-performing loans					Past due and impaired		
Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Performing loans Rm	Non-performing loans Rm	Total non-performing loans Rm
—	—	—	—	—	5	3	3
—	—	—	—	—	5	3	3
139	53	56	11	343	23 746	20 133	20 735
2	1	1	—	7	22 020	16 799	16 810
—	—	—	—	—	3 193	3 811	3 811
2	1	1	—	7	2 831	1 184	1 195
—	—	—	—	—	—	—	—
—	—	—	—	—	14 468	10 208	10 208
—	—	—	—	—	—	—	—
—	—	—	—	—	161	122	122
—	—	—	—	—	1 367	1 474	1 474
137	52	55	11	336	1 726	3 334	3 925
—	—	—	—	—	—	—	—
44	8	5	1	130	998	1 639	1 827
3	—	1	6	106	447	805	921
90	44	49	4	100	281	890	1 177
—	—	—	—	—	—	289	289
—	—	—	—	—	—	253	253
—	—	—	—	—	—	—	—
139	53	56	11	343	23 746	20 675	21 277

56. Risk management *(continued)*

56.2 Credit risk *(continued)*

	Bank					
		2013				
		Past due not impaired[1]				
		Performing loans				
	Total past due loans Rm	Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm
Accounts receivable	1 868	1 864	—	—	—	—
Other assets	1 868	1 864	—	—	—	—
RBB	49 106	882	440	169	35	322
Retail Banking	41 330	8	2	1	6	—
Credit cards	5 597	—	—	—	—	—
Instalment credit agreements	4 184	8	2	1	6	—
Loans to associates and joint ventures	—	—	—	—	—	—
Mortgages	28 285	—	—	—	—	—
Other loans and advances	—	—	—	—	—	—
Overdrafts	244	—	—	—	—	—
Personal and term loans	3 020	—	—	—	—	—
Business Banking	7 776	874	438	168	29	322
Loans to associates and joint ventures	—	—	—	—	—	—
Mortgages (including commercial property finance)	4 402	628	307	104	7	132
Overdraft	1 376	73	29	12	7	58
Term loans	1 998	173	102	52	15	132
CIB	1 565	—	—	—	—	—
Wealth	514	—	—	—	—	—
Head Office and other operations	110	—	—	—	—	—
Loans and advances to customers	51 295	882	440	169	35	322

The segmental break-down has changed as a result of the change in the reporting structure in line with IFRS 8, refer to note 51.

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	242	23 299	23 489	23 959
5	—	—	3	6	22 219	19 080	19 094
—	—	—	—	—	3 024	2 573	2 573
5	—	—	3	6	2 705	1 448	1 462
—	—	—	—	—	—	—	—
—	—	—	—	—	14 744	13 541	13 541
—	—	—	—	—	—	—	—
—	—	—	—	—	148	96	96
—	—	—	—	—	1 598	1 422	1 422
165	16	24	15	236	1 080	4 409	4 865
—	—	—	—	—	—	—	—
40	—	18	—	75	380	2 711	2 844
—	—	1	2	83	334	777	863
125	16	5	13	78	366	921	1 158
—	—	—	—	—	1 117	448	448
—	—	—	—	27	175	312	339
—	—	—	—	—	110	—	—
170	16	24	18	269	24 701	24 249	24 746

56. Risk management *(continued)*

56.2 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				
	2014				
		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	(1 223)	(226)	(1 416)	(1 992)	(6 909)
Retail Banking	(817)	(36)	(120)	(1 967)	(6 798)
Credit cards	(136)	—	—	(428)	(2 782)
Instalment credit agreements	(237)	(36)	(120)	(206)	(431)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(316)	—	—	(1 069)	(2 557)
Other loans and advances	—	—	—	—	—
Overdrafts	(10)	—	—	(22)	(83)
Personal and term loans	(118)	—	—	(242)	(945)
Business Banking	(406)	(190)	(1 296)	(25)	(111)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages (including commercial property finance)	(139)	(125)	(740)	(5)	(37)
Overdrafts	(163)	(36)	(323)	(17)	(35)
Term loans	(104)	(29)	(233)	(3)	(39)
CIB	(264)	—	(141)	—	—
Wealth	(57)	—	(95)	—	—
Head Office and other operations	—	—	—	—	—
Loans and advances to customers	(1 544)	(226)	(1 652)	(1 992)	(6 909)

56. Risk management *(continued)*

56.2 Credit risk *(continued)*

	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	(954)	(140)	(2 127)	(1 650)	(7 093)
Retail Banking	(704)	(16)	(218)	(1 650)	(7 093)
Credit cards	(133)	—	—	(345)	(1 872)
Instalment credit agreements	(144)	(16)	(218)	(130)	(513)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(362)	—	—	(943)	(3 763)
Other loans and advances	—	—	—	—	—
Overdrafts	(10)	—	—	(21)	(56)
Personal and term loans	(55)	—	—	(211)	(889)
Business Banking	(250)	(124)	(1 909)	—	—
Loans to associates and joint ventures	—	—	—	—	—
Mortgages (including commercial property finance)	(92)	(33)	(1 235)	—	—
Overdrafts	(98)	(39)	(361)	—	—
Term loans	(60)	(52)	(313)	—	—
CIB	(197)	—	(292)	—	—
Wealth	(33)	—	(160)	—	—
Head Office and other operations	—	(110)	—	—	—
Loans and advances to customers	(1 184)	(250)	(2 579)	(1 650)	(7 093)

The segmental break-down has changed as a result of the change in the reporting structure in line with IFRS 8, refer to note 51.

56. Risk management *(continued)*

56.3 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 and comprises:

- Traded market risk: 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: 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: the risk that arises when an adverse movement between pension assets and liabilities contributes to a pension deficit.

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 the ATC subcommittees provide oversight of specific market risks.

Strategy

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;
- use appropriate models to measure risk and understand risk sensitivity and volatility, leverage stress testing and empirical analytics. Use appropriate models to measure risk; and
- ensure pension risk is 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 CIB, 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 separately as "interest rate risk in the banking book".

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.

56. Risk management *(continued)*

56.3 Market risk *(continued)*

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;
- DVaR is the 95th percentile loss selected from the resultant two-year historically 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.

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. 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 percentiles;
- 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;
- 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-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.

56. Risk management *(continued)*

56.3 Market risk *(continued)*

Stressed value at risk

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 regulatory capital ("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.

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 to quantify general risk RC 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);
- SVaR 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 CIB.

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, changed to **R19,46m** (2013: R20,73m) for the reporting period, which is down by 6%. This was principally due to a reduction in interest rate risk during the period. The business model of CIB is oriented around client flow and the risk profile is maintained so that it is aligned with the near-term demands of the Bank's clients.

56. Risk management *(continued)*

56.3 Market risk *(continued)*

Trading book DVaR summary

	Bank							
	2014				2013			
	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	**14,62**	**27,12**	**7,79**	**17,86**	16,36	37,04	7,06	11,28
Foreign exchange risk	**7,59**	**22,68**	**1,68**	**4,42**	6,96	23,59	1,20	2,93
Equity risk	**3,63**	**11,03**	**1,37**	**3,76**	4,45	15,95	1,38	4,32
Commodity risk	**0,44**	**3,23**	**0,12**	**0,18**	1,52	4,16	0,32	0,34
Inflation risk	**8,51**	**19,33**	**2,53**	**9,26**	8,29	17,37	4,36	4,46
Credit spread risk	**5,82**	**8,26**	**4,04**	**7,70**	4,52	8,98	1,96	4,35
Diversification effect	**(21,14)**	**n/a**	**n/a**	**(23,43)**	(21,37)	n/a	n/a	(14,28)
Total DVaR[2]	**19,47**	**37,83**	**10,49**	**19,75**	20,73	37,14	10,34	13,40
Expected shortfall[2]	**28,90**	**49,82**	**17,75**	**34,56**	30,53	53,81	14,48	21,66
Regulatory VaR[3]	**32,69**	**63,42**	**19,45**	**37,36**	35,94	76,09	17,35	29,65
Regulatory SVaR[3]	**49,72**	**96,43**	**22,95**	**59,10**	51,15	91,19	23,81	29,16

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 Bank's earnings and the economic value.

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 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.

Note

[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.

56. Risk management *(continued)*

56.3 Market risk *(continued)*

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 profiles

With the repricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments 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, the contractual profiles of assets are not adjusted for customer prepayment features.

Annual Earnings at risk/net interest incomes sensitivity

AEaR/net interest income 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 appropriate for each business. AEaR is monitored against approved internal limits.

Daily value at risk

A one-day VaR calculated at a 95% confidence level for measuring interest rate risk in the banking book is used. The DVaR is measured against approved internal limits and is used as a complementary metric 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

Stress testing consists of a combination of stress scenarios and historical stress movements and is carried out by Market Risk to supplement the DVaR and AEaR metrics.

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 and maintained in accordance with the limit framework. Limits for AEaR, DVaR and stress are agreed by the AMRC.

Risk reporting

DVaR and supporting metrics and stress are reported daily by Group Treasury. The repricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for the Bank.

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.

56. Risk management *(continued)*

56.3 Market risk *(continued)*

	Bank			
	2014			
Expected repricing profile	**On demand – 3 months Rm**	**4 – 6 months Rm**	**7 – 12 months Rm**	**Over 12 months Rm**
Banking book[1]				
Interest rate sensitivity gap	**103 833**	**(20 073)**	**(34 648)**	**(31 210)**
Derivatives[2]	**(87 517)**	**(2 426)**	**17 244**	**72 699**
Net interest rate sensitivity gap	**16 316**	**(22 499)**	**(17 404)**	**41 489**
Cumulative interest rate gap	**16 316**	**(6 183)**	**(23 587)**	**17 902**
Cumulative gap as a percentage of the Bank's total assets (%)	**2,0**	**(0,8)**	**(2,9)**	**2,2**

	2013			
Expected repricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Banking 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 the Bank's total assets (%)	0,5	1,1	0,8	4,6

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 **R1,41m** (2013: R1,75bn). A similar increase would result in an increase in projected 12-month net interest income of **R1,42bn** (2013: R1,56bn). AEaR remains at just under 5% of the Bank's net interest income.

Notes

[1]Includes exposures held in the CIB banking book.

[2]Derivatives for interest rate risk management purposes (net nominal value).

56. Risk management *(continued)*

56.3 Market risk *(continued)*

Interest rate risk in the banking book *(continued)*

Annual earnings at risk for 100 and 200 bps changes in market interest rates

	Bank 2014 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)	(1 411)	(710)	698	1 421
Percentage of the Bank's net interest income (%)	(5,4)	(2,7)	2,7	5,5
Percentage of the Bank's equity (%)	(2,4)	(1,2)	1,2	2,4

	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

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 effective 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 the available-for-sale reserves is mainly due to the increase in the net directional risk.

Sensitivity of reserves to market interest rate movements

	Bank 2014			2013		
	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1,2] Rm	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1,2] Rm
+ 100 bps parallel move in all yield curves						
Available-for-sale reserve	(654)	(837)	(647)	(883)	(1 077)	(883)
Cash flow hedging reserve	(2 198)	(2 198)	(1 832)	(1 756)	(1 851)	(1 737)
	(2 852)	(2 851)	(2 625)	(2 639)	(2 928)	(2 620)
As a percentage of Bank equity (%)	(4,8)	(4,8)	(4,4)	(4,6)	(5,0)	(4,6)
– 100 bps parallel move in all yield curves						
Available-for-sale reserve	654	837	647	883	1 077	883
Cash flow hedging reserve	2 198	2 198	1 832	1 756	1 851	1 737
	2 852	2 851	2 625	2 639	2 928	2 620
As a percentage of Bank equity (%)	4,8	4,8	4,4	4,6	5,0	4,6

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).

56. Risk management *(continued)*

56.3 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	
	2014 Sterling Rm	2013 Sterling Rm
As at reporting period		
Foreign currency net investments	**1 543**	1 728
Impact on equity from a 5% currency translation shock	**77**	86

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. Bank policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Asset management risk was not material during the reporting period.

56. Risk management *(continued)*

56.4 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 CIB and RBB-Business Banking.

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.

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 Bank 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%.

56. Risk management *(continued)*

56.4 Equity investment risk *(continued)*

Analysis of equity investment risk in the banking book

The following table presents the equity sensitivity analysis and discloses the impact on pre-tax profit or loss and equity after the effect of hedges. Debt instruments have been excluded from the sensitivity analysis. Equity hedge structures were in place for the shareholders' equity investment portfolio in previous reporting periods. This assisted to hedge downside risk on equities if market values decrease with more than 6% and resulted in counterparties sharing in positive returns if market values increased by between 2% and 4%. No equity hedge structures were in place at the reporting date.

	Bank									
	2014					2013				
	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 or loss Rm	Equity Rm	Fair value Rm	Profit or loss Rm	Equity Rm	Profit or loss Rm	Equity Rm	Fair value Rm	Profit or loss Rm	Equity Rm
Listed equity investments[1]	(15)	(3)	362	15	3	(12)	(3)	299	12	3
Unlisted equity investments[1]	(66)	(8)	1 485	66	8	(82)	(5)	1 743	82	5
Total Bank equity investments	(81)	(11)	1 847	81	11	(94)	(8)	2 042	94	8

56.5 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due, resulting in an inability to support normal business activity, and a failure to meet liquidity-related regulatory requirements. These outflows would deplete available cash resources for client lending, trading activities and investments. Such outflows could be through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of Bank-specific and market-wide events.

Liquidity risk is monitored at a Bank level under a single Bank framework. Each entity is responsible to implement appropriate processes and controls to ensure compliance with local liquidity appetite, regulatory limits and reporting requirements.

Strategy

The Bank's liquidity risk management objectives are:

- manage the funding position in line with board-approved liquidity risk appetite framework and liquidity coverage ratio requirements;
- grow and diversify the funding base to support asset growth and other strategic initiatives;
- manage the Bank's maturity profile in order to achieve planned liquidity ratios; and
- balance the above objectives against the long-term impacts on the bank cost of funding.

Approach

The efficient management of liquidity is essential to the Bank. Liquidity risk is managed through the Liquidity Risk Framework, which is designed to meet the following objectives:

- to maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk framework as expressed by the board;
- to maintain market confidence;
- to set limits to control liquidity risk within and across lines of business and legal entities;
- to accurately price liquidity costs, benefits and risks and incorporate those into product pricing and performance measurement;
- to set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- to project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- to maintain a Contingency Funding Plan that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

Note

[1]Excludes debt instruments.

56. Risk management *(continued)*

56.5 Liquidity risk *(continued)*

The Bank applies a three step risk management process:

- **Evaluate:** Risk evaluation is carried out by those individuals, teams and departments that are best placed to identify and assess the potential liquidity risks, and include those responsible for delivering the objectives under review.
- **Respond:** The appropriate risk response ensures that liquidity risk is kept within appetite.
- **Monitor:** Once risks have been identified and measured, and controls put in place, progress towards objectives must be tracked. Monitoring must be ongoing and can prompt re-evaluation of the risks and/or changes in responses.

Stress and scenario testing

Under the Liquidity Framework, the Bank has established the Liquidity Risk Appetite ("LRA"), which is the level of liquidity risk the Bank chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool.

Each entity within the Bank undertakes a range of stress tests appropriate to their business. Stress tests consider both institution-specific and market-wide scenarios separately and on a combined basis. The results of the stress tests are used to develop the contingency funding plan and are taken into account when setting limits for the management of liquidity risk and the business planning process.

As part of stress and scenario testing, the Bank's liquid assets portfolio serves as the main source of liquidity under stress. Liquidity value is also assigned to unsecured funding lines, readily marketable investment securities and price sensitive overnight loans.

Contingency funding planning

The Contingency Funding Plan ("CFP") includes, inter alia:

- the roles and responsibilities of senior management in a crisis situation;
- authorities for invoking the plan;
- communications and organisation;
- an analysis of a realistic range of market-wide and Bank specific liquidity stress tests; and
- scenario analyses and the extent to which each stress test and scenario can be mitigated by managing the balance sheet.

The Bank maintains a range of early warning indicators ("EWIs"). These assist in informing management on deciding whether the CFP should be invoked. Each operation must adopt and conform to the Bank is CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Bank's level plan. The CFPs set out the specific requirements to be undertaken locally in a crisis situation. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets. The Bank continues to work with the Regulator on recovery and resolution planning.

56. Risk management *(continued)*

56.5 Liquidity risk *(continued)*

Analysis of contractual mismatch

A detailed breakdown of the contractual mismatch position is provided below:

	Bank				
	2014				
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	21 419	—	—	—	21 419
Investment securities	355	19 201	16 248	34 814	70 618
Loans and advances to banks	12 079	30 455	2 668	2 397	47 599
Trading portfolio assets	78 572	—	—	—	78 572
Derivative assets	40 295	—	—	—	40 295
Non-derivative assets	38 277	—	—	—	38 277
Hedging portfolio assets	—	186	876	1 273	2 335
Other financial assets	1 372	6 555	1	3	7 931
Loans and advances to customers	72 969	69 582	193 979	217 991	554 521
Loans to Group companies	17 740	—	—	—	17 740
Financial assets	204 506	125 979	213 772	256 478	800 735
Non-financial assets					13 326
Total assets					814 061
Liabilities					
Deposits from banks	22 913	26 365	3 700	1 126	54 104
Trading portfolio liabilities	44 580	—	—	—	44 580
Derivative liabilities	41 785	—	—	—	41 785
Non-derivative liabilities	2 795	—	—	—	2 795
Hedging portfolio liabilities	2	277	1 042	1 256	2 577
Other financial liabilities	7 682	3 412	207	15	11 316
Deposits due to customers	337 433	143 968	26 981	13 274	521 656
Debt securities in issue	416	55 369	36 068	13 162	105 015
Borrowed funds	506	2 043	6 060	1 926	10 535
Financial liabilities	413 532	231 434	74 058	30 759	749 783
Non-financial liabilities					5 352
Total liabilities					755 135
Equity					58 926
Total liabilities and equity					814 061
Net liquidity position of financial instruments	(209 026)	(105 455)	139 714	225 719	50 952

56. Risk management *(continued)*

56.5 Liquidity risk *(continued)*

Discounted maturity	Bank 2013 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
Investment securities[2]	675	24 132	18 272	24 196	67 275
Loans and advances to banks[2]	6 247	35 082	1 813	2 811	45 953
Trading portfolio assets	78 864	—	—	—	78 864
Derivative assets	45 272	—	—	—	45 272
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 and advances to customers[2]	56 164	83 330	180 593	214 839	534 926
Loans to Group companies	—	—	—	19 247	19 247
Financial assets	167 066	146 376	202 295	263 053	778 790
Non-financial assets					13 845
Total assets					792 635
Liabilities					
Deposits from banks[2]	19 880	43 950	1 802	195	65 827
Trading portfolio liabilities[2]	50 710	—	—	—	50 710
Derivative liabilities	48 238	—	—	—	48 238
Non-derivative liabilities	2 472	—	—	—	2 472
Hedging portfolio liabilities	19	14	1 301	1 057	2 391
Other financial liabilities	4 461	2 095	2 855	146	9 557
Deposits due to customers[1,2]	298 869	146 264	31 113	13 011	489 257
Debt securities in issue	6 618	48 433	31 189	10 939	97 179
Borrowed funds	—	6 267	7 996	1 499	15 762
Financial liabilities	380 557	247 023	76 256	26 847	730 683
Non-financial liabilities					4 693
Total liabilities					735 376
Equity					57 259
Total liabilities and equity					792 635
Net liquidity position of financial instruments	(213 491)	(100 647)	126 039	236 206	48 107

Notes

[1]The Bank reassessed its methodology to profile the maturity of "Deposits due to customers" and comparatives have been restated accordingly. The maturity has previously been disclosed as follows: On demand: R176bn; Within 1 year: R239bn; From 1 to 5 years: R60bn and More than 5 years: R13bn.

[2]Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

56. Risk management *(continued)*

56 .5 Liquidity risk *(continued)*

Undiscounted maturity (statement of financial position value with impact of future interest)	Bank 2014 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	22 913	26 579	4 848	3 047	(3 283)	54 104
Trading portfolio liabilities	44 580					44 580
Derivative liabilities	41 785	—	—	—	—	41 785
Non-derivative liabilities	2 795	—	—	—	—	2 795
Hedging portfolio liabilities	2	282	1 292	4 050	(3 049)	2 577
Other financial liabilities	7 682	3 424	291	70	(151)	11 316
Deposits due to customers	337 433	146 819	32 102	39 057	(33 755)	521 656
Debt securities in issue	416	57 033	44 190	38 065	(34 689)	105 015
Borrowed funds	506	2 070	7 683	3 704	(3 428)	10 535
Financial liabilities	413 532	236 207	90 406	87 993	(78 355)	749 783
Non-financial liabilities						5 352
Total liabilities						755 135
Off-statement of financial position						
Financial guarantee contracts	96	—	—	—	—	96
Loan commitments	77 393	37 221	—	—	—	114 614

56. Risk management *(continued)*

56.5 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[2]	19 880	45 213	2 245	608	(2 119)	65 827
Trading portfolio liabilities[2]	50 710	—	—	—	—	50 710
Derivative liabilities	48 238	—	—	—	—	48 238
Non-derivative liabilities	2 472	—	—	—	—	2 472
Hedging portfolio liabilities	19	14	1 622	3 297	(2 561)	2 391
Other financial liabilities	4 461	2 155	3 557	455	(1 071)	9 557
Deposits due to customers[2]	298 869	150 471	38 753	40 618	(39 454)	489 257
Debt securities in issue	6 618	49 826	38 847	34 153	(32 265)	97 179
Borrowed funds	—	6 447	9 959	4 683	(5 327)	15 762
Financial liabilities	380 557	254 126	94 983	83 814	(82 797)	730 683
Non-financial liabilities						4 693
Total liabilities						735 376
Off-statement of financial position						
Financial guarantee contracts[3]	96	—	—	—	—	96
Loan commitments[3]	80 704	35 653	—	—	—	116 357

56.6 Capital management

Capital risk 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.

The Bank's strategic focus is to maintain an optimal mix of high quality capital, while continuing to generate sufficient capital to support economically profitable asset growth and the active management of the business portfolio.

Strategy

Effective capital planning and management ensures that the Bank has sufficient and appropriate capital structures to support its risk appetite, (the risk appetite describes and measures the amount and types of risk that the Bank is prepared to take in executing its strategy. It defines the integrated approach to business, risk and capital management and supports the achievement of strategic objectives) 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.

The board sets Group and Bank target capital ranges. The Bank's regulated entities remain adequately capitalised above minimum capital requirements as at the reporting date. Target capital ratios of the Bank for the current reporting period were set by considering the following:

- risk appetite;
- the preference of rating agencies for permanent capital;
- stressed scenarios;
- Basel III amendments including capital conservation buffer; and
- peer analysis.

Notes

[1]The Bank reassessed its methodology to profile the maturity of "Deposits due to customers" and comparatives have been restated accordingly. The maturity has previously been disclosed as follows: On demand: R176bn; Within 1 year: R246bn; From 1 to 5 years: R75bn, More than 5 years: R41bn and Discount Effect: -49bn.

[2]Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

[3]Comparatives have been restated, refer to notes 45 and 47 for details.

56. Risk management *(continued)*

56.6 Capital management *(continued)*

Capital adequacy ratios (unaudited)

Bank	2014	2013	2014 Board target ranges %	2014 Minimum regulatory capital requirements %
Capital adequacy ratios (%)				
Common Equity Tier 1	**10,6**	11,0	**9,0 – 10,5**	**5,5**
Tier 1	**11,4**	12,0	**10,0 – 11,5**	**7,0**
Total	**13,7**	15,6	**12,0 – 13,5**	**10,0**
Capital supply and demand for the reporting period (Rm)				
Net generated equity	**(1 499)**	(3 830)		
Qualifying capital	**60 762**	63 292		
Total RWA	**443 955**	406 010		

Regulatory capital comprises the following:

Common Equity Tier 1 – ordinary share capital, share premium and retained earnings including reserves, less regulatory deductions.

Tier1 – Common Equity Tier 1 plus perpetual, non-cumulative instruments with principal loss-absorption features issued in terms of the Basel III rules.

Total Capital – Tier 1 plus other items such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under Basel III. Subordinated debt issued under Basel I and Basel II is included in total capital but is subject to regulatory phase-out requirements over a 10-year period effective from 1 January 2013.

During the past year, the Bank complied in full with all externally imposed capital requirements (2013: the same).

57. 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.

58. Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2014 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 2014 Rm	2013[1] Rm	2012[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**21 398**	21 081	20 433
Investment securities	3	**70 295**	67 022	69 079
Loans and advances to banks	4	**46 233**	44 585	42 675
Trading portfolio assets	5	**78 572**	78 864	86 624
Hedging portfolio assets	5	**2 335**	3 344	5 439
Other assets	6	**9 258**	9 199	11 028
Current tax assets		**1**	—	
Non-current assets held for sale	7	**250**	558	353
Loans and advances to customers	8, 9	**553 827**	534 789	509 566
Loans to Group companies	10	**18 109**	19 193	12 242
Investments in associates and joint ventures	11	**100**	102	102
Subsidiaries	12	**430**	1 376	1 834
Property and equipment	13	**9 130**	8 496	7 642
Goodwill and intangible assets	14	**1 310**	1 190	1 047
Total assets		**811 248**	789 799	768 064
Liabilities				
Deposits from banks	16	**54 104**	65 827	47 161
Trading portfolio liabilities	17	**44 580**	50 710	49 516
Hedging portfolio liabilities	17	**2 577**	2 391	3 855
Other liabilities	18	**13 393**	11 048	14 042
Provisions	19	**1 853**	1 358	1 386
Current tax liabilities		**63**	153	57
Deposits due to customers	20	**521 568**	488 884	468 119
Debt securities in issue	21	**104 720**	97 179	104 923
Borrowed funds	22	**10 535**	15 762	17 907
Deferred tax liabilities	15	**905**	895	1 355
Total liabilities		**754 298**	734 207	708 321
Equity				
Capital and reserves				
Attributable to equity holders of the Company:				
Ordinary share capital	23	**303**	303	303
Ordinary share premium	23	**16 465**	13 465	12 465
Preference share capital	23	**1**	1	1
Preference share premium	23	**4 643**	4 643	4 643
Retained earnings		**32 535**	33 559	37 412
Other reserves	24	**3 003**	3 621	4 919
Total equity		**56 950**	55 592	59 743
Total liabilities and equity		**811 248**	789 799	768 064

Note

[1]Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

Company statement of comprehensive income
for the reporting period ended 31 December

	Note	Company 2014 Rm	2013 Rm
Net interest income		**25 541**	23 286
Interest and similar income	25	**54 341**	49 656
Interest expense and similar charges	26	**(28 800)**	(26 370)
Non-interest income		**18 289**	18 180
Net fee and commission income		**14 709**	14 358
Fee and commission income	27	**15 897**	15 421
Fee and commission expense	27	**(1 188)**	(1 063)
Gains and losses from banking and trading activities	28	**2 669**	3 496
Gains and losses from investment activities	29	**122**	4
Other operating income	30	**789**	322
Total income		**43 830**	41 466
Impairment losses on loans and advances	9	**(5 097)**	(5 775)
Operating expenditure	31	**(25 143)**	(23 383)
Other expenses		**(1 143)**	(796)
Other impairments	32	**(375)**	(1)
Indirect taxation	33	**(768)**	(795)
Operating profit before income tax		**12 447**	11 512
Taxation expense	34	**(3 525)**	(3 259)
Profit for the reporting period		**8 922**	8 253
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Movement in retirement benefit fund assets and liabilities		**2**	(19)
Increase/(decrease) in retirement benefit surplus		**3**	(26)
Deferred tax	15	**(1)**	7
Total items that will not be reclassified to profit or loss		**2**	(19)
Items that are or may be subsequently reclassified to profit or loss			
Movement in foreign currency translation reserve		**(304)**	474
Differences on translation of foreign operations		**93**	474
Gains released to profit or loss	30	**(397)**	—
Movement in cash flow hedging reserve		**(253)**	(1 826)
Fair value gains/(losses) arising during the reporting period		**1 092**	(907)
Amount removed from other comprehensive income and recognised in profit or loss		**(1 443)**	(1 629)
Deferred tax	15	**98**	710
Movement in available-for-sale reserve		**(39)**	88
Fair value (losses)/gains arising during the reporting period		**(100)**	110
Amortisation of government bonds – release to profit or loss		**44**	10
Deferred tax	15	**17**	(32)
Total items that are or may be subsequently reclassified to profit or loss		**(596)**	(1 264)
Total comprehensive income for the year		**8 328**	6 970
Profit attributable to:			
Ordinary equity holder		**8 617**	7 959
Preference equity holders		**305**	294
		8 922	8 253
Total comprehensive income attributable to:			
Ordinary equity holder		**8 023**	6 676
Preference equity holders		**305**	294
		8 328	6 970
Earnings per share:			
Basic earnings per share (cents per share)	35	**2 227,2**	2 099,2
Diluted earnings per share (cents per share)	35	**2 227,2**	2 099,2

Company statement of changes in equity
for the reporting period ended 31 December

	Company				
	2014				
	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the beginning of the reporting period	**383 117**	**303**	**13 465**	**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	**13 034**	**0**	**3 000**	—	—
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Balance at the end of the reporting period	**396 151**	**303**	**16 465**	**1**	**4 643**
Note	23	23	23	23	23

	2013				
	Number of ordinary shares '000	Share capital Rm	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 arrangements	—	—	—	—	—
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	23	23	23	23	23

Note

All movements are reflected net of taxation, refer to note 15.

Company statement of changes in equity
for the reporting period ended 31 December

Company

2014

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
33 559	3 621	964	604	607	1 422	24	55 592
8 924	(596)	(39)	(253)	(304)	—	—	8 328
8 922	—	—	—	—	—	—	8 922
2	(596)	(39)	(253)	(304)	—	—	(594)
(9 940)	—	—	—	—	—	—	(9 940)
—	—	—	—	—	—	—	3 000
(8)	—	—	—	—	—	—	(8)
—	(22)	—	—	—	—	(22)	(22)
—	—	—	—	—	—	—	—
—	(22)	—	—	—	—	(22)	(22)
32 535	3 003	925	351	303	1 422	2	56 950
		24	24	24	24	24	

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
		24	24	24	24	24	

Company statement of cash flows
for the reporting period ended 31 December

	Note	Company 2014 Rm	2013[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**69 299**	65 395
Interest, fee and commission expense		**(32 652)**	(26 098)
Net trading and other income		**5 773**	33
Cash payments to employees and suppliers		**(23 104)**	(22 223)
Dividends received from banking and trading activities		**75**	(96)
Income taxes paid		**(3 492)**	(2 944)
Cash flow from operating activities before changes in operating assets and liabilities		**15 899**	14 067
Net (increase)/decrease in trading and hedging portfolio assets		**(512)**	12 449
Net (increase) in loans and advances to customers		**(25 458)**	(30 350)
Net (increase)/decrease in investment securities		**(389)**	2 704
Net (increase) in other assets		**(594)**	(10 657)
Net (decrease)/increase in trading and hedging portfolio liabilities		**(5 850)**	1 716
Net increase in amounts due to customers and banks		**19 708**	38 435
Net increase/(decrease) in other liabilities		**10 076**	(11 038)
Net cash generated from operating activities		**12 880**	17 326
Cash flow from investing activities			
Purchase of property and equipment	13	**(2 180)**	(2 335)
Proceeds from disposal of property and equipment		**137**	69
Proceeds on sale of non-current assets held for sale		**197**	20
Purchase of intangible assets	14	**(473)**	(353)
Dividends received from investment activities		**122**	(3)
Net cash utilised from investing activities		**(2 197)**	(2 602)
Cash flow from financing activities			
Issue of 'A' ordinary shares		**3 000**	1 000
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment arrangements		**(8)**	(74)
Proceeds from borrowed funds		**500**	—
Repayment of borrowed funds		**(4 725)**	(1 886)
Dividends paid		**(9 940)**	(12 046)
Net cash utilised in financing activities		**(11 173)**	(13 006)
Net (decrease)/increase in cash and cash equivalents		**(490)**	1 718
Cash and cash equivalents at the beginning of the reporting period		**10 504**	8 786
Cash and cash equivalents at the end of the reporting period	44	**10 014**	10 504

Note

[1]Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

1. 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.

	Company	
	2014 Rm	2013 Rm
2. Cash, cash balances and balances with central banks		
Balances with the SARB	**12 621**	12 416
Coins and bank notes	**8 777**	8 665
	21 398	21 081
3. Investment securities		
Government bonds	**47 128**	41 536
Treasury bills	**18 526**	20 519
Other debt securities	**3 116**	3 177
Listed equity instruments	**86**	88
Unlisted equity and hybrid instruments	**1 439**	1 702
	70 295	67 022

Government bonds and treasury bills valued at **R5 689m** (2013: R7 055m) have been pledged with the SARB.

Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

	Company	
	2014 Rm	2013 Rm
4. Loans and advances to banks		
Loans and advances to banks	**46 233**	44 585

Loans with variable rates are **R16 659m** (2013: R25 315m) and with fixed rates are **R29 574m** (2013: R19 270).

Included above are loans and advances to banks with a carrying value of **R6 380m** (2013: R3 597m) that have been pledged as security, including collateralised loans of **R2 382m** (2013: R1 098m) relating to securities borrowed which excludes reverse repurchase agreements. 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 217m** (2013: R15 541m).

Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

	Company 2014 Rm	Company 2013 Rm
5. Trading and hedging portfolio assets		
Commodities	**1 701**	1 080
Debt instruments	**30 046**	24 975
Derivative assets (refer to note 47.4)	**40 295**	45 272
Commodity derivatives	**350**	324
Credit derivatives	**375**	269
Equity derivatives	**1 040**	802
Foreign exchange derivatives	**8 328**	8 626
Interest rate derivatives	**30 202**	35 251
Equity instruments	**946**	531
Money market assets	**5 584**	7 006
Total trading portfolio assets	**78 572**	78 864
Hedging portfolio assets (refer to note 47.5)	**2 335**	3 344
	80 907	82 208

Trading portfolio assets with a carrying value of **R23 390m** (2013: R17 680m) were pledged as security for repurchase agreements. 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.

Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

	Company 2014 Rm	Company 2013 Rm
6. Other assets		
Accounts receivable and prepayments	**7 395**	6 464
Deferred costs	**193**	129
Inventories	**10**	26
Cost	**39**	94
Write-down	**(29)**	(68)
Retirement benefit fund surplus (refer to note 37 of the Bank's financial statements)	**466**	466
Settlement accounts	**1 194**	2 114
	9 258	9 199

	Company 2014 Rm	Company 2013 Rm
7. Non-current assets held for sale		
Balance at the beginning of the reporting period	**558**	353
Disposals	**(339)**	(20)
Transfer from investment securities	**29**	4
Transfer from property and equipment (refer to note 13)	**3**	206
Fair value adjustments of investment securities	**(1)**	15
Balance at the end of the reporting period	**250**	558

The following transfers to non-current assets held for sale were effected:

- RBB transferred investment securities with a carrying value of **R29m** (2013: R4m).
- The Head Office and other operations segment transferred property and equipment with a carrying value of **R3m** (2013: R206m).

The fair value adjustments of investment securities relate to assets within RBB which were classified as held for sale during 2012. At the reporting date, these investment securities remain classified as non-current assets held for sale as the delay of the disposal is as a consequence of events outside the Company's control. The Company remains, however, committed to dispose of the asset in 2015.

The majority of the disposal relates to disposal of an investment in a non-core subsidiary in the Commercial Property Finance ("CPF") Equity division.

All the above assets are expected to be disposed of in 2015.

	Company 2014 Rm	Company 2013 Rm
8. Loans and advances to customers		
Corporate overdrafts and specialised finance loans	**7 428**	5 729
Credit cards	**32 684**	30 178
Foreign currency loans	**21 150**	21 076
Instalment credit agreements (refer to note 8.1)	**69 725**	63 600
Gross advances	**85 855**	77 581
Unearned finance charges	**(16 130)**	(13 981)
Loans to associates and joint ventures	**14 761**	12 039
Microloans	**2 282**	1 962
Mortgages	**265 152**	272 458
Other advances	**3 685**	2 897
Overdrafts	**29 698**	31 179
Overnight finance	**18 607**	14 082
Personal and term loans	**28 152**	29 050
Preference shares	**8 155**	5 810
Reverse repurchase agreements	**5 819**	3 893
Wholesale overdrafts	**58 742**	53 421
Gross loans and advances to customers	**566 040**	547 374
Impairment losses on loans and advances (refer to note 9)	**(12 213)**	(12 585)
	553 827	534 789

Included above are loans and advances to customers with a carrying value of **R7 854m** (2013: R4 149m)[1] that have been pledged as security, including collateralised loans of **R2 827m** (2013: R3 024m) relating to securities borrowed. 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.

Other advances includes customer liabilities under acceptances, working capital solutions and collateralised loans.

Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

	Company 2014 Gross advances Rm	2014 Unearned finance charges Rm	2014 Net advances Rm	2013 Gross advances Rm	2013 Unearned finance charges Rm	2013 Net advances Rm
8.1 Instalment credit agreements						
Maturity analysis						
Less than one year	**26 219**	**(4 461)**	**21 758**	24 216	(3 977)	20 239
Between one and five years	**56 940**	**(11 085)**	**45 855**	50 958	(9 509)	41 449
More than five years	**2 696**	**(584)**	**2 112**	2 407	(495)	1 912
	85 855	**(16 130)**	**69 725**	77 581	(13 981)	63 600

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 805m** (2013: R4 533m).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R777m** (2013: R1 334m).

Note
[1]The comparatives have been restated to include cash and non-cash collateral. In the prior reporting period only cash collateral of R3 659m was reported.

		Company	
		2014 Rm	2013 Rm
9.	**Impairment losses on loans and advances**		
	Comprising:		
	Identified impairments	10 673	11 405
	Unidentified impairments	1 540	1 180
		12 213	12 585
	Reconciliation of allowances for impairment losses on loans and advances to customers		
	Balance at beginning of the reporting period	12 585	12 625
	Net present value unwind on non-performing book	(639)	(845)
	Amount written-off	(5 649)	(5 887)
	Impairment raised – identified	5 692	6 407
	Impairment raised – unidentified	224	285
	Balance at the end of the reporting period	12 213	12 585
9.1	**Statement of comprehensive income charge during the reporting period**		
	Impairments raised	5 916	6 692
	Identified impairments	5 692	6 407
	Unidentified impairments	224	285
	Recoveries of loans and advances previously written off	(819)	(917)
		5 097	5 775
10.	**Loans to Group companies**		
	Fellow subsidiaries	18 109	19 193
11.	**Investments in associates and joint ventures**		
	Unlisted investments	100	102
11.1	**Movement in the carrying value of associates and joint ventures**		
	Balance at the beginning of the reporting period	102	102
	Impairment charge (refer to note 32)	(2)	—
	Balance at the end of the reporting period	100	102
12.	**Subsidiaries**		
	Loans to subsidiary companies	147	515
	Shares at cost	283	861
		430	1 376

During the current reporting period the Company disposed of non-core subsidiaries, which contributed to the decline in the balance from the prior reporting period.

	Company					
	2014			2013		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
13. Property and equipment						
Computer equipment	4 867	(2 847)	2 020	4 500	(2 816)	1 684
Freehold property	5 278	(324)	4 954	4 437	(320)	4 117
Furniture and other equipment	4 307	(2 151)	2 156	5 071	(2 376)	2 695
Leasehold property	—	—	—	41	(41)	—
Motor vehicles	3	(3)	—	4	(4)	—
	14 455	(5 325)	9 130	14 053	(5 557)	8 496

	Company							
	2014							
	Opening balance Rm	Additions Rm	Disposals Rm	Transferred to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of property and equipment								
Computer equipment	1 684	1 048	(3)	—	—	(632)	(77)	2 020
Freehold property	4 117	916	(63)	—	—	(16)	—	4 954
Furniture and other equipment	2 695	217	(57)	(3)	—	(522)	(174)	2 156
	8 496	2 181	(123)	(3)	—	(1 170)	(251)	9 130
Note				7		31	32	

	2013							
	Opening balance Rm	Additions Rm	Disposals Rm	Transferred to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge 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				7		31	32	

Computer equipment with a carrying value of **R14m** (2013: R103m) are encumbered under finance leases (refer to note 18).

Included in the above additions is **R867m** (2013: R488m) 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 **R80m** (2013: R571m) was transferred from assets under construction and brought into use.

	Company					
	2014			2013		
	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
14. Goodwill and intangible assets						
Computer software development costs	2 185	(1 298)	887	1 781	(1 016)	765
Customer lists and relationships	482	(87)	395	413	(28)	385
Other	53	(25)	28	53	(13)	40
	2 720	(1 410)	1 310	2 247	(1 057)	1 190

	Company					
	2014					
	Opening balance Rm	Additions Rm	Disposals Rm	Amortisation and/or impairments Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of intangible assets						
Computer software development costs	765	403	—	(154)	(127)	887
Customer lists and relationships	385	70	—	(60)	—	395
Other	40	—	—	(12)	—	28
	1 190	473	—	(226)	(127)	1 310
Note				31	32	

	2013					
	Opening balance Rm	Additions Rm	Disposals Rm	Amortisation and/or impairments Rm	Impairment charge Rm	Closing balance Rm
Reconciliation of intangible assets						
Computer software development costs	641	333	(33)	(176)	—	765
Customer lists and relationships	386	22	—	(23)	—	385
Other	20	31	—	(11)	—	40
	1 047	386	(33)	(210)	—	1 190
Note				31	32	

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 **R666m** (2013: R492m) relating to assets under construction.

		Company	
		2014 Rm	2013 Rm
15.	**Deferred tax**		
15.1	**Reconciliation of net deferred tax liability**		
	Balance at the beginning of the reporting period	**895**	1 357
	Deferred tax on amounts charged directly to other comprehensive income	**(114)**	(685)
	Charge to the profit or loss component of the statement of comprehensive income (refer to note 34)	**123**	222
	Tax effect of translation and other differences	**1**	1
	Balance at the end of the reporting period	**905**	895
15.2	**Deferred tax liability**		
	Tax effects of temporary differences between tax and book value for:		
	Accruals and provisions	**1 283**	1 586
	Fair value adjustments on financial instruments	**155**	(400)
	Impairment of loans and advances	**(375)**	(268)
	Lease and rental debtor allowances	**(155)**	(84)
	Other differences	**—**	(132)
	Property allowances	**80**	46
	Retirement benefit fund assets and liabilities	**147**	147
	Share-based payments	**(230)**	—
	Deferred tax liability	**905**	895
16.	**Deposits from banks**		
	Call deposits	**10 550**	9 861
	Fixed deposits	**8 800**	15 492
	Foreign currency deposits	**6 520**	14 807
	Notice deposits	**810**	702
	Other deposits	**6 199**	8 634
	Repurchase agreements	**21 225**	16 331
		54 104	65 827

Deposits with variable rates are **R17 245m** (2013: R27 359m) and with fixed rates are **R36 859m** (2013: R38 468m).

Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

		Company 2014 Rm	Company 2013 Rm
17.	**Trading and hedging portfolio liabilities**		
	Derivative liabilities (refer to note 47.4)	**41 785**	48 238
	Commodity derivatives	**303**	290
	Credit derivatives	**362**	395
	Equity derivatives	**1 494**	2 026
	Foreign exchange derivatives	**9 938**	8 172
	Interest rate derivatives	**29 688**	37 355
	Short positions	**2 795**	2 472
	Total trading portfolio liabilities	**44 580**	50 710
	Hedging portfolio liabilities (refer to note 47.5)	**2 577**	2 391
		47 157	53 101

Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

		Company 2014 Rm	Company 2013 Rm
18.	**Other liabilities**		
	Accruals	**1 337**	1 060
	Audit fee accrual	**59**	63
	Creditors	**6 323**	4 227
	Deferred income	**272**	485
	Liabilities under finance leases (refer to note 18.1)	**14**	106
	Settlement balances	**4 568**	4 640
	Share-based payment liability	**820**	467
		13 393	11 048

		Company 2014 Minimum lease payments due Rm	Company 2014 Interest Rm	Company 2014 Principal Rm
18.1	**Liabilities under finance leases**			
	Less than one year	**14**	**—**	**14**

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

Under the terms of the leases, no contingent rentals are payable. Refer to note 13 for details of property and equipment subject to finance leases.

18. Other liabilities *(continued)*

18.1 Liabilities under finance leases *(continued)*

18.1.1 Terms and conditions of finance leases

Description	Address	Details
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 2014 Rm	Company 2013 Rm
18.1.2 Minimum future income receivable from subleasing		
Receivable within one year	—	1

	Company 2014 Staff bonuses and incentive provision Rm	Company 2014 Sundry provisions Rm	Company 2014 Total Rm
19. Provisions			
Balance at the beginning of the reporting period	1 136	222	1 358
Additions	1 276	595	1 871
Amounts used	(596)	(101)	(697)
Reversals	(531)	(148)	(679)
Balance at the end of the reporting period	1 285	568	1 853

Provisions expected to be recovered or settled within no more than 12 months after the recording date were **R1 630m** (2013: R1 249m).

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

	Company 2014 Rm	Company 2013 Rm
20. Deposits due to customers		
Call deposits	**57 007**	52 829
Cheque account deposits	**146 731**	140 191
Credit card deposits	**1 932**	1 914
Fixed deposits	**131 382**	132 678
Foreign currency deposits	**21 723**	14 108
Notice deposits	**49 764**	56 349
Other	**2 012**	1 742
Repurchase agreements with non-banks	**2 165**	1 208
Saving and transmission deposits	**108 852**	87 865
	521 568	488 884

Other deposits due to customers include deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.

Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

21. Debt securities in issue

	Company 2014 Rm	Company 2013 Rm
Credit linked notes	**8 823**	8 155
Floating rate notes	**41 524**	44 718
Negotiable certificates of deposit	**29 567**	20 821
Other	**24**	11
Promissory notes	**949**	935
Structured notes and bonds	**435**	1 006
Senior notes	**23 398**	21 533
	104 720	97 179

22. Borrowed funds

Subordinated callable notes

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

Interest rate	*Final maturity date*	*Note*	Company 2014 Rm	Company 2013 Rm
8,80%	7 March 2019	i	**—**	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
10,84%	19 November 2019	v	**130**	—
Three-month JIBAR + 2,10%	3 May 2022	vi	**400**	400
Three-month JIBAR + 1,95%	21 November 2022	vii	**1 805**	1 805
Three-month JIBAR + 2,05%	21 November 2023	viii	**2 007**	2 007
Three-month JIBAR + 3,30%	19 November 2019	ix	**370**	—
CPI-linked notes, fixed at the following coupon rates:				
6,00%	20 September 2019	x	**—**	3 000
5,50%	7 December 2028	xi	**1 500**	1 500
Accrued interest			**572**	1 472
Fair value adjustments on total subordinated debt instruments			**(37)**	65
			10 535	15 762

22. Borrowed funds *(continued)*

i The 8,80% fixed rate notes were redeemed in full on 7 March 2014. Interest was paid semi-annually in arrears on 7 March and 7 September of each year.

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 10,84% fixed rate note may be redeemed in full at the option of the Company on 19 November 2019. Interest is paid semi-annually in arrears on 19 May and 19 November. The Company has an option to exercise the redemption on any date after the original redemption date of 19 November 2019.

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

vii The three-month JIBAR plus 1,95% floating rate notes may be redeemed in full at the option of the Company on 21 November 2017. Interest is paid quarterly in 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.

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

ix The three-month JIBAR plus 3,30% floating rates note may be redeemed in full at the option of the Company on 19 November 2019. Interest is paid quarterly in arrears on 19 February, 19 May, 19 August and 19 November. The Company has an option to exercise the redemption on any date after the original redemption date of 19 November 2019.

x The 6,00% CPI-linked notes were redeemed in full at the option of the Company on 20 September 2014. Interest was paid semi-annually in arrears on 20 March and 20 September of each year.

xi The 5,50% CPI-linked notes may be redeemed in full at the option of the Company on 7 December 2023. Interest is paid semi-annually in 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, excluding v and ix, are listed on the Bond Exchange of South Africa ("BESA").

In accordance with its MOI, the borrowing powers of the Company are restricted to the amount authorised by its listed holding company.

23. Share capital and premium

23.1 Ordinary share capital

	Company 2014 Rm	Company 2013 Rm
Authorised		
320 000 000 (2013: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2013: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2013: 302 609 359) ordinary shares of R1,00 each	**303**	303
93 541 890 (2013: 80 507 857) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**16 465**	13 465
	16 768	13 768

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 13 034 033 'A' ordinary shares were issued during the current reporting period.

Shares issued during the previous reporting period

An additional 4 358 817 '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 2014 Rm	Company 2013 Rm
23. Share capital and premium *(continued)*		
23.2 Preference share capital and premium		
Authorised		
30 000 000 (2013: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2013: 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 70% 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.

24. Other reserves

24.1 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 profit or loss.

24.2 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.

24.3 Foreign currency translation reserve

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

24.4 Capital reserve

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

24 .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 profit or loss, 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.

25. Interest and similar income

	Company 2014 Rm	Company 2013 Rm
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	**52**	12
Fair value adjustments on hedging instruments	**511**	3 803
Investment securities	**5 104**	1 784
Loans and advances to banks	**871**	727
Loans and advances to customers	**46 376**	42 207
Corporate overdrafts and specialised finance loans	**451**	123
Credit cards	**4 825**	4 649
Foreign currency loans	**409**	363
Instalment credit agreements	**6 486**	5 610
Interest on impaired financial assets	**639**	845
Loans to associates and joint ventures	**865**	657
Microloans	**500**	454
Mortgages	**20 912**	19 225
Other advances	**22**	716
Overdrafts	**2 884**	2 633
Overnight finance	**830**	786
Personal and term loans	**3 409**	3 097
Preference shares	**538**	342
Wholesale overdrafts	**3 606**	2 707
Other interest	**1 427**	1 123
	54 341	49 656
Classification of interest and similar income		
Fair value adjustments on amortised cost and available-for-sale financial assets held in a fair value hedging relationship (refer to note 47.8)	**751**	(2 450)
Investment securities	**370**	(2 614)
Loans and advances to customers	**381**	164
Fair value adjustments on hedging instruments	**926**	4 549
Cash flow hedges (refer to note 47.6)	**1 494**	1 730
Economic hedges	**4**	1
Fair value hedges (refer to note 47.8)	**(572)**	2 818
Interest on financial assets held at amortised cost	**50 192**	45 677
Interest on financial assets held as available-for-sale	**1 474**	2 291
Interest on financial assets designated at fair value through profit or loss	**998**	(411)
Fair value hedging instruments (refer to note 47.8)	**(415)**	(746)
Investment securities	**1 135**	37
Loans and advances to customers	**278**	298
	54 341	49 656

Interest income on other loans and advances to customers includes items such as interest on factored debtors' books.

Other interest and similar income 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".

Comparatives have been restated, refer to note 1.19.

26. Interest expense and similar charges

	Company 2014 Rm	Company 2013 Rm
Interest expense and similar charges are paid on:		
Borrowed funds	1 114	1 316
Debt securities in issue	6 550	5 733
Deposits due to customers	21 418	20 064
Call deposits	3 591	2 799
Cheque account deposits	3 251	3 065
Credit card deposits	8	8
Fixed deposits	7 503	8 486
Foreign currency deposits	252	348
Notice deposits	3 010	2 913
Other	220	155
Savings and transmission deposits	3 583	2 290
Deposits from banks	1 384	1 012
Call deposits	394	363
Fixed deposits	987	649
Foreign currency deposit	3	—
Fair value adjustments on hedging instruments	(457)	500
Interest incurred on finance leases	—	19
Other	(1 209)	(2 274)
	28 800	26 370
Classification of interest and similar charges		
Fair value adjustments on amortised cost financial liabilities held in a fair value hedging relationship (refer to note 47.8)	(258)	(820)
Borrowed funds	(99)	(126)
Debt securities in issue	(159)	(694)
Fair value adjustments on hedging instruments	(214)	893
Cash flow hedges (refer to note 47.6)	(72)	(52)
Economic hedges	(49)	46
Fair value hedges (refer to note 47.8)	(93)	899
Interest on financial liabilities designated at fair value through profit or loss	(182)	495
Borrowed funds	—	17
Debt securities in issue	15	157
Deposits due to customers	46	714
Fair value hedging instruments (refer to note 47.8)	(243)	(393)
Interest on financial liabilities held at amortised cost	29 454	25 802
	28 800	26 370

Other interest and similar charges 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	
		2014 Rm	2013 Rm
27.	**Net fee and commission income**		
	Asset management and other related fees	**85**	97
	Consulting and administration fees	**122**	135
	Credit-related fees and commissions	**13 149**	12 884
	Cheque accounts	**3 818**	3 546
	Credit cards	**1 275**	1 305
	Electronic banking	**4 300**	4 203
	Other	**1 469**	1 546
	Savings accounts	**2 287**	2 284
	Insurance commission received	**502**	481
	Investment banking fees	**312**	255
	Merchant income	**1 623**	1 492
	Other	**40**	36
	Trust and other fiduciary service fees	**64**	41
	Portfolio and other management fees	**49**	22
	Trust and estate income	**15**	19
	Fee and commission income	**15 897**	15 421
	Fee and commission expense	**(1 188)**	(1 063)
	Cheque processing fees	**(131)**	(150)
	Other	**(837)**	(657)
	Transaction-based legal fees	**(76)**	(114)
	Valuation fees	**(144)**	(142)
		14 709	14 358
27.1	**Included above are net fees and commissions linked to financial instruments not at fair value**		
	Cheque accounts	**3 818**	3 546
	Credit cards	**1 275**	1 305
	Other	**827**	999
	Savings accounts	**2 287**	2 284
	Fee and commission income	**8 207**	8 134
	Fee and commission expense	**(991)**	(888)
		7 216	7 246

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.

Credit cards include acquiring and issuing fees.

Other credit related fee and commission income includes service and credit-related fees and commissions on mortgage loans and foreign exchange transactions.

Retail and Business Banking has refined the classification for particular note lines within Net Fee and Commission income to account for the income from certain products more accurately based on the true nature of the products, this resulted in a decrease of R481m in Merchant Income, and increase of R104m in Electronic Banking and an increase of R376m in Credit Cards, for the period ended 31 December 2013.

	Company 2014 Rm	Company 2013 Rm
28. Gains and losses from banking and trading activities		
Net (losses)/gains on investments	**(228)**	320
Debt instruments designated at fair value through profit or loss	**7**	163
Equity instruments designated at fair value through profit or loss	**(191)**	167
Available-for-sale unwind from reserves	**(44)**	(10)
Net trading result	**2 817**	3 031
Net trading income excluding the impact of hedge accounting	**3 064**	3 269
Ineffective portion of hedges	**(247)**	(238)
Cash flow hedges (refer to note 47.6)	**(239)**	(234)
Fair value hedges (refer to note 47.8)	**(8)**	(4)
Other gains	**65**	145
Profit on sale of subsidiaries	**15**	—
	2 669	3 496
Classification of net trading results and other gains on financial instruments		
Net trading income excluding the impact of hedge accounting	**3 064**	3 269
(Losses)/gains on financial instruments designated at fair value through profit or loss	**(1 111)**	1 326
Net (losses)/gains on financial assets designated at fair value through profit or loss	**(329)**	142
Net (losses)/gains on financial liabilities designated at fair value through profit or loss	**(782)**	1 184
Gains on financial instruments held for trading	**4 175**	1 943
Other gains	**65**	145
Gains on financial instruments designated at fair value through profit or loss	**—**	7
Gains on financial instruments held for trading	**65**	138
29. Gains and losses from investment activities		
Other gains	**122**	4
30. Other operating income		
Foreign exchange differences, including recycle from other comprehensive income	**410**	44
Profit/(loss) on disposal of property and equipment	**15**	(20)
Profit on sale of repossessed properties	**37**	14
Gross sales	**102**	356
Cost of sales	**(65)**	(342)
Rental income	**26**	53
Sundry income	**301**	231
	789	322

Sundry income includes service fees levied on assets finance as well as the profit on disposal of sundry non-core business activities.

	Company 2014 Rm	Company 2013 Rm
31. Operating expenses		
Administration fees	**834**	708
Amortisation of intangible assets (refer to note 14)	**226**	210
Auditors' remuneration	**191**	187
Audit fees – current reporting period	**122**	113
Audit fees – under provision	**14**	8
Audit-related fees	**46**	44
Other services	**9**	22
Cash transportation	**698**	597
Depreciation (refer to note 13)	**1 170**	1 189
Equipment costs	**167**	175
Rentals	**62**	101
Maintenance	**105**	74
Information technology	**1 839**	1 756
Marketing costs	**1 359**	1 115
Operating lease expenses on properties	**1 022**	970
Other	**339**	893
Printing and stationery	**272**	211
Professional fees	**1 268**	1 253
Property costs	**1 357**	1 180
Staff costs	**13 752**	12 259
Bonuses	**1 270**	1 184
Other	**460**	544
Salaries and current service costs on post-retirement benefits	**11 121**	9 902
Share-based payments (refer to note 51 of the Bank's financial statements)	**656**	387
Training costs	**245**	242
Telephone and postage	**649**	680
	25 143	23 383

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies.

Information technology and professional fees include research and development costs totalling **R299m** (2013: R246m).

Other operating expenses include fraud losses as well as travel and entertainment costs.

Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

	Company 2014 Rm	Company 2013 Rm
32. Other impairments		
Financial instruments	17	(4)
Other	358	5
Intangible assets (refer to note 14)	127	—
Investments in associates and joint ventures	2	—
Property and equipment (refer to note 13)	251	—
Repossessed properties	—	3
Subsidiaries	(22)	2
	375	1
33. Indirect taxation		
Training levy	108	99
VAT net of input credits	660	696
	768	795
34. Taxation expense		
Current		
Foreign tax	38	46
South African current tax	3 516	3 368
South African current tax – previous reporting period	(152)	(377)
	3 402	3 037
Deferred		
Deferred tax (refer to note 15)	123	222
Accelerated tax depreciation	(19)	61
Allowances for loan losses	(107)	(110)
Fair value adjustments	517	246
Other provisions	(177)	—
Other temporary differences	(91)	18
Retirement benefit fund asset	—	7
	3 525	3 259
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	12 447	11 512
Tax calculated at a tax rate of 28%	3 485	3 223
Effect of different tax rates in other countries	3	4
Expenses not deductible for tax purposes	195	108
Income not subject to tax	(360)	(169)
Non-taxable portion of capital gains	11	—
Other	191	93
	3 525	3 259

	Company	
	2014 Rm	2013 Rm

35. 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 profit or loss, 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.

	2014 Rm	2013 Rm
Basic and diluted earnings attributable to the ordinary equity holder of the Company	**8 617**	7 959
Weighted average number of ordinary shares in issue (millions)	**386,9**	379,1
Issued shares at the beginning of the reporting period	**383,1**	378,8
Effect of shares issued during the reporting period (weighted)	**3,8**	0,30
Basic earnings per share/diluted earnings per share (cents)	**2 227,2**	2 099,2

36. Headline earnings

Headline earnings is determined as follows:

	2014 Gross Rm	2014 Net Rm	2013 Gross Rm	2013 Net Rm
Profit attributable to the ordinary equity holder:		**8 617**		7 959
Total headline earnings adjustment:		**(228)**		(117)
IFRS 5 – Gains on disposal of non-current assets held for sale	**(105)**	**(94)**	(171)	(138)
IAS 16 – (Profit)/loss on disposal of property and equipment (refer to note 30)	**(15)**	**(12)**	20	14
IAS 36 – Impairment of investment in subsidiary (refer to note 32)	**(22)**	**(18)**	2	2
IAS 36 – Impairment of intangible assets (refer to note 32)	**127**	**91**	—	—
IAS 27 – Profit on disposal of subsidiary (refer to note 28)	**(15)**	**(12)**	—	—
IAS 36 – Impairment of investment in associate and joint venture (refer to note 32)	**2**	**2**	—	—
IAS 21 – Recycled foreign currency translation reserve	**(397)**	**(397)**	—	—
IAS 36 – Impairment of property and equipment (refer to note 32)	**251**	**181**	—	—
IAS 39 – Release of available-for-sale reserves (refer to note 28)	**44**	**31**	10	7
IAS 39 – Disposal and impairment of available-for-sale assets	**—**	**—**	(3)	(2)
Headline earnings/diluted headline earnings		**8 389**		7 842
Headline earnings per share/diluted headline earnings per share (cents)		**2 168,3**		2 068,6

The net amount is reflected after tax.

		Company 2014 Rm	Company 2013 Rm
37.	**Dividends per share**		
	Dividends declared		
	Dividends declared to ordinary equity holder		
	Interim dividend (**30 July 2014: 593,35 cents**) (30 July 2013: 2 233,4 cents)	**2 299**	8 459
	Special dividend (**5 December 2014: 516,1 cents**) (**8 April 2014: 638,38 cents**) (4 December 2013: 264,0 cents)	**4 446**	1 000
	Final dividend (**3 March 2015: 912,78268 cents**) (11 February 2014: 754,3 cents)	**3 616**	2 890
		10 361	12 349
	Dividends declared to preference equity holders		
	Interim dividend (**30 July 2014: 3 197,4658 cents**) (30 July 2013: 2 999,4521 cents)	**158**	148
	Final dividend (**3 March 2015: 3 210,8904 cents**) (11 February 2014: 2 979,3151 cents)	**159**	147
		317	295
	Dividends paid		
	Dividends paid to ordinary equity holder		
	Final dividend (**11 February 2014: 754,3 cents**) (12 February 2013: 605,5 cents)	**2 890**	2 293
	Interim dividend (**30 July 2014: 593,35 cents**) (30 July 2013: 2 233,4 cents)	**2 299**	8 459
	Special dividend (**5 December 2014: 516,1 cents**) (8 April 2014: 638,38 cents) (4 December 2013: 264,0 cents)	**4 446**	1 000
		9 635	11 752
	Dividends paid to preference equity holder		
	Final dividend (**11 February 2014: 2 979,3151 cents**) (12 February 2013: 2 950,5479 cents)	**147**	146
	Interim dividend (**30 July 2014: 3 197,4658 cents**) (30 July 2013: 2 999,4521 cents)	**158**	148
		9 940	12 046

38. Transfer of financial assets

Refer to note 40 in the Bank's financial statements.

	Company	
	2014 Rm	2013 Rm
39. Related parties		
Refer to note 42 of the Bank's financial statements for the full disclosure of related party transactions. In addition to this disclosure, the following related party transactions and balances exist for Absa Bank Limited.		
39.1 Balance and transactions with the parent company		
Balances		
Deposits from banks	**(812)**	(507)
Transactions		
Net fee and commission income	**(1)**	—
Gains and losses from banking and trading activities	**53**	—
Dividends paid	**9 635**	11 752
39.2 Balance and transactions with subsidiaries		
The following are balances with and transactions entered into with, subsidiaries:		
Balances		
Loans to Group companies	**369**	(54)
Subsidiary shares	**430**	1 376
Transactions		
Interest and similar income	**(45)**	(72)
Net fee and commission income	**—**	5
Gains and losses from banking and trading activities	**1**	—
Operating expenditure	**(9)**	(62)
Various terms and conditions are agreed upon, taking into account transfer pricing and relevant tax requirements.		
39.3 Balances and transactions with fellow subsidiaries		
Balances		
Cash, cash balances and balances with central banks	**(0)**	(1)
Loans and advances to banks	**179**	196
Trading portfolio assets	**90**	2 476
Loans to Absa Group companies	**17 740**	19 247
Deposits from banks	**(3 647)**	(3 921)
Borrowed funds	**(506)**	—
Debt securities in issue	**(54)**	(41)
Transactions		
Interest and similar income	**(1 359)**	(696)
Interest expense and similar charges	**1 205**	330
Net fee and commission income	**(425)**	(452)
Gains and losses from banking and trading activities	**(2 673)**	(1 115)
Gains and losses from investment activities	**0**	1
Other operating income	**(23)**	(19)
Operating expenditure	**528**	57

	Company	
	2014 Rm	2013 Rm
40. Assets under management and administration		
Portfolio management	**3 455**	6 147
Unit trusts	**2 031**	1 297
	5 486	7 444

	Company	
	2014 Rm	2013 Rm
41. Financial guarantee contracts		
Financial guarantee contracts	**818**	818

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 which is not necessarily the measurement recognised in the statement of financial position in accordance with International Financial Reporting Standards ("IFRS").

During the current reporting period all financial guarantee contracts were reassessed and as a consequence the disclosure has been refined. The comparatives have been restated accordingly from R4bn to R818m.

	Company	
	2014 Rm	2013 Rm
42. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**576**	175

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

Operating lease payments due		
No later than one year	**856**	820
Later than one year and no later than five years	**1 631**	1 417
Later than five years	**709**	230
	3 196	2 467

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

Sponsorship payments due		
No later than one year	**282**	272
Later than one year and no later than five years	**307**	541
	589	813

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

	Company	
	2014 Rm	2013 Rm
43. Contingencies		
Guarantees	**28 076**	15 862
Irrevocable debt facilities	**114 614**	116 314
Letters of credit	**3 756**	5 666
Other	**7**	3
	146 453	137 845

Guarantees include performance and payment guarantee contracts.

During the reporting period, terms and conditions associated with unutilised customer facilities were reviewed and confirmed to be irrevocable in nature. These facilities are now disclosed as contingent liabilities and comparatives have been restated from R46bn to R116bn.

Irrevocable facilities are commitments to extend credits where the Company does not have the right to immediately 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.

43. Contingencies Cash and cash equivalents *(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 387m. 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 advisor 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 157m. 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. The matter has not progressed from the previous reporting period.
- Net 1 UEPS Technologies Incorporated ("Net 1"): A claim has been brought by Net 1 against the Company for loss of profit and damages in the amount of R478m. 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. Absa has filed a plea in answer to the summons, subsequent to which no further steps have been taken. In the matter brought by AllPay (a wholly owned subsidiary of the Company) against SASSA and CPS ("Net 1") to have the SASSA social grants tender set aside on grounds of irregularity in the tender process, the Constitutional Court declared the award of the tender to CPS to be invalid on 29 November 2013 and subsequently directed that the tender process be run afresh. The Court's finding has substantially bolstered the Company's defence to the damages claim.

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 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 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 Company's control, but especially in the area of banking and insurance 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.

Income taxes

The Company is subject to income taxes in numerous jurisdictions and the calculations of the Company's tax charge and provisions for income taxes necessarily involve 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 Company's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority. The Company 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 which such determination is made. These risks are managed in accordance with the Company's Tax Risk Framework.

	Company	
	2014 Rm	2013 Rm
44. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**8 778**	8 665
Loans and advances to banks	**1 236**	1 839
	10 014	10 504

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

	2014 Fair value through profit or loss			
	Designated at fair value Rm	Held for trading Rm	Hedging instruments Rm	Total
Assets				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	18 821	—	—	18 821
Loans and advances to banks	20 523	—	—	20 523
Trading portfolio assets	—	76 872	—	76 872
Hedging portfolio assets[2]	—	—	2 335	2 335
Other financial assets	17	—	—	17
Loans and advances to customers	10 309	—	—	10 309
Loans to Group companies	—	—	—	—
Assets outside the scope of IAS 39	—	—	—	—
	49 670	76 872	2 335	128 877
Liabilities				
Deposits from banks	19 609	—	—	19 609
Trading portfolio liabilities	—	44 580	—	44 580
Hedging portfolio liabilities[3]	—	—	2 577	2 577
Other financial liabilities	—	—	—	—
Deposits due to customers	19 217	—	—	19 217
Debt securities in issue	4 985	—	—	4 985
Borrowed funds	—	—	—	—
Liabilities outside the scope of IAS 39	—	—	—	—
	43 811	44 580	2 577	90 968

	2013 Fair value through profit or loss			
	Designated at fair value Rm	Held for trading Rm	Hedging instruments Rm	Total
Assets				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	2 464	—	—	2 464
Loans and advances to banks	6 140	—	—	6 140
Trading portfolio assets	—	77 784	—	77 784
Hedging portfolio assets[2]	—	—	3 344	3 344
Other financial assets	16	—	—	16
Loans and advances to customers	9 762	—	—	9 762
Loans to Group companies	—	—	—	—
Assets outside the scope of IAS 39	—	—	—	—
	18 382	77 784	3 344	99 510
Liabilities				
Deposits from banks	12 267	—	—	12 267
Trading portfolio liabilities	—	50 710	—	50 710
Hedging portfolio liabilities[3]	—	—	2 391	2 391
Other financial liabilities	—	—	—	—
Deposits due to customers	17 863	—	—	17 863
Debt securities in issue	3 584	—	—	3 584
Borrowed funds	—	—	—	—
Liabilities outside the scope of IAS 39	—	—	—	—
	33 714	50 710	2 391	86 815

Notes

[1]Includes non-financial assets and liabilities and financial instruments outside the scope of IAS 39.

[2]Includes derivative assets to the amount of **R1 116m** (31 December 2013: R1 595m) and **R1 219m** (31 December 2013: R1 749m) that have been designated as cash flow and fair value hedging instruments respectively.

[3]Includes derivative liabilities to the amount of **R474m** (31 December 2013: R434m) and **R2 103m** (31 December 2013: R1 957m) that have been designated as cash flow and fair value hedging instruments respectively.

[4]Includes items designated as hedged items in fair value hedging relationships.

2014							
Available-for-sale			Amortised cost				
Designated as available-for-sale	Hedged items[4]	Total	Designated at amortised cost	Hedged items[4]	Total	Assets/ liabilities outside the scope of IAS 39[1]	Total assets and liabilities
Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
—	—	—	21 398	—	21 398	—	21 398
11 554	39 920	51 474	—	—	—	—	70 295
—	—	—	25 710	—	25 710	—	46 233
—	—	—	—	—	—	1 700	78 572
—	—	—	—	—	—	—	2 335
—	—	—	7 870	—	7 870	1 371	9 258
—	—	—	539 691	3 827	543 518	—	553 827
—	—	—	18 109	—	18 109	—	18 109
—	—	—	—	—	—	11 221	11 221
11 554	39 920	51 474	612 778	3 827	616 605	14 292	811 248
—	—	—	34 495	—	34 495	—	54 104
—	—	—	—	—	—	—	44 580
—	—	—	—	—	—	—	2 577
—	—	—	10 904	—	10 904	2 489	13 393
—	—	—	502 351	—	502 351	—	521 568
—	—	—	86 880	12 855	99 735	—	104 720
—	—	—	6 825	3 710	10 535	—	10 535
—	—	—	—	—	—	2 821	2 821
—	—	—	641 455	16 565	658 020	5 310	754 298

2013[1]							
Available-for-sale			Amortised cost				
Designated as available-for-sale	Hedged items[4]	Total	Designated at amortised cost	Hedged items[4]	Total	Assets/ liabilities outside the scope of IAS 39[1]	Total assets and liabilities
Rm	Rm		Rm	Rm		Rm	Rm
—	—	—	21 081	—	21 081	—	21 081
39 080	25 478	64 558	—	—	—	—	67 022
—	—	—	38 445	—	38 445	—	44 585
—	—	—	—	—	—	1 080	78 864
—	—	—	—	—	—	—	3 344
—	—	—	8 064	—	8 064	1 119	9 199
—	—	—	520 615	4 412	525 027	—	534 789
—	—	—	19 193	—	19 193	—	19 193
—	—	—	—	—	—	11 722	11 722
39 080	25 478	64 558	607 398	4 412	611 810	13 921	789 799
—	—	—	53 560	—	53 560	—	65 827
—	—	—	—	—	—	—	50 710
—	—	—	—	—	—	—	2 391
—	—	—	8 973	—	8 973	2 075	11 048
—	—	—	471 021	—	471 021	—	488 884
—	—	—	81 516	12 079	93 595	—	97 179
—	—	—	10 682	5 080	15 762	—	15 762
—	—	—	—	—	—	2 406	2 406
—	—	—	625 752	17 159	642 911	4 481	734 207

46. Fair value disclosures

46.1 Assets and liabilities held at fair value

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				Company			
	2014				2013[1]			
Recurring fair value measurements	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Investment securities	48 665	19 329	2 301	70 295	64 709	—	2 313	67 022
Loans and advances to banks	—	20 523	—	20 523	—	6 140	—	6 140
Trading and hedging portfolio assets	25 061	52 995	1 151	79 207	24 383	55 708	1 037	81 128
Debt instruments	24 433	4 743	870	30 046	23 929	174	873	24 976
Derivative assets	2	42 347	281	42 630	—	48 451	164	48 615
Commodity derivatives	2	348	—	350	—	324	—	324
Credit derivatives	—	284	91	375	—	258	11	269
Equity derivatives	—	1 011	29	1 040	—	802	—	802
Foreign exchange derivatives	—	8 327	1	8 328	—	8 587	39	8 626
Interest rate derivatives	—	32 377	160	32 537	—	38 480	114	38 594
Equity instruments	626	321	—	947	454	77	—	531
Money market assets	—	5 584	—	5 584	—	7 006	—	7 006
Other assets	—	—	17	17	—	—	16	16
Loans and advances to customers	4	6 160	4 145	10 309	—	4 070	5 692	9 762
Total financial assets	73 730	99 007	7 614	180 351	89 092	65 918	9 058	164 068
Financial liabilities								
Deposits from banks	—	19 609	—	19 609	—	12 267	—	12 267
Trading and hedging portfolio liabilities	2 795	44 042	320	47 157	2 472	50 087	542	53 101
Derivative liabilities	—	44 042	320	44 362	—	50 087	542	50 629
Commodity derivatives	—	308	—	308	—	290	—	290
Credit derivatives	—	324	39	363	—	350	45	395
Equity derivatives	—	1 296	198	1 494	—	1 720	306	2 026
Foreign exchange derivatives	—	9 931	7	9 938	—	8 123	49	8 172
Interest rate derivatives	—	32 183	76	32 259	—	39 604	142	39 746
Short positions	2 795	—	—	2 795	2 472	—	—	2 472
Deposits due to customers	80	13 607	5 530	19 217	—	10 725	7 138	17 863
Debt securities in issue	2	4 941	42	4 985	—	3 549	35	3 584
Total financial liabilities	2 877	82 199	5 892	90 968	2 472	76 628	7 715	86 815
Non-financial assets								
Trading and hedging portfolio asset								
Commodities	1 700	—	—	1 700	1 080	—	—	1 080
Non-recurring fair value measurements								
Non-current assets held for sale	—	—	250	250	98	—	460	558

Note
[1]Comparatives have been restated, refer to note 1.19 of the Bank's financial statements and note 60.

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46. Fair value disclosures *(continued)*

46.2 Reconciliation of Level 3 assets and liabilities

A reconciliation of the opening balances to closing balances for all movements on Level 3 assets and liabilities is set out below:

	Company			
	2014			
	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	**1 037**	**16**	**5 692**	**2 313**
Movement in other comprehensive income	**—**	**—**	**(2)**	**5**
Net interest income	**—**	**1**	**336**	**69**
Gains and losses from banking and trading activities	**173**	**—**	**(29)**	**(7)**
Gains and losses from investment activities	**—**	**—**	**2**	**(83)**
Purchases	**—**	**—**	**143**	**9**
Sales	**(37)**	**—**	**(620)**	**(9)**
Issues	**—**	**—**	**—**	**—**
Settlements	**—**	**—**	**(1 377)**	**—**
Transferred to/(from) assets/liabilities	**—**	**—**	**—**	**—**
Movement in/(out) of Level 3	**(22)**	**—**	**—**	**4**
Closing balance at the end of the reporting period	**1 151**	**17**	**4 145**	**2 301**

	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
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
Movement in other comprehensive income	—	—	—	20
Settlements	—	—	(924)	(579)
Transferred to/(from) assets/liabilities	(55)	—	(127)	(5)
Movement in/(out) of Level 3	237	—	—	—
Closing balance at the end of the reporting period	1 037	16	5 692	2 313

46.2.1 Significant transfers between levels

During the current reporting period, it was determined that significant transfers between levels of the assets and liabilities held at fair value occurred. Treasury bills of R18,5bn have been transferred from level 1 to level 2, as these are held in an inactive market.

During the prior reporting period, trading portfolio assets to the value of R237m, as well as trading portfolio liabilities of R165m, 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.

Transfers have been reflected as if they had taken place at the beginning of the reporting period.

Company

2014

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
9 058	542	7 138	35	7 715
3	(8)	—	—	(8)
406	—	1	1	2
137	(62)	(1 501)	6	(1 557)
(81)	—	—	—	—
152	—	—	—	—
(666)	(75)	—	—	(75)
—	—	—	—	—
(1 377)	—	(81)	—	(81)
—	—	—	—	—
(18)	(77)	(27)	—	(104)
7 614	320	5 530	42	5 892

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
339	—	9	—	9
(160)	306	153	(152)	307
(317)	—	(1)	—	(1)
795	—	27	—	27
(748)	(3)	427	—	424
5	—	—	—	—
20	—	—	—	—
(1 503)	—	(1 149)	—	(1 149)
(187)	—	—	—	—
237	165	—	—	165
9 058	542	7 138	35	7 715

46. Fair value disclosures *(continued)*

46.3 Unrealised gains and losses on Level 3 assets and liabilities

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
2014							
Gains and losses from banking and trading activities	**79**	**—**	**(28)**	**—**	**—**	**—**	**51**
2013							
Gains and losses from banking and trading activities	337	—	(136)	—	—	—	201

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
2014					
Gains and losses from banking and trading activities	**(116)**	**—**	**—**	**—**	**(116)**
2013					
Gains and losses from banking and trading activities	(311)	—	1	—	(310)

46.4 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 within 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.

The following table reflects how the unobservable parameters were changed in order to evaluate the sensitivities of Level 3 financial assets and liabilities:

46. Fair value disclosures *(continued)*

46.4 Sensitivity analysis of valuations using unobservable inputs

Significant unobservable parameter	Positive/(negative) variance applied to parameters
Credit spreads	100/(100) bps
Volatilities	10/(10)%
Basis curves	100/(100) bps
Yield curves and repo curves	100/(100) bps
Future earnings and marketability discounts	15/(15)%
Funding spreads	100/(100) bps

A significant parameter has been deemed to be one which may result in a charge to profit or loss, 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:

		2014	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	**BAGL/Absa funding spread**	**—/—**	—/—
Investment securities	**Yield curves, future earnings and marketability discount, comparator multiples**	**131/131**	—/—
Loans and advances to customers	**Credit spreads**	**1 037/23**	—/—
Other assets	**Volatility, credit spreads**	**3/3**	
Trading and hedging portfolio assets	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**—/—**	—/—
Trading and hedging portfolio liabilities	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**34/34**	—/—
		1 205/191	—/—

		2013	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	BAGL/Absa funding spread	224/223	—/—
Investment securities	Yield curves, future earnings and marketability discount, comparator multiples	204/204	—/—
Investment properties	Selling price per unit, selling price escalations, rental income per unit, rental escalations per year, expense ratios, vacancy rate, income capitalisation rate and risk client rates	1/1	—/—
Loans and advances to customers	Credit spreads	1 202/159	—/—
Other assets	Volatility, credit spreads	2/2	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, dividend stream, basis curves, yield curves, repo curves	43/43	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves	13/5	—/—
		1 689/637	—/—

46.5 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 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	
	2014 Rm	2013 Rm
Opening balance at the beginning of the reporting period	**(55)**	(71)
New transactions	**(23)**	(17)
Amounts recognised in profit or loss during the reporting period	**26**	33
Closing balance at the end of the reporting period	**(52)**	(55)

46. Fair value disclosures *(continued)*

46.6 Third-party credit enhancements

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

46.7 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				
	2014				
	Carrying value Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with the SARB	12 621	12 621	12 621	—	—
Coins and bank notes	8 777	8 777	8 777	—	—
Cash, cash balances and balances with central banks	21 398	21 398	21 398	—	—
Loans and advances to banks	25 710	25 655	3 710	21 238	707
Other assets	7 870	8 159	4 284	3 515	360
Retail Banking	347 938	347 509	—	—	347 509
Credit cards	29 338	29 338	—	—	29 338
Instalment credit agreements	68 440	67 877	—	—	67 877
Loans to associates and joint ventures	13 012	13 012	—	—	13 012
Mortgages	220 537	220 580	—	—	220 580
Other loans and advances	404	404	—	—	404
Overdrafts	2 222	2 222	—	—	2 222
Personal and term loans	13 985	14 076	—	—	14 076
Business Banking	60 863	60 861	1 036	—	59 825
Loans to associates and joint ventures	305	305	—	—	305
Mortgages (including CPF)	29 856	29 852	—	—	29 852
Overdrafts	18 083	18 063	1 036	—	17 027
Term loans	12 619	12 641	—	—	12 641
CIB	123 668	123 108	8 587	31 767	82 754
Wealth	10 507	10 507	—	—	10 507
Head Office and other operations	542	542	296	—	246
Loans and advances to customers net of impairments	543 518	542 527	9 919	31 767	500 841
Loans to Group companies	18 109	22 131	—	21 738	393
Total assets	616 605	619 870	39 311	78 258	502 301
Financial liabilities					
Deposits from banks	34 495	35 834	11 925	23 905	4
Other liabilities	10 904	10 911	5 621	5 182	108
Call deposits	57 007	57 007	54 547	2 460	—
Cheque account deposits	146 651	146 651	146 651	—	—
Credit card deposits	1 932	1 932	1 932	—	—
Fixed deposits	114 647	115 371	826	114 521	24
Foreign currency deposits	21 723	21 723	354	21 369	—
Notice deposits	49 764	49 843	1 298	48 514	31
Other deposits	1 775	1 775	737	926	112
Saving and transmission deposits	108 852	108 852	108 852	—	—
Deposits due to customers	502 351	503 154	315 197	187 790	167
Debt securities in issue	99 735	100 100	3	100 097	—
Borrowed funds	10 535	10 885	—	10 885	—
Total liabilities	658 020	660 884	332 746	327 859	279

46. Fair value disclosures *(continued)*

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

	Company 2013[1] Carrying value Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with the SARB	12 416	12 416	11 851	565	—
Coins and bank notes	8 665	8 665	8 665	—	—
Cash, cash balances and balances with central banks	21 081	21 081	20 516	565	—
Loans and advances to banks	38 445	38 445	4 729	33 716	—
Other assets	8 064	8 049	1 711	5 669	669
Retail Banking	339 905	339 742	1 659	4 818	333 265
Credit cards	27 830	27 830	—	381	27 449
Instalment credit agreements	62 378	62 075	—	353	61 722
Loans to associates and joint ventures	10 287	10 287	—	—	10 287
Mortgages	223 077	223 141	—	—	223 141
Other loans and advances	253	253	15	72	166
Overdrafts	2 015	2 015	806	—	1 209
Personal and term loans	14 065	14 141	838	4 012	9 291
Business Banking	60 036	60 206	—	—	60 206
Loans to associates and joint ventures	559	559	—	—	559
Mortgages (including commercial property finance)	30 718	30 888	—	—	30 888
Overdrafts	17 075	17 075	—	—	17 075
Term loans	11 684	11 684	—	—	11 684
CIB	114 086	108 283	8 663	11 910	87 710
Wealth	10 885	10 885	871	1 197	8 817
Head Office and other operations	115	115	—	—	115
Loans and advances to customers net of impairments	525 027	519 231	11 193	17 925	490 113
Loans to Group companies	19 193	19 318	—	19 318	—
Total assets	611 810	606 124	38 149	77 193	490 782
Financial liabilities					
Deposits from banks	53 560	53 560	15 140	31 189	7 231
Other liabilities	8 973	8 973	4 536	1 378	3 059
Call deposits	52 829	52 829	52 799	30	—
Cheque account deposits	140 110	140 110	127 604	3 607	8 899
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	471 020	471 063	269 602	190 313	11 148
Debt securities in issue	93 595	93 595	22 462	69 260	1 873
Borrowed funds	15 762	16 308	15 620	688	—
Total liabilities	642 910	643 499	327 360	292 828	23 311

Note
[1]Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

47. Derivatives

47.1 Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks.

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.

Some derivative financial instruments have been designated as hedging instruments in fair value or cash flow hedging relationships.

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

The Company trades the following derivative instruments:

Foreign exchange derivatives

The Bank's principal exchange rate-related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Interest rate derivatives

The Bank's principal interest rate related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount.

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate debt securities held and highly probable forecast financing transactions and reinvestments.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers as well as investments in fixed rate debt securities held.

Credit derivatives

The Bank's principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default, or downgrades by a rating agency.

A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer of the protection in return receives a predetermined amount.

Equity derivatives

The Bank's principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Company also enters into fund-linked derivatives, being swaps and options which underlyings include mutual funds, hedge funds, indices and multi-asset portfolios, as underlyings.

Commodity derivatives

The Bank's principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are agricultural commodities and precious metals.

47.2 Notional amount

The gross notional amount is the sum of the absolute value of all 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, nor the credit exposure arising on such contracts.

The absolute value of all contracts is also not indicative of the Bank's net exposure to, or position in any of the markets that the Company trades in.

47. Derivatives *(continued)*

47.3 Derivative financial instrument – overall

The Bank's total derivative asset and liability position as reported on the statement of financial position is as follows:

	2014			2013[1]		
	Assets	Liabilities	Notional contract amount	Assets	Liabilities	Notional contract amount
Derivatives held for trading	40 295	(41 785)	5 261 233	45 272	(48 238)	4 896 058
Derivatives designated as hedging instruments	2 335	(2 577)	201 779	3 344	(2 391)	182 298
Total derivatives	**42 630**	**(44 362)**	**5 463 012**	48 616	(50 629)	5 078 356

47.4 Derivatives held for trading – detail by market and instrument type

Derivatives held for trading by the Company related to the various markets and instrument types the Company trades in are as follows:

	2014			2013[1]		
	Assets	Liabilities	Notional contract amount	Assets	Liabilities	Notional contract amount
Foreign exchange derivatives	**8 328**	**(9 938)**	**688 879**	8 626	(8 172)	550 007
Forwards	5 582	(7 718)	33 596	906	(1 748)	41 651
Futures	4	(2)	173 000	4	—	88 263
Swaps	2 086	(1 485)	414 988	6 894	(5 729)	366 996
Options	656	(733)	67 295	822	(695)	53 097
Interest rate derivatives	**30 202**	**(29 688)**	**4 430 318**	35 251	(37 355)	4 186 777
Forwards	1 019	(910)	2 483 475	770	(667)	2 076 796
Swaps	29 113	(28 621)	1 916 895	34 324	(36 492)	2 033 134
Options	29	(68)	12 855	112	(102)	25 445
Other – OTC	40	(88)	7 483	35	(89)	24 307
Other – exchange traded	1	(1)	9 610	10	(5)	27 095
Equity derivatives	**1 040**	**(1 494)**	**98 969**	802	(2 026)	105 723
Forwards	161	(190)	4 433	76	(551)	5 307
Futures	0	(0)	39 929	16	(8)	52 668
Swaps	335	(238)	9 834	239	(476)	14 462
Options	123	(493)	5 033	423	(448)	11 047
Options – exchange traded	12	0	27 940	—	(1)	4 856
Other – OTC	409	(573)	11 800	48	(542)	17 383
Commodity derivatives	**350**	**(303)**	**17 318**	324	(290)	22 534
Forwards	25	(17)	15 765	14	(12)	20 632
Futures	—	—	—	—	—	772
Swaps	315	(278)	1 199	306	(278)	1 063
Options	10	(8)	354	4	—	67
Credit derivatives	**375**	**(362)**	**25 749**	269	(395)	31 017
Derivatives held for trading	**40 295**	**(41 785)**	**5 261 233**	45 272	(48 238)	4 896 058

Forwards, swaps and options in the table above have been traded on a bilateral OTC basis, unless specified otherwise. Futures have been traded on authorised exchanges.

Note

[1]Comparatives have been restated, refer to note 1.19 of the Bank's financial statements.

47. Derivatives *(continued)*

47.5 Derivatives designated as hedging instruments by market and instrument type

	2014			2013		
	Assets	**Liabilities**	**Notional contract amount**	Assets	Liabilities	Notional contract amount
	Rm	**Rm**	**Rm**	Rm	Rm	Rm
Interest rate derivatives	**2 335**	**(2 577)**	**201 780**	3 344	(2 391)	182 298
Swaps – cash flow hedges	**1 116**	**(474)**	**137 276**	1 595	(434)	135 281
Swaps – fair value hedges	**1 219**	**(2 103)**	**64 504**	1 749	(1 957)	47 017
Derivatives designated as hedging instruments	**2 335**	**(2 577)**	**201 780**	3 344	(2 391)	182 298

During the current reporting period, the Bank reconsidered data available for identifying trade instruments, as a result the 2013 notional value for derivatives designated as hedging instruments, previously disclosed as R323 160m, was restated.

47.6 Derivatives designated as cash flow hedging instruments to protect against interest rate risk

Cash flow hedges for interest rate risk are used by the Company to protect against the potential cash flow variability that results from the Bank's exposure to various floating rate instruments including certain loans and advances, available for sale financial assets and issued debt.

The Bank's cash flow hedging instruments for interest rate risk principally consist of interest rate swaps that are used to fix floating future cash flows.

Net gains/(losses) recycled from other comprehensive income to profit or loss:

	Company	
	2014	2013
	Rm	Rm
Interest and similar income (refer to note 25)	**1 494**	1 730
Interest expense and similar charges (refer to note 26)	**72**	52

The fair value movement recognised in profit or loss in relation to ineffectiveness (including fair value movements previously deferred to equity which subsequently exceeded the IAS 39 reserve limit) is:

	Company	
	2014	2013
	Rm	Rm
Cash flow hedge ineffectiveness recognised in:		
Gains and losses from banking and trading activities (refer to note 28)	**(239)**	(234)

47. Derivatives *(continued)*

The Company has hedged forecast cash flows, which primarily vary with interest rates. These cash flows are expected to impact profit or loss in future financial periods as shown in the table below. The cash flows were projected using forward rates prevailing at year end. The cash flows are presented on an undiscounted basis, before taxation and exclude any potential hedge accounting adjustments:

	Company						
	2014						
	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	**908**	**255**	**106**	**49**	**15**	**2**	**1 335**
Forecast payable cash flow	**(75)**	**(162)**	**(190)**	**(128)**	**(80)**	**(59)**	**(694)**
	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	1 446	403	62	16	4	38	1 969
Forecast payable cash flow	(33)	(65)	(221)	(251)	(161)	(77)	(808)

47.7 Derivatives designated as cash flow hedging instruments to protect against equity price risk

The Company uses cash flow hedging instruments for equity price risk to protect it against the potential cash flow variability of its cash-settled share-based payment schemes, which are referenced to the market price of the Barclays Africa Group Limited shares.

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

	Company	
	2014 Rm	2013 Rm
Operating expenses – staff costs – share-based payments	**98**	(37)

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

The cash flows of the aforementioned cash flow hedges are expected to impact profit or loss in future financial periods as disclosed in the following table. The cash flows were projected using the Barclays Africa Group Limited share price at the reporting date. The cash flows are presented on an undiscounted basis, before taxation and exclude any potential hedge accounting adjustments:

	Company						
	2014						
	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	**(339)**	**(219)**	**(612)**	**—**	**—**	**—**	**(1 170)**
Forecast profit or loss impact	**(36)**	**(110)**	**(452)**	**—**	**—**	**—**	**(598)**
	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	(306)	(171)	(77)	—	—	—	(554)
Forecast profit or loss impact	(29)	(82)	(57)	—	—	—	(168)

47. Derivatives *(continued)*

47.8 Derivatives designated as fair value hedging instruments to protect against interest rate risk

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

Gains and losses on hedging instruments and hedged items:

	Company	
	2014 Rm	2013 Rm
Financial assets – fair value hedges		
Gains/(losses) on hedged assets (refer to note 25)	**751**	(2 450)
Gains/(losses) on hedging instruments (refer to note 25)	**(572)**	2 818
Interest income on hedging instruments (refer to note 25)	**(415)**	(746)
Financial liabilities – fair value hedges		
Gains/(losses) on hedged items (liabilities) (refer to note 26)	**258**	820
Gains/(losses) on hedging instruments (liabilities) (refer to note 26)	**93**	(899)
Interest expense on hedging instruments (refer to note 26)	**243**	393

Movement in fair value that was recognised in profit or loss in relation to hedge ineffectiveness is:

	Company	
	2014 Rm	2013 Rm
Gains and losses from banking and trading activities (refer to note 28)	**(8)**	(4)

47.9 Counterparty netting and collateral

Derivative assets and liabilities subject to counterparty netting agreements amounted to **R48 686m** (2013: R41 778m). Additionally, the Company held **R3 965m** (2013: R3 981m) 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 to replace them with a single net amount payable by one party to the other.

48. Acquisitions of businesses and other similar transactions

48.1 Acquisitions of businesses during the current reporting period

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

48.2 Acquisitions of businesses during the previous reporting period

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

49. Retirement benefit fund obligations

Refer to note 37 in the Bank's financial statements.

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

Refer to note 39 in the Bank's financial statements.

51. Offsetting financial assets and financial liabilities

Refer to note 41 in the Bank's financial statements.

52. Structured entities

Refer to note 43 in the Bank's financial statements.

53. Share-based payments

Refer to note 49 in the Bank's financial statements.

54 Credit risk of financial instruments designated at fair value

Refer to note 55 in the Bank's financial statements.

55. Risk management

The financial risks inherent within the Bank are considered to be substantially the same for the Company and consolidated level. Refer to note 56 in the Bank's financial statements for detailed risk management disclosures.

56. 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.

57. Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2014 and the date of authorisation of these stand-alone financial statements (as defined per IAS 10 Events After The Reporting Period (IAS 10)).