



Absa Bank Limited

Audited summary consolidated financial results
for the reporting period ended 31 December 2015

Member of





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Absa Bank Limited

Authorised financial services and registered credit provider
(NCRCP7)

Registration number: 1986/004794/06

Incorporated in the Republic of South Africa

JSE share code: ABSP

ISIN: ZAE000079810

(Absa, Absa Bank, the Bank or the Company)

**Audited summary consolidated financial results
for the reporting period ended 31 December 2015.**

The annual consolidated and separate financial statements
are available upon request from Absa Bank Limited
Company Secretariat.

Profit and dividend announcement

for the reporting period ended 31 December

Overview of results

Absa Bank Limited (“the Bank”) is a wholly owned subsidiary of Barclays Africa Group Limited (“the Group”), which is listed on the exchange operated by the JSE Limited. These summary consolidated financial results are published to provide information to holders of the Bank’s listed non-cumulative, non-redeemable preference shares.

Commentary relating to the Bank’s summary consolidated financial results is included in the Barclays Africa Group Limited results, as presented to shareholders on 1 March 2016.

Basis of presentation

The Bank’s audited annual financial results have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (“IFRS”), interpretations issued by the IFRS Interpretations Committee (“IFRS-IC”), the South African Institute of Chartered Accountants’ Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act. The principal accounting policies applied are set out in the Group’s most recent annual consolidated financial statements.

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of IFRS and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

The information disclosed in the SENS is derived from the information contained in the audited annual consolidated financial statements and does not contain full or complete disclosure details. Any investment decisions by shareholders should be based on consideration of the audited annual consolidated financial statements, which is available on request. The presentation and disclosure comply with International Accounting Standard (“IAS 34”).

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. The accounting policies that are deemed critical to the Bank’s results and financial position, in terms of the materiality of the items to which the policies are applied, and which involve a high degree of judgement including the use of assumptions and estimation, are impairment of loans and advances, goodwill impairment, fair value measurements, impairment of available-for-sale financial assets, consolidation of structured or sponsored entities, post-retirement benefits, provisions, income taxes, share-based payments, liabilities arising from claims made under short and long-term insurance contracts, and offsetting of financial assets and liabilities.

Accounting policies

The accounting policies applied in preparing the audited summary consolidated annual financial statements are the same as those in place for the reporting period ended 31 December 2014 except for:

- Business portfolio changes between operating segments.

Auditors’ report

PricewaterhouseCoopers Inc. and Ernst & Young Inc., the Bank’s independent auditors, have audited the consolidated annual financial statements of the Bank from which management prepared the summary consolidated financial results. The auditors have expressed an unqualified audit opinion on the consolidated annual financial statements. The summary consolidated financial results comprise the summary consolidated statement of financial position at 31 December 2015, summary consolidated statement of comprehensive income, summary consolidated statement of changes in equity and summary consolidated statement of cash flows for the reporting period then ended and selected explanatory notes, excluding items not indicated as audited. The audit report of the consolidated annual financial statements is available for inspection at the Bank’s registered office.

These summary consolidated financial statements for the year ended 31 December 2015 have been audited by PricewaterhouseCoopers Inc. and Ernst and Young Inc., who expressed an unmodified opinion thereon. The auditors also expressed an unmodified opinion on the annual financial statements from which these summary consolidated financial statements were derived.

Profit and dividend announcement for the reporting period ended 31 December

Events after the reporting period

The directors are not aware of any events occurring between the reporting date of 31 December 2015 and the date of authorisation of these summary consolidated financial results as defined in IAS 10 – Events after the Reporting Period (“IAS 10”).

On behalf of the Board

W E Lucas-Bull

Chairman

Johannesburg

29 February 2016

M Ramos

Chief Executive Officer

Declaration of preference share dividend number 20

Absa Bank non-cumulative, non-redeemable preference shares (“Absa Bank preference shares”)

The Absa Bank preference shares have an effective coupon rate of 70% of Absa Bank’s prevailing prime overdraft lending rate (prime rate). Absa Bank’s current prime rate is 10,25%.

Notice is hereby given that preference dividend number 20, equal to 70% of the average prime rate for 1 September 2015 to 29 February 2016, per Absa Bank preference share has been declared for the period 1 September 2015 to 29 February 2016. The dividend is payable on Monday, 11 April 2016, to shareholders of the Absa Bank preference shares recorded in the register of members of the Company at the close of business on Friday, 8 April 2016.

The directors of Absa Bank confirm that the Bank will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

Based on the current prime rate, the preference dividend payable for the period 1 September 2015 to 29 February 2016 would indicatively be 3 395,47945 cents per Absa Bank preference share.

The dividend will be subject to dividend withholding tax at a rate of 15% that was introduced on 1 April 2012. In accordance with paragraphs 11.17(a)(i) to (x) and 11.17(c) of the JSE Listings Requirements, the following additional information is disclosed:

- The dividend has been declared out of income reserves.
- The local dividend tax rate is fifteen per centum (15%).
- The gross local dividend amount is 3 395,47945 cents per preference share for shareholders exempt from the dividend tax.
- The net local dividend for shareholders subject to withholding tax at a rate of 15% amounts to 2 886,15753 cents per preference share.
- Absa Bank currently has 4 944 839 preference shares in issue.
- Absa Bank’s income tax reference number is 9575117719.

In compliance with the requirements of Strate, the electronic settlement and custody system used by JSE Limited, the following salient dates for the payment of the dividend are applicable:

Last day to trade cum dividend	Friday, 1 April 2016
Shares commence trading ex dividend	Monday, 4 April 2016
Record date	Friday, 8 April 2016
Payment date	Monday, 11 April 2016

Share certificates may not be dematerialised or rematerialised between Monday, 4 April 2016 and Friday, 8 April 2016, both dates inclusive.

On Monday, 11 April 2016, the dividend will be electronically transferred to the bank accounts of certificated shareholders.

The accounts of those shareholders who have dematerialised their shares (which are held at their participant or broker) will also be credited on Monday, 11 April 2016.

On behalf of the Board

N R Drutman

Company Secretary

Johannesburg

1 March 2016

Absa Bank Limited is a company domiciled in South Africa. Its registered office is 7th Floor, Barclays Towers West, 15 Troye Street, Johannesburg, 2001.

Summary consolidated salient features for the reporting period ended 31 December

	2015	2014
Statement of comprehensive income (Rm)		
Revenue	46 076	44 328
Operating expenses	26 390	25 309
Profit attributable to ordinary equity holders	9 726	8 995
Headline earnings ⁽¹⁾	9 657	8 787
Statement of financial position		
Loans and advances to customers (Rm)	602 002	554 521
Total assets (Rm)	936 141	814 061
Deposits due to customers (Rm)	560 650	521 656
Loans-to-deposits and debt securities ratio (%)	87,4	88,5
Financial performance (%)		
Return on average equity ⁽²⁾	17,6	16,9
Return on average assets ⁽²⁾	1,11	1,08
Return on average risk-weighted assets ⁽²⁾	2,03	2,10
Non-performing loans ratio	3,3	3,8
Operating performance (%)		
Net interest margin on average interest-bearing assets ⁽²⁾	3,91	3,83
Credit loss ratio ⁽²⁾	0,89	0,94
Non-interest income as % of revenue	40,3	41,5
Cost-to-income ratio	57,3	57,1
Jaws	(0,33)	(1,99)
Effective tax rate, excluding indirect taxation	26,7	27,7
Share statistics (million) (including "A" ordinary shares)		
Number of ordinary shares in issue	412,8	396,2
Weighted average number of ordinary shares in issue	401,5	386,9
Weighted average diluted number of ordinary shares in issue	401,5	386,9
Share statistics (cents)		
Headline earnings per ordinary share	2 405,2	2 271,1
Diluted headline earnings per ordinary share	2 405,2	2 271,1
Basic earnings per ordinary share	2 422,4	2 324,9
Diluted basic earnings per ordinary share	2 422,4	2 324,9
Dividends per ordinary share relating to income for the reporting period	2 365,6	2 022,2
Dividend cover (times)	1,0	1,1
Net asset value per ordinary share	13 537	13 702
Tangible net asset value per ordinary share	13 037	13 341
Capital adequacy (%)		
Absa Bank Limited ⁽²⁾	13,6	13,7
Common Equity Tier 1 (%)		
Absa Bank Limited ⁽²⁾	10,3	10,6

Notes

⁽¹⁾ After allowing for R321m (2014: R305m) profit attributable to preference equity holders.

⁽²⁾ These ratios are unaudited.

Summary consolidated statement of financial position as at 31 December

	Note	2015 Rm	2014 Rm
Assets			
Cash, cash balances and balances with central banks		26 101	21 419
Investment securities		73 065	70 618
Loans and advances to banks		58 585	47 599
Trading portfolio assets		116 455	78 572
Hedging portfolio assets		2 216	2 335
Other assets		18 840	9 311
Current tax assets		410	17
Non-current assets held for sale	1	109	250
Loans and advances to customers		602 002	554 521
Loans to Group companies		23 850	17 740
Investments in associates and joint ventures		962	839
Investment properties		518	252
Property and equipment		10 955	9 137
Goodwill and intangible assets		2 029	1 422
Deferred tax assets		44	29
Total assets		936 141	814 061
Liabilities			
Deposits from banks		61 026	54 104
Trading portfolio liabilities		87 567	44 580
Hedging portfolio liabilities		4 531	2 577
Other liabilities		18 306	13 809
Provisions		1 970	1 857
Current tax liabilities		72	65
Deposits due to customers		560 650	521 656
Debt securities in issue		128 453	105 015
Borrowed funds	2	12 954	10 535
Deferred tax liabilities		115	937
Total liabilities		875 644	755 135
Equity			
Capital and reserves			
Attributable to equity holders:			
Ordinary share capital		304	303
Ordinary share premium		21 455	16 465
Preference share capital		1	1
Preference share premium		4 643	4 643
Retained earnings		32 033	33 713
Other reserves		2 050	3 799
		60 486	58 924
Non-controlling interest		11	2
Total equity		60 497	58 926
Total equity and liabilities		936 141	814 061

Summary consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	2015 Rm	2014 Rm
Net interest income		27 524	25 928
Interest and similar income		60 979	54 810
Interest expense and similar charges		(33 455)	(28 882)
Non-interest income		18 552	18 400
Net fee and commission income		15 732	14 775
Fee and commission income		17 028	15 964
Fee and commission expense		(1 296)	(1 189)
Gains and losses from banking and trading activities		2 097	2 698
Gains and losses from investment activities		11	4
Other operating income		712	923
Total income		46 076	44 328
Impairment losses on loans and advances		(5 113)	(5 110)
Operating income before operating expenditure		40 963	39 218
Operating expenditure		(26 390)	(25 309)
Other expenses		(999)	(1 186)
Other impairments	3	43	(418)
Indirect taxation		(1 042)	(768)
Share of post-tax results of associates and joint ventures		136	147
Operating profit before income tax		13 710	12 870
Taxation expense		(3 663)	(3 570)
Profit for the reporting period		10 047	9 300
Profit attributable to:			
Ordinary equity holders		9 726	8 995
Non-controlling interest		—	—
Preference equity holders		321	305
		10 047	9 300
Earnings per share			
Basic earnings per ordinary share (cents)		2 422,4	2 324,9
Diluted basic earnings per ordinary share (cents)		2 422,4	2 324,9

Summary consolidated statement of comprehensive income

for the reporting period ended 31 December

	2015 Rm	2014 Rm
Profit for the reporting period	10 047	9 300
Other comprehensive income		
Items that will not be reclassified to profit or loss:	9	2
Movement in retirement benefit fund assets and liabilities	9	2
Increase in retirement benefit surplus	12	3
Deferred tax	(3)	(1)
Items that are or may be subsequently reclassified to profit or loss:	(2 429)	(617)
Movement in foreign currency translation reserve	126	(327)
Differences on translation of foreign operations	393	70
Gains released to profit or loss	(267)	(397)
Movement in cash flow hedging reserve	(2 222)	(253)
Fair value (losses)/gains arising during the reporting period	(2 028)	1 092
Amount removed from other comprehensive income and recognised in profit or loss	(1 058)	(1 443)
Deferred tax	864	98
Movement in available-for-sale reserve	(333)	(37)
Fair value losses arising during the reporting period	(678)	(98)
Release to profit or loss	210	44
Deferred tax	135	17
Total comprehensive income for the reporting period	7 627	8 685
Total comprehensive income attributable to:		
Ordinary equity holders	7 306	8 380
Preference equity holders	321	305
	7 627	8 685

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Summary 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	396 151	303	16 465	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	16 647	1	5 000	—	—
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment arrangements	—	—	(10)	—	—
Movement in share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Conversion from cash-settled to equity-settled schemes	—	—	—	—	—
Deferred tax	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—
Disposal of interest in subsidiary ⁽²⁾	—	—	—	—	—
Acquisition of subsidiary	—	—	—	—	—
Balance at the end of the reporting period	412 798	304	21 455	1	4 643

	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	—	—	—	—	—
Value of employee services	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—
Disposal of a non-core subsidiary	—	—	—	—	—
Balance at the end of the reporting period	396 151	303	16 465	1	4 643

Notes

All movements are reflected net of taxation.

¹ This includes ordinary shares and "A" ordinary shares.

² This movement relates to certain subsidiaries being deregistered and the Bank's equity being adjusted accordingly.

Summary consolidated statement of changes in equity

for the reporting period ended 31 December

Bank
2015

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
33 713	3 799	937	351	273	1 422	3	813	58 924	2	58 926
10 056	(2 429)	(333)	(2 222)	126	—	—	—	7 627	—	7 627
10 047	—	—	—	—	—	—	—	10 047	—	10 047
9	(2 429)	(333)	(2 222)	126	—	—	—	(2 420)	—	(2 420)
(11 437)	—	—	—	—	—	—	—	(11 437)	—	(11 437)
—	—	—	—	—	—	—	—	5 001	—	5 001
(154)	—	—	—	—	—	—	—	(164)	—	(164)
—	544	—	—	—	—	544	—	544	—	544
—	209	—	—	—	—	209	—	209	—	209
—	372	—	—	—	—	372	—	372	—	372
—	(37)	—	—	—	—	(37)	—	(37)	—	(37)
(136)	136	—	—	—	—	—	136	—	—	—
(9)	—	—	—	—	—	—	—	(9)	—	(9)
—	—	—	—	—	—	—	—	—	9	9
32 033	2 050	604	(1 871)	399	1 422	547	949	60 486	11	60 497

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

Summary consolidated statement of cash flows

for the reporting period ended 31 December

	Note	2015 Rm	2014 Rm
Net cash generated from operating activities		12 055	12 859
Net cash utilised in investing activities		(3 594)	(2 179)
Net cash utilised in financing activities		(4 101)	(11 173)
Net increase/(decrease) in cash and cash equivalents		4 360	(493)
Cash and cash equivalents at the beginning of the reporting period	1	10 014	10 507
Cash and cash equivalents at the end of the reporting period	2	14 374	10 014
Notes to the statement of cash flows			
1. Cash and cash equivalents at the beginning of the reporting period			
Cash, cash balances and balances with central banks ⁽¹⁾		8 777	8 665
Loans and advances to banks ⁽²⁾		1 237	1 842
		10 014	10 507
2. Cash and cash equivalents at the end of the reporting period			
Cash, cash balances and balances with central banks ⁽¹⁾		8 607	8 777
Loans and advances to banks ⁽²⁾		5 767	1 237
		14 374	10 014

Notes

⁽¹⁾ Includes coins and bank notes.

⁽²⁾ Includes call advances, which are used as working capital for the Bank.

Summary notes to the consolidated financial results

for the reporting period ended 31 December

1. Non-current assets and non-current liabilities held for sale

During the reporting period disposals of non-current assets and liabilities held for sale occurred in RBB (including Commercial Property Finance ("CPF")). Other assets and liabilities disclosed remain classified as non-current assets held for sale as the Bank has assessed that the sales remain highly probable.

The following movements in non-current assets held for sale were effected in the previous reporting period:

- RBB transferred investment securities and investment properties with a carrying value of R29m and Rnil respectively.
- The Head Office and other operations segment transferred property and equipment with a carrying value of R3m.

The CPF Equity division in RBB disposed of a non-core subsidiary with investment property with a carrying value of R1 315m. Other disposals of non-current assets and liabilities held for sale occurred in the RBB, Wealth and Head Office and other operations segments.

2. Borrowed funds

During the reporting period the significant movements in borrowed funds were as follows: **R4 500m** (2014: R500m) of subordinated notes were issued and **R2 000m** (2014: R4 725m) were redeemed.

3. Other impairments

	2015 Rm	2014 Rm
(Reversal)/impairment raised on financial instruments	(43)	17
Other impairments raised	—	401
Goodwill	—	1
Intangible assets	—	127
Investments in associates and joint ventures	—	2
Property and equipment	—	253
Other	—	18
	(43)	418

4. Headline earnings

	2015		2014	
	Gross Rm	Net ⁽¹⁾ Rm	Gross Rm	Net ⁽¹⁾ Rm
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holder		9 726		8 995
Total headline earnings adjustment:		(69)		(208)
IFRS 3 – Goodwill impairment	—	—	1	1
IFRS 5 – Gains on disposal of non-current assets held for sale	—	—	(105)	(94)
IAS 16 – Profit on disposal of property and equipment	(17)	(12)	(16)	(13)
IAS 21 – Recycled foreign currency translation reserve	(267)	(267)	(397)	(397)
IAS 27 – Profit on disposal of subsidiaries	—	—	(44)	(35)
IAS 28 – Impairment of investment in associates and joint ventures	—	—	2	2
IAS 36 – Other impairment	—	—	18	15
IAS 36 – Impairment of intangible assets	—	—	127	91
IAS 36 – Impairment of property and equipment	—	—	253	183
IAS 39 – Release of available-for-sale reserves	210	151	44	31
IAS 40 – Change in fair value of investment properties	73	59	8	8
Headline earnings/diluted headline earnings		9 657		8 787
Headline earnings per ordinary share (cents)/diluted headline earnings per ordinary share (cents)		2 405,2		2 271,1

Note

⁽¹⁾ The net amounts are reflected after taxation.

Summary notes to the consolidated financial results
for the reporting period ended 31 December

5. Dividends per share

	Bank	
	2015 Rm	2014 Rm
Dividends declared to ordinary equity holders		
Interim dividend (29 July 2015: 631,07 cents) (30 July 2014: 593,35 cents)	2 500	2 299
Special dividend (30 September 2015: 745,15 cents) (31 July 2015: 504,86 cents) (5 December 2014: 516,10 cents) (8 April 2014: 638,38 cents)	5 000	4 446
Final dividend (1 March 2016: 484,49896 cents) (3 March 2015: 912,78268 cents)	2 000	3 616
	9 500	10 361
Dividends declared to preference equity holders		
Interim dividend (29 July 2015: 3 282,8082 cents) (30 July 2014: 3 197,4658 cents)	162	158
Final dividend (1 March 2016: 3 395,47945 cents) (3 March 2015: 3 210,8904 cents)	168	159
	330	317
Dividends paid to ordinary equity holders		
Final dividend (3 March 2015: 912,78268 cents) (11 February 2014: 754,3 cents)	3 616	2 890
Interim dividend (29 July 2015: 631,07 cents) (30 July 2014: 593,35 cents)	2 500	2 299
Special dividend (30 September 2015: 745,15 cents) (31 July 2015: 504,86 cents) (5 December 2014: 516,10 cents) (8 April 2014: 638,38 cents)	5 000	4 446
	11 116	9 635
Dividends paid to preference equity holders		
Final dividend (3 March 2015: 3 210,8904 cents) (11 February 2014: 2 979,3151 cents)	159	147
Interim dividend (29 July 2015: 3 282,8082 cents) (30 July 2014: 3 197,4658 cents)	162	158
	321	305

6. Acquisitions and disposals of businesses and other similar transactions

6.1 Acquisitions of businesses during the current reporting period

The Bank purchased additional shares in a non-core joint venture which resulted in an increase in the Bank's effective shareholding from 50% to 67%. The profit share that the Bank is entitled to is 74%. The acquisition occurred on 18 November 2015. A bargain purchase amount of R4m was recognised in the statement of comprehensive income.

	2015 Fair value recognised on acquisition Rm
Consideration at November 2015:	
Cash	14
Total consideration	14
Recognised amounts of identifiable assets acquired and liabilities	
Other assets	5
Investment properties	292
Other liabilities	(1)
Deferred tax liabilities	(4)
Loans from subsidiaries	(176)
Loans from Absa Group companies	(90)
Total identifiable net assets	26
Total non-controlling interest	(8)
Goodwill/(bargain purchase)	(4)
Total	14

Summary notes to the consolidated financial results
for the reporting period ended 31 December

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

6.1 Acquisitions of businesses during the current reporting period (continued)

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

	Bank	
	2015 Rm	2014 Rm
Summary of net cash outflow due to acquisitions	14	—

6.2 Disposals of businesses during the current reporting period

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

6.3 Acquisitions and disposals of businesses during the previous reporting period

The Bank made no acquisitions or disposals during the previous reporting period.

7. Related parties

There were no one-off significant transactions with related parties of the Bank during the current and previous reporting periods.

8. Financial guarantee contracts

	2015 Rm	2014 Rm
Financial guarantee contracts	24	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.

9. Commitments

	2015 Rm	2014 Rm
Authorised capital expenditure		
Contracted but not provided for	591	576
The Bank has capital commitments in respect of computer equipment and property development. Management is confident that future net revenue and funding will be sufficient to cover these commitments.		
Operating lease payments due		
No later than one year	758	856
Later than one year and no later than five years	1 742	1 631
Later than five years	956	709
	3 456	3 196
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.		
Sponsorship payment due		
No later than one year	147	282
Later than one year and no later than five years	177	307
	324	589

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

Summary notes to the consolidated financial results

for the reporting period ended 31 December

10. Contingencies

	2015 Rm	2014 Rm
Guarantees	31 266	28 076
Irrevocable debt facilities	138 807	114 614
Letters of credit	6 319	3 756
Other contingencies	21	7
	176 413	146 453

Guarantees include performance and payment guarantee contracts.

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.

Legal proceedings

The Bank is engaged in various 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. Provision is made for all liabilities which are expected to materialise.

Regulatory matters

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

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

Income taxes

The Bank is subject to income taxes in numerous jurisdictions and the calculation of the Bank's tax charge and provisions for income taxes necessarily involves a degree of estimation and judgement. There are many transactions and calculations for which the ultimate tax treatment is uncertain or in respect of which the relevant tax authorities may have indicated disagreement with the Bank's treatment and accordingly the 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 expert 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.

11. Segment reporting

	2015 Rm	2014 ⁽¹⁾ Rm
11.1 Headline earnings contribution by segment		
RBB	8 596	7 579
CIB	2 391	2 192
Wealth	(81)	(69)
Head Office, Treasury and other operations	(1 249)	(915)
	9 657	8 787

	2015 Rm	2014 ⁽¹⁾ Rm
11.2 Total income by segment		
RBB	38 084	36 347
CIB	8 727	8 271
Wealth	463	467
Head Office, Treasury and other operations	(1 198)	(757)
	46 076	44 328

Note

⁽¹⁾ Operational changes, management changes and associated changes to the way in which the chief operational decision maker ("CODM") views the performance of each business segment, have resulted in the reallocation of earnings, assets and liabilities between operating segments. For details on the business portfolio changes, refer to note 51.1 of the audited annual consolidated and separate financial statements of Absa Bank Limited approved on 29 February 2016.

Summary notes to the consolidated financial results for the reporting period ended 31 December

11. Segment reporting (continued)

	2015 Rm	2014 ⁽¹⁾ Rm
11.3 Total internal revenue by segment		
RBB	(7 913)	(8 184)
CIB	94	2 720
Wealth	60	57
Head Office, Treasury and other operations	10 700	8 703
	2 941	3 296

	2015 Rm	2014 ⁽¹⁾ Rm
11.4 Total assets by segment		
RBB	704 825	664 819
CIB	489 402	406 607
Wealth	5 792	11 177
Head Office, Treasury and other operations	(263 878)	(268 542)
	936 141	814 061

	2015 Rm	2014 ⁽¹⁾ Rm
11.5 Total liabilities by segment		
RBB	694 896	656 441
CIB	485 611	403 610
Wealth	5 861	11 246
Head Office, Treasury and other operations	(310 724)	(316 162)
	875 644	755 135

Note
⁽¹⁾ Operational changes, management changes and associated changes to the way in which the CODM views the performance of each business segment, have resulted in the reallocation of earnings, assets and liabilities between operating segments. For details on the business portfolio changes, refer to note 51.1 of the audited annual consolidated and separate financial statements of Absa Bank Limited approved on 29 February 2016.

Summary notes to the consolidated financial results for the reporting period ended 31 December

12. Assets and liabilities not held at fair value

	2015		2014 ⁽¹⁾	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the South African Reserve Bank	17 459	17 459	12 621	12 621
Coins and bank notes	8 607	8 607	8 777	8 777
Money market assets	34	34	21	21
Cash, cash balances and balances with central banks	26 100	26 100	21 419	21 419
Loans and advances to banks	34 257	34 257	27 076	27 021
Other assets	17 354	17 354	7 914	8 203
Retail Banking	362 303	361 273	355 313	354 885
Credit cards	29 515	29 515	29 338	29 338
Instalment credit agreements	72 860	71 798	70 819	70 257
Loans to associates and joint ventures	16 176	16 176	13 012	13 012
Mortgages	225 431	225 441	225 501	225 544
Other loans and advances	343	343	404	404
Overdrafts	2 819	2 819	2 254	2 254
Personal and term loans	15 159	15 181	13 985	14 076
Business Banking	63 434	63 462	60 928	60 926
Mortgages (including CPF)	30 730	30 742	30 161	30 157
Overdrafts	18 159	18 175	18 148	18 128
Term loans	14 523	14 523	12 619	12 641
RBB Rest of Africa	22	22	—	—
CIB	140 796	140 796	121 250	120 321
Wealth	5 350	5 350	5 234	5 234
Head Office, Treasury and other operations	696	696	901	901
Loans and advances to customers – net of impairment losses	572 579	571 577	543 626	542 267
Loans from Group companies	23 850	23 958	17 740	21 762
Total assets	674 140	673 246	617 775	620 672
Financial liabilities				
Deposits from banks	44 394	44 394	34 495	35 834
Other liabilities	16 346	16 250	11 316	11 322
Call deposits	72 130	72 130	56 986	56 986
Cheque account deposits	150 842	150 842	146 568	146 568
Credit card deposits	2 002	2 002	1 932	1 932
Fixed deposits	118 278	118 390	114 646	115 371
Foreign currency deposits	26 168	26 168	21 723	21 723
Notice deposits	48 954	48 963	49 764	49 843
Other deposits	1 943	1 943	1 972	1 972
Saving and transmission deposits	122 522	122 522	108 849	108 849
Deposits due to customers	542 839	542 960	502 440	503 244
Debt securities in issue	121 730	119 153	99 735	100 100
Borrowed funds	12 954	13 323	10 535	10 885
Total liabilities	738 263	736 080	658 521	661 385

Note

⁽¹⁾ Operational changes, management changes and associated changes to the way in which the CODM views the performance of each business segment, have resulted in the reallocation of earnings, assets and liabilities between operating segments. For details on the business portfolio changes, refer to note 51.1 of the audited annual consolidated and separate financial statements of Absa Bank Limited approved on 29 February 2016.

13. Assets and liabilities held at fair value

13.1 Fair value measurement and valuation processes

Financial assets and financial liabilities

The Bank has an established control framework with respect to the measurement of fair values. The framework includes a Valuation Committee and an Independent Valuation Control team (“IVC”), which is independent from the front office.

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

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 International Financial Reporting Standards (“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 valuers. 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 the front office and considers the appropriateness of any differences to external independent valuations.

13.2 Fair value measurements

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.

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.

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.

13. Assets and liabilities held at fair value *(continued)*

13.2 Fair value measurements *(continued)*

Equity instruments

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

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

Derivatives

Derivative contracts can be exchange-traded or traded 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 option 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.

13.3 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 expedient 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 hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the Bank is a market maker and has the ability to transact at, or better than, mid-price (which is the case for certain equity, bond and vanilla derivative markets), the mid-price is used, since the bid-offer spread does not represent a transaction cost.

Uncollateralised derivative adjustments

A fair value adjustment is incorporated into uncollateralised derivative valuations to reflect the impact on fair value of counterparty credit risk, 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 the 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.

Summary notes to the consolidated financial results for the reporting period ended 31 December

13. Assets and liabilities held at fair value (continued)

13.4 Fair value hierarchy

The following table 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 of input that is significant to the fair value measurement in its entirety.

Recurring fair value measurements	2015				2014			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Cash, cash balances and balances with central banks	—	1	—	1	—	—	—	—
Investment securities	46 507	25 273	1 285	73 065	48 973	19 329	2 316	70 618
Loans and advances to banks	—	22 219	2 109	24 328	—	20 523	—	20 523
Trading and hedging portfolio assets	20 083	95 168	1 415	116 666	25 061	52 995	1 151	79 207
Debt instruments	18 674	7 957	897	27 528	24 433	4 743	870	30 046
Derivative assets	—	79 235	518	79 753	2	42 347	281	42 630
Commodity derivatives	—	223	—	223	2	348	—	350
Credit derivatives	—	885	23	908	—	284	91	375
Equity derivatives	—	2 118	43	2 161	—	1 011	29	1 040
Foreign exchange derivatives	—	26 996	—	26 996	—	8 327	1	8 328
Interest rate derivatives	—	49 013	452	49 465	—	32 377	160	32 537
Listed equity instruments – HFT	1 409	—	—	1 409	626	321	—	947
Money market assets	—	7 976	—	7 976	—	5 584	—	5 584
Other assets	—	—	17	17	—	—	17	17
Loans and advances to customers	3	21 909	7 511	29 423	4	6 160	4 731	10 895
Total financial assets	66 593	164 570	12 337	243 500	74 038	99 007	8 215	181 260
Financial liabilities								
Deposits from banks	—	16 625	7	16 632	—	19 609	—	19 609
Trading and hedging portfolio liabilities	1 242	90 640	216	92 098	2 795	44 042	320	47 157
Derivative liabilities	—	90 640	216	90 856	—	44 042	320	44 362
Commodity derivatives	—	440	—	440	—	308	—	308
Credit derivatives	—	879	14	893	—	324	39	363
Equity derivatives	—	3 768	57	3 825	—	1 296	198	1 494
Foreign exchange derivatives	—	28 193	—	28 193	—	9 931	7	9 938
Interest rate derivatives	—	57 360	145	57 505	—	32 183	76	32 259
Short positions	1 242	—	—	1 242	2 795	—	—	2 795
Deposits due to customers	110	15 144	2 557	17 811	80	13 606	5 530	19 216
Debt securities in issue	678	5 421	624	6 723	2	5 236	42	5 280
Total financial liabilities	2 030	127 830	3 404	133 264	2 877	82 493	5 892	91 262
Non-financial assets								
Commodities	2 005	—	—	2 005	1 700	—	—	1 700
Investment properties	—	—	518	518	—	—	252	252
Non-recurring fair value measurements								
Non-current assets held for sale ⁽¹⁾	—	—	109	109	—	—	250	250

Note

⁽¹⁾ Includes certain items classified in terms of the requirements of IFRS 5 which are measured in terms of their respective standards.

Summary notes to the consolidated financial results for the reporting period ended 31 December

13. Assets and liabilities held at fair value (continued)

13.5 Measurement of assets and liabilities categorised 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 rate 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 and/or option pricing, futures pricing and/or exchange traded fund ("ETF") models	Spot price of physical or futures, interest rates and/or volatility
Credit derivatives	Discounted cash flow and/or credit default swap models	Interest rate, recovery rate, credit spread and/or quanto ratio
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Spot price, interest rate, volatility and/or dividend stream
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	Spot price, interest rate 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 rates and/or interest rates
Loans and advances to customers	Discounted cash flow models	Interest rate curves and/or money market curves
Investment securities	Listed equity: market bid price. Other items: discounted cash flow models	Underlying price of the market traded instruments interest rate curves
Deposits from banks	Discounted cash flow models	Interest rate curves and/or money market curves
Deposits due to customers	Discounted cash flow models	Interest rate curves and/or money market curves
Debt securities in issue and other liabilities	Discounted cash flow models	Underlying price of the market traded instrument and/or interest rate curves

Summary notes to the consolidated financial results for the reporting period ended 31 December

13. Assets and liabilities held at fair value (continued)

13.6 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:

	2015						
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	1 151	17	4 731	—	2 316	252	8 467
Net interest income	—	—	488	—	78	—	566
Gains and losses from banking and trading activities	331	—	—	—	—	—	331
Gains and losses from investment activities	—	—	—	(18)	14	4	—
Purchases	16	—	5 108	2 127	14	294	7 559
Sales	(83)	—	(2 816)	—	(1 172)	(32)	(4 103)
Movement in other comprehensive income	—	—	—	—	35	—	35
Closing balance at the end of the reporting period	1 415	17	7 511	2 109	1 285	518	12 855
	2014						
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	1 037	16	6 477	—	2 313	240	10 083
Movement in other comprehensive income	—	—	—	—	5	—	5
Net interest income	—	1	373	—	69	—	443
Gains and losses from banking and trading activities	173	—	(29)	—	(7)	—	137
Gains and losses from investment activities	—	—	2	—	(83)	12	(69)
Purchases	—	—	143	—	9	—	152
Sales	(37)	—	(620)	—	(9)	—	(666)
Settlements	—	—	(1 615)	—	—	—	(1 615)
Transferred to/(from) assets	—	—	—	—	—	—	—
Movement in/(out of) Level 3	(22)	—	—	—	19	—	(3)
Closing balance at the end of the reporting period	1 151	17	4 731	—	2 316	252	8 467

Summary notes to the consolidated financial results for the reporting period ended 31 December

13. Assets and liabilities held at fair value (continued)

13.6 Reconciliation of Level 3 assets and liabilities (continued)

	2015				
	Deposits from Bank	Trading and hedging portfolio liabilities	Deposits due to customers	Debt securities in issue	Total liabilities at fair value
	Rm	Rm	Rm	Rm	Rm
Opening balance at the beginning of the reporting period	—	320	5 530	42	5 892
Net interest income	—	—	—	—	—
Gains and losses from banking and trading activities	—	(21)	—	—	(21)
Gains and losses from investment activities	—	—	132	172	304
Purchases	—	—	—	—	—
Sales	—	—	—	—	—
Movement in other comprehensive income	—	—	—	—	—
Issues	7	—	3 112	410	3 529
Settlements	—	(83)	(3 265)	—	(3 348)
Movement out of Level 3	—	—	(2 952)	—	(2 952)
Closing balance at the end of the reporting period	7	216	2 557	624	3 404

	2014				
	Deposits from Bank	Trading and hedging portfolio liabilities	Deposits due to customers	Debt securities in issue	Total liabilities at fair value
	Rm	Rm	Rm	Rm	Rm
Opening balance at the beginning of the reporting period	—	542	7 138	35	7 715
Movement in other comprehensive income	—	(8)	—	—	(8)
Net interest income	—	—	1	1	2
Gains and losses from banking and trading activities	—	(62)	(1 501)	6	(1 557)
Sales	—	(75)	—	—	(75)
Settlements	—	—	(81)	—	(81)
Movement in/(out of) Level 3	—	(77)	(27)	—	(104)
Closing balance at the end of the reporting period	—	320	5 530	42	5 892

13.6.1 Significant transfers between levels

During the previous reporting period, it was determined that significant transfers between levels of assets and liabilities at fair value occurred.

Treasury bills of R18,5bn were transferred from Level 1 to Level 2, as these are held in an inactive market.

Transfers out of Level 3 and into Level 2 arise where unobservable inputs become observable and/or unobservable inputs are no longer considered to be significant to the valuation of an instrument.

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

Summary notes to the consolidated financial results for the reporting period ended 31 December

13. Assets and liabilities held at fair value (continued)

13.7 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:

	2015					Total assets at fair value Rm
	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	
Gains and losses from banking and trading activities	96	(28)	48	—	—	116
	2014					
	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
Gains and losses from banking and trading activities	79	(28)	—	—	—	51
	2015					
	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm	
Gains and losses from banking and trading activities	79	—	—	—	79	
	2014					
	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm	
Gains and losses from banking and trading activities	(116)	—	—	—	(116)	

Summary notes to the consolidated financial results for the reporting period ended 31 December

13. Assets and liabilities held at fair value (continued)

13.8 Sensitivity analysis of valuations using unobservable inputs

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

The following table reflects how the unobservable parameters were changed in order to evaluate the sensitivities of Level 3 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 the 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 a reasonable range of possible outcomes:

	Significant unobservable parameters	2015	
		Potential effect recorded in profit and loss	Potential effect recorded directly in equity
		Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	BAGL/Absa funding spread	—/—	—/—
Investment securities and investments linked to investment contracts	Risks adjustment yield curves, future earnings and marketability discount	—/—	—/—
Loans and advances to customers	Credit spreads	235/246	—/—
Other assets	Volatility, credit spreads	—/—	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	107/107	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	15/15	—/—
Other liabilities	Volatility, credit spreads	—/—	—/—
		357/368	—/—

Summary notes to the consolidated financial results for the reporting period ended 31 December

13. Assets and liabilities held at fair value (continued)

13.8 Sensitivity analysis of valuations using unobservable inputs (continued)

	Significant unobservable parameters	2014	
		Potential effect recorded in profit or loss Favourable/(Unfavourable) Rm	Potential effect recorded directly in equity Favourable/(Unfavourable) Rm
Deposits due to customers	BAGL/Absa funding spread	—/—	—/—
Investment securities	Risks adjustment 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	—/—	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	34/34	—/—
		1 205/191	—/—

Summary notes to the consolidated financial results for the reporting period ended 31 December

13. Assets and liabilities held at fair value (continued)

13.9 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	2015	2014
			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%	0,96% to 3,99%
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 8% and 11,5%, comparator multiples between 5 and 10,5	Discount rates between 9,1% and 17,9%, comparator multiples between 5 and 6
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 and/or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	0,0% to 23,64%	0% to 13,45%
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Volatility and/or dividend streams (greater than 3 years)	17,82% to 67,71%	18,16% to 48,20%
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	African basis curves (greater than 1 year)	(10,00%) to 10,50%	(10,74%) to 6,53%
Interest rate derivatives	Discounted cash flow and/or option pricing models	Real yield curves (greater than 1 year), repurchase agreement curves (greater than 1 year), funding spreads	0,58% to 4,24%	(1,56%) to 10,04%
Deposits due to customers	Discounted cash flow models	Barclays Africa Group Limited's funding spreads (greater than 5 years)	1,52% to 2,15%	0,85% to 1,2%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	(0,20%) to 3,35%	1,28% to 1,38%
Investment properties	Discounted cash flow models	Estimates of periods in which rental units will be disposed of	1 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	26% to 51%	22% to 75%
		Vacancy ratio	1% to 18%	2% to 15%
		Income capitalisation rates	8% to 12%	10% to 12%
		Risk adjusted discount rates	13% to 14%	14% to 16%

For those assets or liabilities held at amortised cost and disclosed in levels 2 and 3 in 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.

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.

Summary notes to the consolidated financial results for the reporting period ended 31 December

13. Assets and liabilities held at fair value (continued)

13.10 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:

	2015 Rm	2014 Rm
Opening balance at the beginning of the reporting period	(52)	(55)
New transactions	(91)	(23)
Amounts recognised in profit and loss during the reporting period	38	26
Closing balance at the end of the reporting period	(105)	(52)

13.11 Third-party credit enhancements

There were no significant liabilities measured at fair value and issued with inseparable third-party credit enhancements during the current and previous reporting period.

14. Reporting changes overview

The financial reporting changes that have had an impact on the Bank's results for the comparative reporting period ended 31 December 2014 include business portfolio changes between operating segments. Refer to note 51.1 of the audited annual consolidated and separate financial statements of Absa Bank Limited.

Administration and contact details

Absa Bank Limited

Incorporated in the Republic of South Africa

Registration number: 1986/004794/06

Authorised financial services and registered credit provider (NCRCP7)

JSE share code: ABSP and ABMN

ISIN: ZAE000079810

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BNY Mellon

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Sponsors

Lead independent sponsor

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Joint sponsor

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