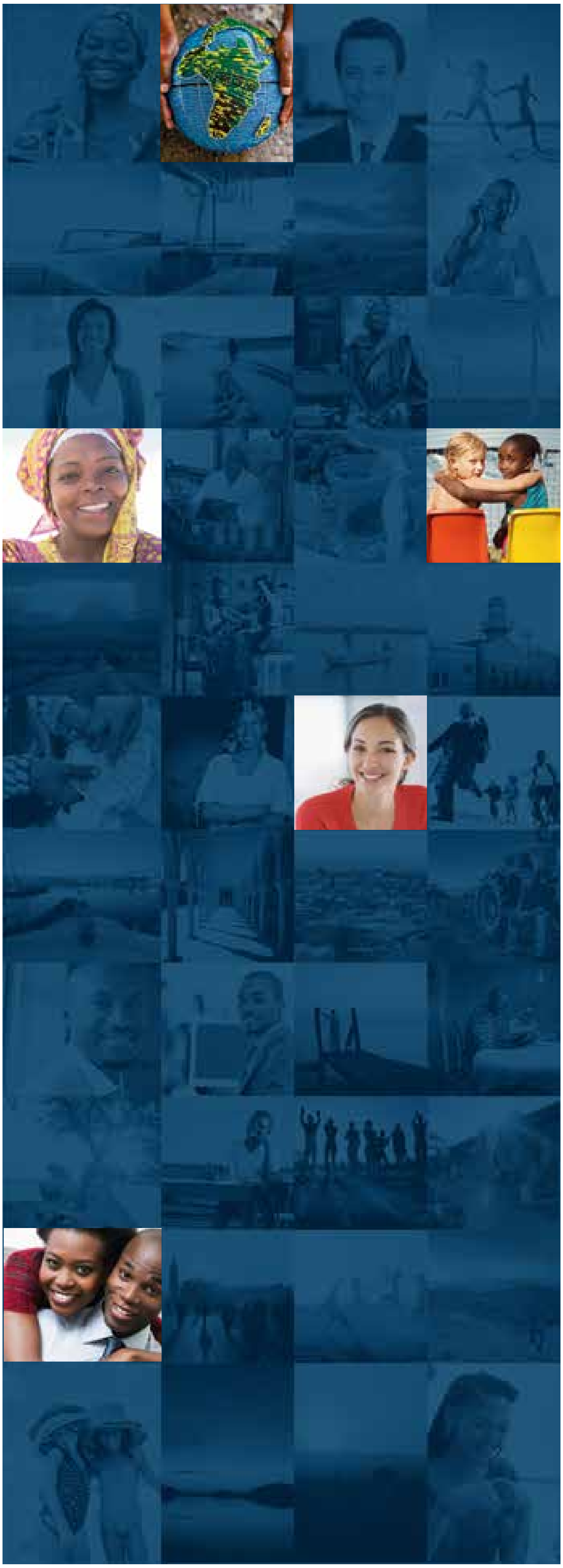
2016

Barclays Africa Group Limited

Annual consolidated and separate financial statements for the reporting period ended 31 December 2016

BARCLAYS



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Annual financial statements

Barclays Africa Group Limited
(1986/003934/06)

Annual consolidated and separate financial statements for the reporting period ended 31 December 2016.

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

Directors' approval

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' responsibility statement set out on page 10, 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 Barclays Africa Group Limited and its subsidiaries (the Group).

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

To enable the directors to meet these responsibilities:

- All directors and senior management develop an environment whereby all directors and employees endeavour to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that, in all reasonable circumstances, is above reproach.
- The Board sets standards and management implements systems of internal control and accounting as well as information systems aimed at providing reasonable assurance that both on- and off-statements of financial position are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The Board and management identify all key areas of risk across the Group and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems, and discipline are applied and managed within predetermined procedures and constraints.
- The Group's internal audit and compliance functions, which operate unimpeded and independently from operational management and have unrestricted access to the Group Audit and Compliance Committee (GACC), appraise, evaluate and, when necessary, recommend improvements to the systems of internal control, accounting and compliance practices, based on plans that, combined with the efforts of the Group's risk functions, take cognisance of the relative degrees of risk of each function or aspect of the business.
- The GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC is satisfied that the external auditors are independent.
- The Board approves the Enterprise Risk Management Framework (ERMF) through recommendation by the Capital Management Committee (GRCMC).
- The Board, through the GACC which is assisted by the GRCMC in respect of risk matters, reviewed the compliance practices and procedures to enable the Board to discharge their regulatory responsibilities, by overseeing the plan and progress management makes in improving compliance in respect of Know Your Customer, Anti-Money Laundering and Sanctions (KAMLS) requirements; and by considering that the Group's systems and processes appropriately reflect the current legal and regulatory environment, refer to note 54.
- The Group 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 Group and the Company have been prepared in accordance with the provisions of the Companies Act and the Banks Act, Johannesburg Stock Exchange (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 Group and the Company will not be going concerns in the next reporting period. These financial statements have been prepared on this basis.

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

The directors' report on pages 12 to 15 and the annual financial statements of the Group and the Company were approved by the Board of directors and are signed on their behalf by:

W E Lucas-Bull
Group Chairman

M Ramos
Chief Executive Officer (CEO)

Johannesburg

22 February 2017

Group Audit and Compliance Committee report

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

The GACC serves as the audit committee for the Group. 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 corporate governance statement available on the Group's website[1].

Activities of the GACC

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

In respect of the external auditors and the external audit:

- Nominated PricewaterhouseCoopers Inc. (PwC) and Ernst & Young Inc. (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 KPMG Inc. (KPMG) and EY as joint external auditors for the 2017 reporting period;
- Ensured the appointment of the external auditors complied with the Companies Act and all other applicable legal and regulatory requirements;
- Reviewed, together with management, the external audit plan to address significant focus areas,which similarly receive focus by the GACC and which will be reported on in the new format audit report to be disclosed in the current financial statements, and specifically considered the external auditors' findings in this regard;
- Reviewed and approved the external audit plan, the budgeted fee for the current 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 Group's policy on non-audit services to be provided by the external auditors during the current 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. During the reporting period these engagements were evaluated by either the Committee Chairman or the Committee as a whole who, before confirming any approval, assured themselves that there was justifiable reason for engaging the auditor and that its independence and objectivity would not be threatened ;
- 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;
- Reviewed the findings and recommendations of the external auditors and confirmed that no unresolved issues of concern exist between the Group and the external auditors in relation to the Group or any of its business units and subsidiaries;
- Following the appointment of KPMG as one of the Group's joint auditors for the reporting period ended 31 December 2017, the Committee ensured that KPMG obtained independence from the Group by 30 June 2016, enabling it to familiarise itself with the Group and receive a structured, formal handover from PwC. To ensure KPMG's independence, and to allow the Committee to assess whether any non-audit work could be conducted by KPMG during the reporting period, both in terms of type and scale, the Group exited all relationships or assignments that might have prevented KPMG obtaining independent status and has implemented procedures to manage the types of relationships and assignments that KPMG provides going forward.

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 and recommended the interim financial results and annual financial statements, prior to submission to and approval by the Board and 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 Standards (IFRS) and Interpretations of IFRS, and the South African Institute of Chartered Accountants' (SAICA) Reporting Guides;
- Reviewed and recommended for approval by the Board the reporting changes contained in the announcements released on the Stock Exchange News Services (SENS) on 1 March 2016 and 29 July 2016. 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's Reporting Guides;

Note

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

Group Audit and Compliance Committee report

Activities of the GACC *(continued)*

- Reviewed and recommended the interim and final dividend proposals for approval by the Board;
- Reviewed the solvency and liquidity tests undertaken for specific transactions, dividend declarations and financial assistance;
- 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 and practices and the controls of the Group to ensure the aforementioned are adhered to. 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;
- Reviewed the high-level project plan and progress updates on the implementation of IFRS 9;
- Reviewed the tax governance philosophy and assessed status;
- Reviewed significant matters which are not a normal part of the Group's business, but which are referred to the Committee by the Board or management;
- Noted the new requirements of the revised auditor reporting standards issued by the Internal Auditing and Assurance Board; and
- Considered the valuation of investments of the Group and Absa Bank Limited and recommended it to the Board for approval.

In respect of internal control and internal audit:

- Reviewed and approved the updated Barclays Internal Audit (BIA) charter, noting the changes to the purpose, authority and responsibility of Internal Audit;
- Reviewed the current reporting period's internal audit plan, including the adequacy of BIA's skills, resources and budget;
- Reviewed the scope, nature and effectiveness of the work of BIA and the performance of BIA 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's internal audit plan;
- Reviewed reports from BIA 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 BIA;
- Considered a review by the external auditors, which concluded that there are adequate bases for external audit to place reliance on the work of BIA as appropriate;
- Noted internal quality reviews by BIA staff and Barclays Bank PLC's BIA performed during the reporting period, which proved satisfactory BIA performance;
- Considered a special report on the fraud risk management capability across the Group; and
- BIA continues to review the Group's systems of internal control and risk management on an ongoing basis. Based on the work performed as part of the approved audit plan for the current reporting period, BIA 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 BIA, management has completed corrective actions, or is in the process of implementing corrections. Progress is tracked to completion by BIA. BIA actively encourages completion of ongoing remediation initiatives and embedment of controls, and of the principles of the ERMF, to ensure that the improved control environment rating is not only maintained, but also strengthened.

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

- Reviewed and approved the Group's compliance monitoring plan, compliance methodology and structure, the Group's compliance coverage plan and the Group's compliance charter;
- Reviewed compliance practices and procedures for enabling the directors of the Group to discharge their regulatory responsibilities;
- Recommended the Banks Act, No. 94 of 1990 (the Banks Act) section 64B(2)(e) statement as 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 Group to comply with applicable laws, rules, codes and standards;
- Satisfied itself that the functioning of Group 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 Group 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 Group Compliance;
- Ensured that procedures are in place for receiving and treating complaints in terms of the Companies Act and other applicable acts regarding accounting practices, the internal audit of the Group, the content or auditing of the Group's financial statements, the internal financial controls of the Group or any related matters (including internal, anonymous complaints from employees or any other person);

Activities of the GACC *(continued)*

- Considered any significant compliance risk matters reported by Group 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 laws and regulations;
- Received confirmation that all significant control issues are reported in a timely manner to the relevant Barclays Bank PLC governance structures;
- Reviewed and monitored the Group's approach to, and compliance with, section 404 of the Sarbanes-Oxley Act (SOX), within the context of the materiality limits applicable to Barclays Bank PLC;
- Reviewed, on a regular basis, the SOX control environment and monitored its alignment with the risk and control assessments;
- Reviewed the Group's compliance report on the overall status of compliance in the Group and any significant breakdowns that caused or could cause material loss or penalty; and
- Ensured that appropriate training is provided to the GACC and the Group's subsidiary audit committees.

In respect of risk management:

- Reviewed the reports identifying material 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;
- Reviewed the Chief Risk Officer's operational risk and control reports, considered progress and monitored remedial action for the control environment;
- Noted actions of Operational Risk in embedding the three lines of defence and in minimising operational losses, including fraud;
- Together with the GRCMC, oversaw the plan and progress of management in improving compliance in respect of Know Your Customer and Anti-Money Laundering requirements;
- Monitored governance around the combined assurance framework, including the status of the combined assurance model; and
- The Group has established the platform for preventing and detecting fraud and other irregularities. The GACC has been part of reviewing the plans that management has in looking to safeguard the assets of the Group, especially the resilience of core infrastructure to protect against increasingly sophisticated cyber-crime.

In respect of integrated reporting:

- Reviewed feedback on the Group's 2015 integrated annual report;
- Considered and approved the GACC report relating to the annual financial statements in compliance with the Companies Act;
- Considered and approved the proposal by the joint auditors to provide assurance services in relation to the integrated report; and
- Reviewed and approved the integrated report, taking into consideration factors and risks that may impact on the integrity of the integrated report, and recommend the integrated report to the Board for approval.

Regulatory and corporate governance requirements

In accordance with the provisions of the JSE Listings Requirements, the GACC is satisfied that:

- The appointed external auditors are duly accredited as independent on the JSE's list of auditors; and
- The Group Financial Director, J P Quinn, has appropriate expertise and experience.

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

Independence of the external auditors

The GACC is satisfied that PwC and EY are independent of the Group. 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 or access;
- The auditors did not, except as external auditors or in providing permitted non-audit services, receive any other remuneration or benefit from the Group; the criteria for independence set by the Independent Regulatory Board for Auditors and international regulatory bodies were satisfied;
- The auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditors;
- The auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- The GACC received a letter of confirmation from each of the joint external auditors to confirm that they meet all the requirements for independence and that the auditors' report thereon is 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 the financial and internal controls are adequate in all aspects and that no material breakdowns took place that resulted in material loss to the Group.

The GACC reviewed the Group and separate Company financial statements for the year ended 31 December and recommended them for approval to the Board on 22 February 2017.

On behalf of the GACC

C Beggs
Chairman of the GACC

Johannesburg
22 February 2017

Company Secretary's certificate to the shareholders of Barclays Africa Group Limited

In accordance with the provisions of the Companies Act, I certify that, in respect of the year ended 31 December 2016, 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

22 February 2017

Independent auditors' report to the shareholders of Barclays Africa Group Limited

Report on the Audit of Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Barclays Africa Group Limited (the Group) set out on pages 16 to 210, which comprise the consolidated and separate statements of financial position as at 31 December 2016, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, which include a summary of significant accounting policies but excludes the sections marked as "unaudited" in notes 51, 58, 63.1, 63.2, 63.5 and Annexure A.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects the consolidated and separate financial position of the Group as at 31 December 2016, 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements taken as a whole, and in forming our opinion thereon, and the report below is not intended to constitute separate opinions on these key audit matters.

Independent auditors' report to the shareholders of Barclays Africa Group Limited

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td>Consolidated entity only</td><td colspan="2">Assessing impairment of loans and advances
The disclosure associated with Retail Credit Risk and Wholesale Credit Risk is set out in the financial statements in the following notes:
› Note 1.2.1 – Approach to credit risk and impairment of loans and advances (page 26)
› Note 9 – Impairment losses on loans and advances to customers (page 57)
› Note 63.2 – Credit risk (page 138)</td></tr>
<tr><td></td><td>Impairment provisions represent management's best estimate of the losses incurred within the loan portfolios at balance sheet date.

Due to the magnitude of the loans and advances balances and the extent of management judgement inherent in the impairment calculations, this has been identified as an area of most significance in the current year audit of the financial statements.

Retail
A significant portion of the retail impairment is calculated on a portfolio basis. In calculating the impairment provision on a portfolio basis, statistical models are used. The following inputs to these models require significant management judgement:
› The probability of default (PD);
› The loss given default (LGD);
› The emergence periods (EP) between the impairment event occurring and an individual or collective impairment being recognised; and
› Treatment of cured and renegotiated loans.</td><td>We considered the appropriateness of accounting policies and assessed the loan impairment methodologies applied, and compared these to the requirements of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). We obtained an understanding and tested the relevant controls over the credit origination processes, the credit monitoring processes and credit remediation processes.

Retail
Where impairment provisions were calculated on a modelled basis, we used our valuation expertise to:
› Assess the design and implementation of the models, including significant assumptions and the quality of the observable data used to derive model parameters in relation to our understanding of industry norms;
› Assess the reasonableness of the impairment model methodology applied by management to determine the Probabilities of Default and Loss Given Default used to compute portfolio provisions;
› Evaluate the robustness of the modelling methodology by including management's data in our independent models. Based on our testing performed over modelling methodologies and assumptions applied, we found management's estimates to be within reasonable ranges.
› Assess the appropriateness of management's overlays in light of recent economic events and circumstances, and other factors that might not yet be fully reflected in the modelled results.

Where impairment provisions were individually calculated we challenged the assumptions used by management, with reference to current economic performance, assumptions most commonly used in the industry, and comparison with external evidence or historical trends.</td></tr>
</table>

Independent auditors' report to the shareholders of Barclays Africa Group Limited

Level	Key audit matter	How our audit addressed the matter
	Wholesale and Corporate A significant proportion of Wholesale and Corporate loans are assessed on an individual basis. Significant judgements, estimates and assumptions have been made by management to: › Determine if the loan is impaired; › Evaluate adequacy and recoverability of collateral; › Determine the expected cash flows to be collected; and › Estimate the timing of the future cash flows.	**Wholesale and Corporate** Where specific impairments have been raised, we considered the impairment indicators, uncertainties and assumptions applied by management in their assessment of the recoverability of the exposure and supporting collateral with reference to current economic performance, assumptions most commonly used in the industry, and comparison with external evidence or historical trends. We independently recalculated significant impairment losses and determined management's estimate to be within a reasonable range to our independent expectation. We inspected a sample of legal agreements and supporting documentation to confirm the existence and legal right to collateral. We assessed collateral valuation techniques applied against Group policy and industry standards. We selected a sample of advances that had not been identified as impaired and formed an independent view about the appropriateness of the conclusions reached, including using external evidence to substantiate our views. Where impairment provisions were calculated on a modelled basis, we used our valuation expertise to: › Assess the design and implementation of the models, including significant assumptions and the quality of the observable data used to derive model parameters in relation to our understanding of industry norms; › Assess the reasonableness of the impairment model methodology applied by management to determine the Probabilities of Default and Loss Given Default used to compute portfolio provision; › Evaluate the robustness of the modelling methodology by including management's data in our independent models. Based on our testing performed over modelling methodologies and assumptions applied, we found management's estimates to be within reasonable ranges; › Assess the appropriateness of management's overlays in light of recent economic events and circumstances, and other factors that might not yet be fully reflected in the modelled results. Given the current macroeconomic environment affecting certain resource-related exposures (including oil and gas) and selected agriculture portfolios, we increased our sample of loans to counterparties whose businesses are sensitive to the change in commodity prices and the effect of the drought conditions in Southern Africa.

Independent auditors' report to the shareholders of Barclays Africa Group Limited

Level	Key audit matter	How our audit addressed the matter
Consolidated entity and the separate entity	**Valuation of complex instruments** The disclosure associated with the valuation of complex instruments is set out in the financial statements in the following notes: › Note 1.2.3 – Fair value measurement (page 29) › Note 61 – Fair value disclosures (page 126)	
	Valuation of some financial instruments (such as derivatives, investment securities, the unlisted commercial property finance portfolio and private equity investments) require greater judgement and estimation to determine the appropriate valuation techniques and to source relevant and reliable inputs. Fair value measurement of financial instruments significantly affects profit and loss and disclosures in the financial statements. Due to the magnitude of fair valued financial instruments and the significant management judgements applied, this has been identified as an area of most significance in the current year audit of the financial statements.	We obtained an understanding of and tested the relevant controls in place to evaluate that correct independent market inputs are used in the models. We applied our valuation expertise to a sample of financial instruments and assessed the appropriateness of the valuation models with reference to approaches commonly used. Using our valuation expertise, we assessed the judgements and estimates applied by management against our understanding of current market practice and conditions. We also obtained independently-sourced inputs where available. Where valuation inputs are unobservable, we used our valuation expertise to assess the reasonability of the valuation inputs based on supportable and comparable information and compared these to management's valuation inputs. Based on the results of our work performed, we accepted management's valuation inputs as falling within reasonable ranges. We assessed key assumptions and modelling approaches in estimating credit value adjustments (CVA) and funding value adjustments (FVA) against current market practice. We evaluated gains or losses on significant settled deals to assess calibration of mark-to-model values, and found management's estimates to be within reasonable ranges.
Consolidated entity only	**Valuation of insurance liabilities** The disclosure associated with valuation of insurance liabilities is set out in the financial statements in the following notes: › Note 1.10 – Classification of insurance and investment contracts (page 43) › Note 24 – Policyholder liabilities under insurance contracts (page 66)	
	Uncertainty exists about the recognition and measurement of the liabilities arising from claims made under short-term and long-term insurance contracts. We focused on this area due to valuation complexity and significant judgement applied, and the significance of these balances to the financial statements. Specific areas of focus was the insurance reserving assumptions and methodologies used to determine the incurred but not yet reported claims (IBNR) and insurance policyholder liabilities in Wealth Investment Management and Insurance. Significant judgements, estimates and assumptions have been applied by management to determine: › The level of claims provision and provision for unexpired claims; › Assumptions around future mortality, morbidity, discontinuance rates, and reasonable expectations of benefits and guaranteed benefits and expenses; and › The rate applied to discount future profits.	We assessed and tested the control environment, in particular the design and operating effectiveness of the controls and reconciliations that govern the valuation of the insurance liabilities. We used our valuation expertise to: › Evaluate the models and significant assumptions applied by management's actuaries in the valuation of the insurance liabilities against the results of our model output and assumptions; › Challenge management's actuaries regarding underlying assumptions and methodologies applied in deriving the value of insurance liabilities with reference to economic conditions and performance, and methodologies commonly used. Based on the results of our work performed, we accepted management's assumptions and methodologies as falling within reasonable ranges; › Construct independent models to test the valuation of selected insurance liabilities and compared our modelled results to management's assessment.

Level	Key audit matter	How our audit addressed the matter
Consolidated entity and the separate entity	**Assumptions and methodologies applied in hedge accounting** The disclosure associated with hedge accounting applied is set out in the financial statements in the following notes: › Note 1.7.12 – Hedge accounting (page 41) › Note 59.6 - Derivatives designated as hedging instruments – (page 120)	
	The Group is exposed to financial risks through its diverse product offerings and operations in multiple geographic locations. Hedge accounting is applied on certain portfolios to manage financial risks. We regard this as an area of most significance due to the complex nature of the valuation approaches, the significant judgement associated with assumptions and hedge accounting methodologies, and the significance of these balances to the financial statements.	We considered the appropriateness of accounting policies and assessed the hedge accounting methodologies applied, and compared these to the requirements of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). We assessed and tested the design and operating effectiveness of the controls over the hedge accounting process and the hedge accounting models. We applied our hedge accounting expertise to assess the reasonableness of the inputs and assumptions used in the hedging models. Based on the results of our work performed, we accepted management's assumptions and inputs as falling within reasonable ranges. We applied our valuation expertise to independently re-perform the modelled calculations on a sample basis and compared the results to management's estimates.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the Integrated Report which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the 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.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

Independent auditors' report to the shareholders of Barclays Africa Group Limited

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit 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 Group's and Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. and Ernst & Young Inc. have been the auditors of Barclays Africa Group Limited for 11 and 24 years respectively.

PricewaterhouseCoopers Inc.

Director: Keith Ackerman CA(SA)
Registered Auditor

2 Eglin Road, Sunninghill

Johannesburg

22 February 2017

Ernst & Young Inc.

Director: E van Rooyen CA(SA)
Registered Auditor

102 Rivonia Road, Sandton

Johannesburg

Director's report

General information and nature of activities

The Group, which has a primary listing on the JSE, is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, financial services and wealth management products and services. The Group operates in 12 African countries and employs 41 241 people. The address of the registered office of the Group is the 7th Floor, Barclays Towers West, 15 Troye Street, Johannesburg, 2001.

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

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

The Group has majority stakes in banks in Botswana, Ghana, Kenya, Mauritius, Mozambique, Seychelles, South Africa, Tanzania, Uganda and Zambia. There are also representative offices in Namibia and Nigeria as well as bancassurance operations in Botswana, Kenya, Mozambique, South Africa and Zambia.

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

The consolidated and separate financial statements were approved for issue by the Board Finance Committee, a committee of the Board, on 22 February 2017.

The financial statements presents the financial positions, results of operations and cash flows of the Group and the Company for the reporting period ended 31 December 2016.

Group Audit and Compliance Committee report

Refer to pages 2 to 5.

Group results

Main business and operations

The Group recorded an increase of 5% in headline earnings to **R14 980m** (2015: R14 287m) for the reporting period. Headline earnings per share (HEPS) increased by 5% to **1 769,6 cents** (2015: 1 687,2 cents) and diluted HEPS by 5% to **1 769,4 cents** (2015: 1 686,2 cents).

Some comparative segmental information contained in this set of financial statements has been restated due to business portfolio changes, Refer to note 1.21 of the accounting policies for further details.

Headline earnings were derived from the following activities:

	Group	
	2016 **Rm**	2015[1] Rm
Retail and Business Banking (RBB)	**9 313**	9 605
Retail Banking South Africa	**6 406**	6 691
Business Banking South Africa	**2 138**	2 124
RBB Rest of Africa	**769**	790
Corporate and Investment Bank (CIB)	**5 098**	3 999
Wealth, Investment Management and Insurance (WIMI)	**1 399**	1 452
Head Office, Treasury and other operations	**(830)**	(769)
Headline earnings (refer to note 43)	**14 980**	14 287

Note

[1] These numbers have been restated, refer to note 1.21 and 58.1.

Directors' report

Re-election of retiring directors

In line with international best practice, the Group 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). Yolanda Cuba and Trevor Munday will be required to retire in terms of the above arrangement.

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.

Details of the members of the Board:

Name	Position as director	Current reporting period appointments
C Beggs	Independent non-executive director	
P A Clackson (British)	Non-executive director	
Y Z Cuba	Independent non-executive director	
A B Darko (Ghanaian)	Independent non-executive director	
D W P Hodnett	Deputy Chief Executive Officer	
M J Husain	Independent non-executive director	
W E Lucas-Bull	Independent non-executive director, Chairman	
P B Matlare	Deputy Chief Executive Officer	1 August 2016
M S Merson (British)	Non-executive director	
T S Munday	Lead Independent Director	
D Naidoo	Independent non-executive director	17 May 2016
P S O'Flaherty	Independent non-executive director	1 February 2016
F Okomo-Okello (Kenyan)	Independent non-executive director	
J P Quinn	Financial director	1 September 2016
M Ramos	Chief Executive Officer	
A V Vaswani (Singaporean)	Non-executive director	
R van Wyk	Independent non-executive director	1 February 2017

Shareholder information

	2016		2015	
	Number of shares	**% holding**	Number of shares	% holding
Public and non-public shareholders				
Public	**421 747 152**	**49.7**	317 389 392	37,5
Non-public	**426 003 527**	**50.3**	530 361 287	62,5
Barclays Bank PLC (UK)	**424 723 090**	**50.1**	528 315 581	62,3
Treasury shares[1]	**1 075 595**	**0.1**	2 025 369	0,2
Directors	**204 842**	**0.02**	20 337	0,0
Total	**847 750 679**	**100,0**	847 750 679	100,0

Note

[1] **873 831** shares held by Absa Life Limited (2015: 820 000) and **201 764** (2015: 1 205 369) shares held by trust for share based payments.

Directors' interests in the Company's ordinary shares as at the reporting date

	Direct number of shares Beneficial		Indirect number of shares Beneficial		Total direct and indirect number of shares Beneficial	
	2016	2015	**2016**	2015	**2016**	2015
Present directors						
C Beggs	**2 000**	2 000	**—**	—	**2 000**	2 000
D W P Hodnett	**75 834**	2 966	**—**	—	**75 834**	2 966
M Ramos	**110 237**	4 746	**—**	—	**110 237**	4 746
J P Quinn	**6 146**	—	**—**		**6 146**	—
Y Z Cuba	**1 000**	1 000	**—**	—	**1 000**	1 000
M J Husain	**1 000**	1 000	**—**		**1 000**	1 000
W E Lucas-Bull	**1 000**	1 000	**4 625**	4 625	**5 625**	5 625
T S Munday	**1 000**	1 000	**2 000**	2 000	**3 000**	3 000
	198 217	13 712	**6 625**	6 625	**204 842**	20 337

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

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

Directors' interests in Absa Bank Limited preference shares
As at the reporting date, no director held any preference shares of Absa Bank Limited.

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.

Executive directors are entitled to share awards, the details of which are included in note 66.

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

Directors' and prescribed officers' emoluments
The emoluments and services of directors and prescribed officers are determined by the Group Remuneration Committee (RemCo) as disclosed in note 66.

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

Acquisitions and disposals
Refer to notes 7, 12 and 57 for additional information on the acquisitions and disposals of businesses and other significant assets.

Acquisitions during the current reporting period

In order to continue building and shaping the Group's predictive underwriting products, expertise and technology, the Group acquired a 75% controlling stake in Absa Instant Life Proprietary Limited (Absa Instant Life), previously known as Instant Life Proprietary Limited. The acquisition of the investment had an effective acquisition date of 31 March 2016 and is a business combination within the scope of IFRS 3. The acquisition date fair value of the consideration transferred amounted to R100m.

The non-controlling interest was measured at their proportionate share of the acquiree's identifiable net assets. Goodwill of R20m has been recognised and includes, but is not limited to, the insurer's workforce and the increased market share gained.

From the date of acquisition, Absa Instant Life contributed revenue of R9m to the total income earned by the Group. If the combination had taken place at the beginning of the year, an additional R5m would have been generated by the Group, thereby resulting in a total income of R14m. From the date of acquisition, Absa Instant Life contributed losses after tax of R12m to total profits earned by the Group. If the combination had taken place at the beginning of the year, losses after tax of an additional R3m would have been incurred by the Group, thereby resulting in a total loss after tax of R15m.

Disposals during the current reporting period

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

Dividends

- On 1 March 2016, a final dividend of 550 cents per ordinary share was announced to ordinary shareholders registered on 8 April 2016.
- On 29 July 2016, an interim dividend of 460 cents per ordinary share was announced to ordinary shareholders registered on 9 September 2016.
- On 22 February 2017, a final dividend of 570 cents per ordinary share was approved. The dividend was announced on 23 February 2017 to ordinary shareholders registered on 7 April 2017. This dividend is payable on 10 April 2017.

Special resolutions

The following special resolutions were passed by the company's ordinary shareholders at the AGM held on 17 May 2016, 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 from 1 May 2016 to and including the last day of the month preceding the date of the next AGM thereafter.

- **Special resolution number 2 – General repurchases**

  Resolved that the Company or any subsidiary of the Company may, subject to the Companies Act, the Company's MOI, the JSE Listings Requirements and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase ordinary shares issued by the Company, provided that this authority shall be valid only until the date of the next AGM of the Company or for 15 months from the date of the resolution, whichever is the earlier, and may be varied by a special resolution at any general meeting of the Company at any time prior to the AGM.

- **Special resolution number 3 – Financial assistance to a related or inter-related company/corporation**

  Resolved to enable the Company, 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

PwC and EY continued in office as auditors of the Group for the 2016 reporting period. At the AGM of 16 May 2017, shareholders will be requested to appoint KPMG and EY as auditors of the Group for the 2017 reporting period. P Fourie (KPMG) and E van Rooyen (EY) will be the individual registered auditors that will undertake the audit.

Authorised and issued share capital

Authorised

The authorised share capital of the Company of **R1 760 935 000** (2015: R1 760 935 000) consists of **880 467 500** (2015: 880 467 500) ordinary shares of R2,00 each.

Issued

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

847 750 679 (2015: 847 750 679) ordinary shares of R2,00 each.

No preference shares are currently in issue by the Company.

Consolidated statement of financial position

as at 31 December

	Note	Group 2016 Rm	2015 Rm
Assets			
Cash, cash balances and balances with central banks	2	**50 006**	45 904
Investment securities	3	**114 315**	100 965
Loans and advances to banks	4	**49 789**	85 951
Trading portfolio assets	5	**96 236**	137 163
Hedging portfolio assets	5	**1 745**	2 232
Other assets	6	**25 542**	25 846
Current tax assets		**894**	833
Non-current assets held for sale	7	**823**	1 700
Loans and advances to customers	8	**720 309**	703 359
Reinsurance assets	10	**985**	581
Investments linked to investment contracts	11	**18 816**	19 517
Investments in associates and joint ventures	12	**1 065**	1 000
Investment properties	13	**478**	1 264
Property and equipment	14	**14 643**	13 252
Goodwill and intangible assets	15	**4 049**	3 772
Deferred tax assets	16	**1 328**	1 265
Total assets		**1 101 023**	1 144 604
Liabilities			
Deposits from banks	17	**53 192**	62 980
Trading portfolio liabilities	18	**47 429**	90 407
Hedging portfolio liabilities	18	**2 064**	4 531
Other liabilities	19	**27 696**	24 982
Provisions	20	**3 005**	3 236
Current tax liabilities		**244**	242
Non-current liabilities held for sale	7	**9**	233
Deposits due to customers	21	**674 865**	688 419
Debt securities in issue	22	**139 714**	128 683
Liabilities under investment contracts	23	**29 198**	24 209
Policyholder liabilities under insurance contracts	24	**4 469**	4 340
Borrowed funds	25	**15 673**	13 151
Deferred tax liabilities	16	**1 185**	544
Total liabilities		**998 743**	1 045 957
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	26	**1 693**	1 691
Share premium	26	**4 467**	4 250
Retained earnings		**81 604**	75 785
Other reserves	27	**5 293**	7 566
		93 057	89 292
Non-controlling interest – ordinary shares		**4 579**	4 711
Non-controlling interest – preference shares	28	**4 644**	4 644
Total equity		**102 280**	98 647
Total liabilities and equity		**1 101 023**	1 144 604

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Group 2016 Rm	Group 2015 Rm
Net interest income		**42 003**	38 407
Interest and similar income	29	**85 114**	73 603
Interest expense and similar charges	30	**(43 111)**	(35 196)
Non-interest income		**30 391**	28 791
Net fee and commission income		**20 723**	20 155
Fee and commission income	31	**23 972**	23 152
Fee and commission expense	31	**(3 249)**	(2 997)
Net insurance premium income	32	**6 986**	6 303
Net claims and benefits incurred on insurance contracts	33	**(3 691)**	(3 145)
Changes in investment and insurance contract liabilities	34	**(493)**	(214)
Gains and losses from banking and trading activities	35	**5 691**	3 933
Gains and losses from investment activities	36	**51**	786
Other operating income	37	**1 124**	973
Total income		**72 394**	67 198
Impairment losses on loans and advances	9.1	**(8 751)**	(6 920)
Operating income before operating expenditure		**63 643**	60 278
Operating expenditure	38	**(39 956)**	(37 661)
Other expenses		**(2 120)**	(1 443)
Other impairments	39	**(690)**	(84)
Indirect taxation	40	**(1 430)**	(1 359)
Share of post-tax results of associates and joint ventures	12.1	**115**	129
Operating profit before income tax		**21 682**	21 303
Taxation expense	41	**(5 835)**	(5 899)
Profit for the reporting period		**15 847**	15 404
Profit attributable to:			
Ordinary equity holders		**14 708**	14 331
Non-controlling interest – ordinary shares		**788**	752
Non-controlling interest – preference shares		**351**	321
		15 847	15 404
Earnings per share:			
Basic earnings per share (cents)	42.1	**1 737,5**	1 692,4
Diluted earnings per share (cents)	42.2	**1 737,3**	1 691,4

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Group 2016 Rm	Group 2015 Rm
Profit for the reporting period		**15 847**	15 404
Other comprehensive income			
Items that will not be reclassified to profit or loss		**(220)**	(118)
Movement in retirement benefit fund assets and liabilities		**(220)**	(118)
(Decrease)/Increase in retirement benefit surplus	44	**(120)**	(42)
Increase in retirement benefit deficit	44	**(141)**	(72)
Deferred tax	16	**41**	(4)
Items that are or may be subsequently reclassified to profit or loss		**(2 942)**	888
Movement in foreign currency translation reserve		**(4 529)**	3 428
Differences in translation of foreign operations		**(4 209)**	3 695
Gains released to profit or loss		**(320)**	(267)
Movement in cash flow hedging reserve		**1 726**	(2 223)
Fair value gains/(losses) during the reporting period		**2 721**	(2 029)
Amount removed from other comprehensive income and recognised in profit or loss		**(321)**	(1 058)
Deferred tax	16	**(674)**	864
Movement in available-for-sale reserve		**(139)**	(317)
Fair value losses during the reporting period		**(197)**	(690)
Released to profit or loss	35	**(3)**	210
Deferred tax	16	**61**	163
Total comprehensive income for the reporting period		**12 685**	16 174
Total comprehensive income attributable to:			
Ordinary equity holders		**11 931**	14 649
Non-controlling interest – ordinary shares		**403**	1 204
Non-controlling interest – preference shares		**351**	321
		12 685	16 174

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Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm
Balance at the beginning of the reporting period	845 725	1 691	4 250	75 785	7 566
Total comprehensive income	—	—	—	14 496	(2 565)
Profit for the period	—	—	—	14 708	—
Other comprehensive income	—	—	—	(212)	(2 565)
Dividends paid	—	—	—	(8 536)	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(409)	(12)	—
Elimination of movement in treasury shares held by Group entities	950	2	151	—	—
Movement in share-based payment reserve	—	—	409	—	163
Transfer from share-based payment reserve	—	—	409	—	(409)
Value of employee services	—	—	—	—	495
Conversion from cash-settled schemes	—	—	—	—	37
Deferred tax	—	—	—	—	40
Movement in general credit risk reserve	—	—	—	(30)	30
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	16	(16)
Share of post-tax results of associates and joint ventures	—	—	—	(115)	115
Acquisition of subsidiaries[1,2]	—	—	66	—	—
Balance at the end of the reporting period	846 675	1 693	4 467	81 604	5 293
Note	26	26	26		

Notes

[1] The excess of the purchase price over the Group's share of net assets of Barclays Africa Limited, acquired on 31 July 2013, was accounted for as a deduction against share premium. The sale and purchase agreement between the Group and Barclays Bank PLC allowed for the purchase price to be adjusted for certain items and in June 2016 an agreement was reached on the final purchase price adjustment. As a result Barclays Bank PLC paid R66m to the Group, which was recognised in equity, in line with the accounting of the original transaction.

[2] During the current reporting period the Group acquired a 75% controlling stake in Absa Instant Life (Pty) Ltd which resulted in a R25m increase in non-controlling interest.

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2016

General credit risk reserve Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total equity Rm
727	560	(1 870)	6 461	22	729	937	89 292	4 711	4 644	98 647
—	(183)	1 726	(4 108)	—	—	—	11 931	403	351	12 685
—	—	—	—	—	—	—	14 708	788	351	15 847
—	(183)	1 726	(4 108)	—	—	—	(2 777)	(385)	—	(3 162)
—	—	—	—	—	—	—	(8 536)	(562)	(351)	(9 449)
—	—	—	—	—	—	—	(421)	—	—	(421)
—	—	—	—	—	—	—	153	—	—	153
—	—	—	—	—	163	—	572	2	—	574
—	—	—	—	—	(409)	—	—	—	—	—
—	—	—	—	—	495	—	495	2	—	497
—	—	—	—	—	37	—	37	—	—	37
—	—	—	—	—	40	—	40	—	—	40
30	—	—	—	—	—	—	—	—	—	—
—	—	—	—	(16)	—	—	—	—	—	—
—	—	—	—	—	—	115	—	—	—	—
—	—	—	—	—	—	—	66	25	—	91
757	377	(144)	2 353	6	892	1 052	93 057	4 579	4 644	102 280
27	27	27	27	27	27	27			28	

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium[1] Rm	Retained earnings Rm	Total other reserves Rm
Balance at the beginning of the reporting period	846 870	1 694	4 548	70 237	6 211
Total comprehensive income	—	—	—	14 228	421
Profit for the period	—	—	—	14 331	—
Other comprehensive income	—	—	—	(103)	421
Dividends paid	—	—	—	(8 248)	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(12)	3	—
Elimination of movement in treasury shares held by Group entities	(1 145)	(3)	(289)	—	—
Movement in share-based payment reserve	—	—	3	—	673
Transfer from share-based payment reserve	—	—	3	—	(3)
Value of employee services	—	—	—	—	283
Conversion from cash-settled schemes	—	—	—	—	430
Deferred tax	—	—	—	—	(37)
Movement in general credit risk reserve	—	—	—	(130)	130
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(2)	2
Share of post-tax results of associates and joint ventures	—	—	—	(129)	129
Acquisition of subsidiaries[2]	—	—	—	—	—
Disposal of interest in a subsidiary[3]	—	—	—	(174)	—
Balance at the end of the reporting period	845 725	1 691	4 250	75 785	7 566
Note	26	26	26		

Notes

1 The movement is largely due to the elimination of treasury shares in the share incentive trust. These shares were acquired by the trust as part of the conversion of the cash-settled share-based payment schemes to the equity-settled share-based payment schemes.

2 The Group acquired a 63% shareholding in First Assurance Holdings Limited.

3 The Group disposed of part of its interest in National Bank of Commerce (NBC), reducing its interest from 66% to 55%.

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2015

General credit risk reserve Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total equity Rm
597	912	353	3 465	20	56	808	82 690	3 611	4 644	90 945
—	(352)	(2 223)	2 996	—	—	—	14 649	1 204	321	16 174
—	—	—	—	—	—	—	14 331	752	321	15 404
—	(352)	(2 223)	2 996	—	—	—	318	452	—	770
—	—	—	—	—	—	—	(8 248)	(495)	(321)	(9 064)
—	—	—	—	—	—	—	(9)	—	—	(9)
—	—	—	—	—	—	—	(292)	—	—	(292)
—	—	—	—	—	673	—	676	4	—	680
—	—	—	—	—	(3)	—	—	—	—	—
—	—	—	—	—	283	—	283	4	—	287
—	—	—	—	—	430	—	430	—	—	430
—	—	—	—	—	(37)	—	(37)	—	—	(37)
130	—	—	—	—	—	—	—	—	—	—
—	—	—	—	2	—	—	—	—	—	—
—	—	—	—	—	—	129	—	—	—	—
—	—	—	—	—	—	—	—	209	—	209
—	—	—	—	—	—	—	(174)	178	—	4
727	560	(1 870)	6 461	22	729	937	89 292	4 711	4 644	98 647
27	27	27	27	27	27	27			28	

Consolidated statement of cash flows

for the reporting period ended 31 December

	Note	Group 2016 Rm	2015 Rm
Cash flow from operating activities			
Interest received		**85 093**	72 949
Interest paid		**(42 326)**	(37 424)
Fees and commission received		**23 972**	23 152
Fees and commission paid		**(3 249)**	(2 997)
Insurance premiums and claims		**2 731**	2 891
Net trading and other expenses		**(2 620)**	(1 102)
Cash payments to employees and suppliers		**(37 409)**	(34 545)
Dividends received from banking and trading activities		**56**	87
Income taxes paid		**(6 012)**	(6 191)
Cash flow from operating activities before changes in operating assets and liabilities		**20 236**	16 820
Net decrease/(increase) in trading and hedging portfolio assets		**49 876**	(48 111)
Net increase in loans and advances to customers		**(37 184)**	(62 847)
Net decrease/(increase) in other assets		**20 804**	(17 975)
Net increase in insurance and investment securities		**(13 019)**	(3 217)
Net decrease in trading and hedging portfolio liabilities		**5 005**	42 584
Net increase/(decrease) in insurance and investment contracts		**(45 382)**	992
Net increase/(decrease) in amounts due to customers and banks		**(8 092)**	63 184
Net increase in other liabilities		**14 718**	24 927
Net cash generated from operating activities		**6 962**	16 357
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale		**173**	236
Net decrease/(increase) in investments linked to investment contracts		**160**	(353)
Dividends received from investments in associates and joint ventures		**15**	14
Dividends received from investments linked to investment contracts		**313**	303
Acquisition of associates and joint ventures, net of cash		**(7)**	(40)
Purchase of investment properties	13	**(28)**	(17)
Proceeds from disposal of investment properties	13	**83**	1
Purchase of property and equipment	14	**(4 116)**	(3 649)
Proceeds from disposal of property and equipment	14	**749**	208
Purchase of intangible assets	15	**(1 515)**	(885)
Proceeds from disposal of intangible assets	15	**6**	19
Acquisition and disposal of businesses and other similar transactions, net of cash		**(34)**	(384)
Net cash utilised in investing activities		**(4 201)**	(4 547)
Cash flow from financing activities			
Elimination of treasury shares		**153**	(292)
Purchase of Group shares in respect of equity-settled share-based payment arrangements		**(421)**	(9)
Proceeds from borrowed funds		**2 381**	4 500
Proceeds from ordinary share options exercised by non-controlling shareholders		**—**	4
Repayment of borrowed funds		**(173)**	(2 455)
Dividends paid		**(9 449)**	(9 064)
Net cash utilised in financing activities		**(7 509)**	(7 316)
Net (decrease)/increase in cash and cash equivalents		**(4 748)**	4 494
Cash and cash equivalents at the beginning of the reporting period		**21 366**	16 626
Effect of foreign exchange rate movements on cash and cash equivalents		**1 116**	246
Cash and cash equivalents at the end of the reporting period	55	**17 734**	21 366

1. Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies comply with IFRS, interpretations issued by the IFRS Interpretations Committee (IFRS-IC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act.

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

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

IFRS 2 – Share-based Payments (IFRS 2) (amendments) in relation to the classification and measurement of share-based payment transactions.

The amendments are intended to eliminate diversity in practice in three main areas:

- The classification of a share-based payment transaction with net settlement features for withholding tax obligations;
- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; and
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments have the following impact on the Group:

- The majority of the Group's share schemes are equity-settled. The amendment permits an entity to settle the shares net of the tax obligation whilst maintaining an equity classification for the entire scheme and thus allows the Group to pay the tax authorities from its own cash resources while still maintaining the equity-settled classification. Previously shares had been sold on the employees' behalf to settle their tax obligation. The amendment therefore has an operational benefit for the Group and simplifies the process of settling the equity share schemes;
- The remaining cash-settled schemes within the group are limited and the measurement approach followed is in line with the amendment; and
- The approach followed by the Group upon the conversion of the Group's cash-settled schemes to equity-settled schemes has been adjusted in line with the amendment.

The amendments are effective for reporting periods beginning 1 January 2018, however, the Group has elected to early adopt the amendments due to the operational benefits noted above. The adoption of the amendments did not have a significant impact on prior periods.

Accounting for Acquisitions of Interests in Joint Operations (amendment to IFRS 11 Joint Arrangements (IFRS 11))

The 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 have no impact on the Group, since there were no acquisitions of interests in a joint operation during the reporting period.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendment to IAS 16 Property Plant and Equipment (IAS 16) and IAS 38 Intangible Assets (IAS 38))

The amendments clarify that a depreciation/amortisation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate.

The amendments have no impact on the Group, since the Group does not apply depreciation/amortisation methods to its assets that are based on revenue generated by the assets.

Equity Method in Separate Financial Statements (amendments to IAS 27 Separate Financial Statements (IAS 27) and IAS 28 Investments in Associates and Joint Ventures (IAS28)

The amendments allow an entity to use the equity method to account for investments in subsidiaries, joint ventures and associates in its separate financial statements.

The amendments have no impact on the Group as the Group accounts for investments in associates and joint ventures at cost less impairment in the separate financial statements.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 Consolidated Financial Statements (IFRS 10), IFRS 12 Disclosure of Interests of in Other Entities (IFRS 12) and IAS 28)

The amendments introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances.

The amendments have no impact on the Group as none of the entities in the Group qualifies to be an investment entity under IFRS 10.

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

Disclosure Initiative (Amendments to IAS 1 Presentation of financial statements (IAS 1))

The amendments are designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The amendments have no significant impact on the Group, as materiality is already applied to the financial statements.

Annual improvements (2012 – 2014 Cycle)

These consist of non-urgent but necessary clarifications and amendments to the following standards of IFRS:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosure
- IAS 19 Employee Benefits
- IAS 34 Interim Financial Reporting

The clarifications and amendments did not have a significant impact on the financial statements of the Group as these 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. 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 Group.

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 Group has an established governance process with respect to its approach to credit risk management and any resultant impairment of loans and advances. The governance process includes the existence of the BAGL Models Committee (MC) (a Board committee), Retail and Business Bank Models Forum (RBBMF) and the Corporate and Investment Bank Models Committee (CIBMC) 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 aforementioned committees also approve post-model adjustments applied to models. 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 Impairment Governance Forum.

The consideration of credit risk is a fundamental process for the Group as it ultimately determines impairment losses. This section describes the process and 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 Group is exposed from the level of individual facilities up to the total portfolio level. Integral to this is the calculation of internal credit parameters that are used for credit risk management purposes and in the calculation of regulatory capital (RC), economic capital (EC) and impairment requirements. The key credit parameters used in this process are:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

PD represents the likelihood of a customer defaulting on its obligations within the next 12 months.

EAD is an estimate of the level of credit exposure should the customer default during the next 12 months.

LGD represents an estimate of the percentage of EAD that will not be recovered on a particular credit facility should the customer default during the next 12 months. LGD recognises credit risk mitigation, such as collateral, guarantees or credit derivatives.

Internal and vendor-supplied credit models are used to estimate the key credit parameters of PD, LGD and EAD. The Bank uses different modelling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers. PD, LGD and EAD estimates can be calculated to represent different views of the credit cycle, which are used in different applications. For example, 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 normal conditions.

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

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

These parameters are used for the following credit risk management purposes:

- Credit approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and certain retail portfolios, PD models are used to direct applications to an appropriate credit sanctioning level.
- 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: Regulatory Capital, Economic Capital and earnings volatility measures are used in the Group's risk appetite framework.
- Economic Capital calculations: Credit Economic Capital calculations use PD, LGD and EAD inputs.
- Risk profile reporting: Credit risk reports for senior management make use of model outputs to describe the Group's credit risk profile.

Impairment calculation: under IAS 39, many of the collective impairment estimates incorporate the use of the Group's PD and LGD models, adjusted as necessary.

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. The rating is used in decisions concerning underwriting and account management, and is used to calculate Regulatory Capital, Economic Capital 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 and are reliant on historical data.
- PDs are assigned at account level. Through the cycle as well as point in time PD estimates are calculated and used for different purposes. Point in time PD estimates are used for impairment purposes, while through the cycle estimates are used for capital calculations.
- EADs are assigned at account level and is 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.
- LGD is assigned at account level and is based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default, recovery strategies, cure and write-off rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

Wholesale portfolio

The wholesale rating process relies both on internally developed PD, EAD and LGD rating models and vendor provided solutions. The wholesale rating process relies on quantitative and qualitative assessments that could be manual or automated. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- PD ratings are assigned on a customer level. Information used in the calculation of customer PD ratings includes financial statements, projected cash flows; equity price information; behavioural information (typically used in the SME segment); and qualitative assessments on strength of support, management, operating environment, industry, etc.
- LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process. LGD models are based on internal and external loss data and the judgement of credit experts.
- EAD models aim to replicate the expected utilisation of a customer's facility should a default occur. EADs are assigned 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.

Validation of models

Models undergo independent validation when new models have been developed (initial validation) and on an annual basis (ongoing validation). Retail models are approved by the Retail and Business Bank Chief Risk Officer (RBB CRO) supported by the RBB Models forum (RBBMF). Wholesale models are approved by the Chief Credit Risk Officer (CCO) supported by the CIB Models Committee (CIBMC). The most material models require approval by the BAGL Models Committee (MC). 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)

Default grades

The Group uses two types of PDs, namely:

- TTC PD, which reflects the Group'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 Group's decision-making processes. For communication and comparison purposes, the Group's 21 default grades (DGs), were mapped to external agency rating equivalents as well as 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. The indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

- DG 1 – 9: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BBB- rating and better.
- DG 10 – 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. When converted to a rating agency equivalent, these ratings correspond to a BB+ to B- rating.
- 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 Group will sustain some loss when default occurs.

Approach to impairment of loans and advances

- The Group'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.

For the purpose of a collective evaluation of impairment, financial assets are allocated to groups, based on similar risk characteristics such as 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.

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

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

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 Group'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, 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.

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

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

The replacement of IAS 39 with IFRS 9 Financial Instruments (IFRS 9) will have a significant impact on the Group'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 under a range of future macroeconomic conditions. Refer to note 1.22.

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 the regulatory default definition. 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.

In the wholesale portfolio (including Business Bank and Wealth), 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, non-performing 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 63.2.

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.

  Growth rates in the impairment calculations range from 1,5% to 5,4% (2015: 2% to 4%) and projected cash flow periods approximate 5 years (2015: 5 years).

- The discount rate used to discount the future expected cash flows is based on the the Group's weighted average cost of capital. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free 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 range of discount rates used in the impairment calculations is 13,56% – 13,93% (2015: 12,74% – 13,00%).

Note 15 includes details of the amount recognised by the Group 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 Group'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.

Financial assets and financial liabilities

The Group 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 Group's investment properties is determined through valuations performed by external independent valuators. When the Group'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.

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.

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

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

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 adjustments on amortised cost financial liabilities held in a fair value hedging relationship are taken through profit and loss in the statement of comprehensive income.

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 Group 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 the hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the Group 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 the Group'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
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 and/or Exchange Traded Fund (ETF) models	Spot prices of physical or futures, interest rates and/or volatility
Credit derivatives	Discounted cash flow, option pricing and/or futures pricing models	Interest rates, recovery rates, credit spreads and/or quanto ratios
Equity derivatives	Discounted cash flow, option pricing	Spot prices, interest rates, credit spreads and/or quanto ratios
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
Money market assets	Discounted cash flow models	Money market curves and/or interest rates
Loans and advances to customers	Discounted cash flow models	Interest rates and/or money market curves
Investment securities and investments linked to investment contracts	Listed equity: market bid price Other items: discounted cash flow models	Underlying price of market traded instruments and/or 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, liabilities under investment contracts 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	**2016** Range of estimates utilised for the unobservable inputs	2015
Loans and advances to customers	Discounted cash flow and/or dividend yield models	Credit spreads	**0,5% to 5%**	0,96% to 3,99%
Investment securities and investments linked to investment contracts	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 rate of 13%, comparator multiples between 5 and 10,5**	Discount rates between 8% and 11,5%, comparator multiples between 5 and 10,5
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	**1,2% to 11,16%**	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% to 40%**	0,0% to 23,64%
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%**	17,82% to 67,71%
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	African basis curves (greater than 1 year)	**(16,6)% to 13,1%**	(10,00%) to 10,50%
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	**0,31% to 3,38%**	0,58% to 4,24%
Deposits due to customers	Discounted cash flow models	Barclays Africa Group Limited's funding spreads (greater than 5 years)	**(0,27)% to 2,13%**	1,52% to 2,15%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	**(0,27)% to 2,13%**	(0,20%) to 3,35%
Investment properties	Discounted cash flow models	Estimates of periods in which rental units will be disposed of	**1 to 10 years**	1 to 7 years
		Annual selling price escalations	**1% to 7%**	0% to 6%
		Annual rental escalations	**1% to 7%**	0% to 10%
		Expense ratios	**25% to 50%**	26% to 51%
		Vacancy ratio	**1% to 7%**	1% to 18%
		Income capitalisation rates	**10% to 11%**	8% to 12%
		Risk adjusted discount rates	**14%**	13% to 14%

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, refer to note 61.

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 Group's ability and intent to hold the instrument for a period of time to allow for any anticipated recovery.

Refer to note 39.

1.2.5 Consolidation of structured or sponsored entities

The Group 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 Group controls entities. The key judgements are set out as follows:

Structured entities

The Group 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 Group. Judgement is required in assessing whether an entity is an SE, as well as in determining whether the Group 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 Group is primarily engaged to act on behalf and for the benefit of other parties. When assessing whether the Group 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 Group is entitled.

Assessment of sponsored entities

In addition to the unconsolidated SEs in which the Group has an interest, it also sponsors some unconsolidated SEs in which it has no interest, generally to facilitate client transactions. For the purposes of these disclosures, the Group 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 49 and 50.

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. The year-end balances of subsidiaries' post-retirement benefit obligations are affected by the closing foreign currency exchange rates.

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 Group 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 Group (or its subsidiaries).

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

Investment risk

The actuarial funding valuations make assumptions about the returns that may be available on invested assets. If the return on 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, cash 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.

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

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

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.

Although the Absa Pension Fund has in its entirety been disclosed as a defined benefit plan, the defined contribution portion thereof does not retain salary risk.

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.

Regulatory risk

The funds' benefits are governed by the rules of those funds, operating within the regulatory framework within each country. To the extent that governments can change that regulatory framework, the subsidiaries are exposed to a risk. In particular, regulations introducing issues like minimum benefits or minimum pension increases may result in higher benefits to members and a higher associated cost.

Refer to note 44 for the specific assumptions used and carrying amounts of post-retirement benefits.

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).

Management further relies on input from the Group's legal counsel in assessing the probability of matters of a significant nature. Refer to note 20 for details of provisions recognised and refer to note 54 for details of contingencies recognised.

1.2.8 Income taxes

The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and worldwide provisions for income taxes necessarily involves a degree of estimation and judgement. There are 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 Group's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made. These risks are managed in accordance with the Group's Tax Risk Framework.

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 Group in order to utilise the deferred tax assets.

Further information is included in notes 16, 41 and 54 around estimated tax positions where a high degree of judgement has been applied.

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

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

1.2.9 Share-based payments

The initial fair value of the Group's share-based payment arrangement awards is based on the share price at grant date.

Where the fair value of share awards relating to share-based payments is not based on the Group's share price with a zero strike price, it is determined using option pricing models. The inputs to the option pricing models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values.

Equity-settled share-based payment arrangements

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

Cash-settled share-based payment arrangements

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

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

Note 56 includes details of the Group's share awards. Refer to note 19 for the carrying amount of liabilities arising from cash-settled arrangements.

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

The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

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

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder, taking into account whether a reinsurance contract has been entered into by the Group.

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Group makes estimates and assumptions to provide appropriate levels of claims provision and provision for unexpired risks. Estimates and judgements are regularly adjusted as changes in facts and experience are identified. For more details on the liability arising from claims made under short-term insurance contracts, refer to note 24.

1.2.11 Liabilities arising from claims made under life insurance contracts

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

The value of the insurance liability is determined using assumptions regarding future mortality, morbidity, discontinuance rates, policyholders' reasonable benefit expectations, guaranteed benefits and expenses which all equal the best estimate assumptions used in determining the liabilities. These assumptions are based on recent experience investigations. The discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. For more details on the life insurance contract liability, refer to note 24.

1.2.12 Offsetting financial assets and financial liabilities

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

- In the absence of a contractual agreement that provides for offsetting, the Group applies the common law principles in South Africa when determining whether there is a legally enforceable right to offset. The application of these common law principles is 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 Group's intention to settle on a net basis. In addition, management considers whether there is past practice which indicates that amounts have been offset, for example, customer accounts could be offset before the customer enters into a process of liquidation or customer accounts could be offset when the customer exceeds the limit of the facility granted. Management 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 Group's financial assets and liabilities are presented accurately in accordance with the characteristics of the items in question as resources or obligations of the entity. Refer to note 48.

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

1.3 Consolidation

The consolidated financial statements include those of Barclays Africa Group Limited and all its subsidiaries and controlled SEs.

1.3.1 Subsidiaries

Subsidiaries are all entities (including SEs) over which the Group has control. The Group 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 Group 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 Group. 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 Group has less than half of the voting rights which are consolidated when the substance of the relationship between the Group and the entity indicates that the entity is controlled by the Group. Such entities are deemed to be controlled by the Group 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 Group 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 Barclays Africa Group Limited.

1.3.2 Investments in associates and joint ventures

Associates are entities in which the Group has significant influence, but not control, over its operating and financial policies. Generally the Group 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 Group's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each reporting period by the Group'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 Barclays 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 Group. Such interests include but are not limited to holdings of debt or equity securities, derivatives that transfer financial risks to the Group, 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 Group'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 Group. The Group applies the predecessor accounting method when accounting for common control transactions.

The assets and liabilities of the combining entities are not adjusted to fair value but 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.

1.4 Segment reporting

The Group'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. Summary of significant accounting policies *(continued)*

1.5 Foreign currencies

1.5.1 Foreign currency translations

The Group's foreign operations (including subsidiaries, SEs, joint ventures, associates and branches) based mainly outside South Africa may have different functional currencies. The functional currency of an operation is the currency of the main economy to which it is exposed. Prior to consolidation (or equity accounting) the assets and liabilities of non-rand operations are translated at the closing rate and items of income, expense and OCI are translated into rand at the rate on the date of the transactions. Exchange differences arising on the translation of foreign operations are included in currency translation reserves within equity through OCI. These are transferred to profit or loss when the Group 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 ordinary shares excluding treasury shares held in employee benefit trusts or held for trading. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

1.7 Financial instruments

The Group 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 Group 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 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 Group has the ability to make the fair value designation when this reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by the Group on the basis of its fair value, or includes terms that have substantive derivative characteristics.

Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group'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 Group'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 OCI 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 Group'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. Summary of significant accounting policies *(continued)*

1.7 Financial instruments *(continued)*

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 Group 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 Group, 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.

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 Group'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 Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements are made in this process by management. 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 Group sets out to prove that a risk condition has taken place that will result in an impairment of assets (based on historic experience), but the losses will only be identifiable at an individual borrower level at a future date.

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

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

1.7 *Financial instruments (continued)*

Available-for-sale debt instruments

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in equity (through OCI) is removed from equity (through OCI) and recognised in 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 OCI.

1.7.7 Subordinated debt

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

1.7.8 Offsetting of financial assets and financial liabilities

In accordance with IAS 32, the Group 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 Group 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 Group 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 Group 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 Group may retain an interest in it (continuing involvement) requiring the Group 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. Summary of significant accounting policies *(continued)*

1.7 Financial instruments (continued)

1.7.12 Hedge accounting

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

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

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

Fair value 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.

Hedges of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI. Any ineffective portion of the gain or loss is recognised immediately in profit or loss. Gains or losses on the hedging instrument relating to the effective portion of the hedge are reclassified to profit or loss, on disposal of the foreign operation.

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 Group 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 Group obtains such loans or cash collateral, in exchange for the transfer of collateral.

The Group 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 Group 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 Group 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 Group 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. Summary of significant accounting policies *(continued)*

1.7 Financial instruments (continued)

1.7.14 Compound financial instruments

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

1.7.16 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 Group'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 are 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 Group 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. Gains and losses on derivatives linked to investment contracts are recognised in 'gains and losses from investment activities'.

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

1.9 Revenue recognition (continued)

1.9.3 Net fee and commission income

Fees and commissions charged for services provided or received by the Group are recognised as the services are provided, for example on completion of an underlying transaction.

1.9.4 Net investment income

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

1.9.5 Instalment credit agreements

Leases, instalment credit and rental agreements are regarded as leases. Rentals and instalment receivables, less unearned finance charges, are included under loans and advances. Finance charges are recognised as 'interest and similar income' in 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 Classification of insurance and investment contracts

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

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

1.10.1 Insurance contracts

Short-term insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

Liability adequacy test

At each reporting date, the Group reviews its unexpired risks and undertakes a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums. This is done using the current estimates of future cash flows under its contracts after taking into account the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related acquisition costs) exceeds the estimated future cash flows, the deficiency is recognised in profit or loss by setting up a provision in the statement of financial position. Refer to note 63.

Deferred policy acquisition costs

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

Deferred acquisition costs are amortised in line with expected future premiums. The amortisation is recognised in profit or loss.

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

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

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

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

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

Deferred reinsurance acquisition revenue

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

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

Salvage and subrogation reimbursements

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

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

Life insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

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

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

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

Benefits are recorded as an expense when they are incurred.

Valuation methodology

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

Policyholders' reasonable expectations are allowed for by valuing all guaranteed benefits. Maturity guarantee liabilities have been valued in accordance with the requirements of Advisory Practice Note (APN) 110 issued by the ASSA. In terms of this guidance, an internationally recognised market-consistent stochastic model is used to perform a range of asset projections from which the maturity guarantee liability is derived. In terms of APN 110 the projections allow for at least a certain minimum level of market volatility. The liability is equal to the discounted shortfall (of stimulated maturity values against minimum guarantees values) across all projections for the policies concerned.

Liability adequacy test

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

Reinsurance contracts held

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

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

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-terms receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance agreement. The Group's reinsurance assets are assessed for impairment at each reporting date. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in profit or loss. For historic amounts, the impairment is calculated as the total amount due from reinsurers for which there is a significant probability that the amounts due would not be recoverable less any offsetting amounts. Liabilities are revalued assuming that no reinsurance is ceded.

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

1.10 Classification of insurance and investment contracts (continued)

1.10.1 Insurance contracts *(continued)*

Receivables and payables related to insurance and investment contracts

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

Philosophy on release of profits on the valuation basis

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

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

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

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

Value of business acquired

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

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

1.10.2 Investment contracts

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

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

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

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

Withdrawals from, and deposits in investment contracts are excluded from profit or loss.

1.11 Commodities

Commodities where the Group 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. Summary of significant accounting policies *(continued)*

1.12 Intangible assets

1.12.1 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 Group'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.

1.12.2 Intangible assets other than goodwill

The accounting standard that the Group applies in accounting for intangible assets other than goodwill, is IAS 38 Intangible Assets (IAS 38). Intangible assets include brands, customer lists, internally generated software, licences and other contracts and core deposit intangibles. They are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use.

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

	Customer lists and relationships	**Computer software development costs**	**Other**
Useful lives	Finite	Finite	Finite
Amortisation method used.	Amortised over the period of the expected use on a straight-line basis.	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

1.13 Property and equipment

1.13.1 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 Group 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

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

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

1.13 Property and equipment (continued)

1.13.2 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 Group 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 Group 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 Group 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 Group recognises leased assets on the statement of financial position within property and equipment.

Where the Group 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.

1.13.3 Investment properties

The Group 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 measurement are included in profit or loss.

1.14 Repossessed properties

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

The properties acquired are initially recorded at cost, which is the lower of their fair value (less costs to sell) and the carrying amount of the loan (net of impairment allowance) at the date of exchange. 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'.

1.15 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 Group'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, insurance assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in 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.

1.16 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.

1.17 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 Group 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.

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

1.17 Provisions, contingent liabilities and commitments (continued)

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.

1.18 Employee benefits

1.18.1 Post-retirement benefits

The Group operates a number of pension schemes including defined contribution and defined benefit schemes as well as post-retirement medical aid plans.

Defined contribution schemes

The Group 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 Group 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 opening net defined liability or asset, taking into account any changes in the net defined liability or asset during the period as a result of contribution and benefit payments.

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

Post-employment medical aid plans

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

1.18.2 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 Group 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.

1.18.3 Share-based payments

The Group 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)*

1.19 Tax

1.19.1 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.

1.19.2 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.

1.19.3 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 Group, the Group does not recognise tax on dividends declared.

1.19.4 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.

1.20 Treasury shares

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

1.21 Reporting changes overview

The financial reporting changes that have had an impact on the Group's results for the comparative reporting periods ended 31 December 2015 include changes in reportable segments.

1.21.1 Changes in reportable segments

Refer to note 58 for changes affected to reportable segments, in line with the requirements of IFRS 8.

1.22 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 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement is effective for periods beginning on or after 1 January 2018. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments. The Group will not restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7 Financial Instruments: Disclosures. Any change in carrying amounts from the initial application of IFRS 9 will be recognised in equity.

Impairment

IFRS 9 introduces a revised impairment model which will require entities to recognise expected credit losses based on unbiased forward looking information. This replaces the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred and would measure the loss at the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. This contrasts to the IAS 39 impairment model which is not applicable to loan commitments and financial guarantee contracts (these were covered by IAS 37: Provisions, Contingent Liabilities and Contingent Assets).

The measurement of expected loss will involve increased complexity and judgement including estimation of probabilities of defaults, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk.

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

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

The introduction of the revised impairment model is expected to have a material financial impact and impairment charges will tend to be more volatile. Impairment will also be recognised earlier and the amounts recognised as impairment losses will be higher. It will not be practical to disclose reliable financial impact estimates until the implementation programme and validation and testing are further advanced, which will be no later than the Group's 2017 Annual Consolidated and Separate Financial Statements.

Based on the current requirements of Basel III, the expected increase in the accounting impairment provision would reduce Common Equity Tier 1 (CET1) capital but this impact would be partially mitigated by the 'excess of expected losses over impairment' included in the CET1 calculation. However, the Basel Committee on Banking Supervision (BCBS) is currently considering amending the capital rules as a result of IFRS 9 and is considering transitional rules which may mitigate or spread capital impacts from 1 January 2018, as well as permanent changes to the capital requirements. IFRS 9 is considered in the Group capital planning.

Key concepts and management judgements

The impairment requirements are complex and require management judgements, estimates and assumptions. Key concepts and management judgements will continue to be refined during the 2017 parallel run and as any further authoritative guidance is issued, and include:

Determining a significant increase in credit risk since initial recognition

IFRS 9 requires the recognition of 12 month expected credit losses (the expected credit losses from default events that are expected within 12 months of reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition or which are credit impaired.

The group expects to estimate when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. Quantitative assessments will be based on changes in weighted average cumulative lifetime probabilities of default, determined for each portfolio. Qualitative drivers of a significant increase in credit risk are expected to include exposures determined to be higher risk (by credit risk) and subject to closer credit risk monitoring. Exposures which are more than 30 days past due will be used as a backstop rather than a primary driver. Exposures will move back to stage 1 once they no longer meet the criteria for a significant increase in credit risk and when any cure criteria used for credit risk management are met. The group does not expect to primarily rely on the low credit risk exemption which would assume facilities of investment grade are not significantly deteriorated. Determining the probability of default at initial recognition is expected to require management estimates, in particular for exposures issued before the effective date of IFRS 9. Exposures modified due to financial difficulty do not generally result in a substantial modification or derecognition and therefore the probability of default at initial recognition is not reset for these exposures.

Forward looking information

Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate. Expected credit losses are the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward looking economic scenarios and their associated credit losses, a range of forward looking economic scenarios will be considered to ensure a sufficient unbiased representative sample of the complete distribution is included in determining the expected loss.

Definition of default and credit impaired assets

The definition of default for the purpose of determining expected credit losses is expected to be aligned to the Regulatory Capital CRR Article 178 definition of default, which considers indicators that the debtor is unlikely to pay, includes exposures in forbearance and is no later than when the exposure is more than 90 days past due. When exposures are identified as credit impaired or purchased or originated as such, IFRS 9 requires separate disclosure and interest income to be recognised on the net carrying amount rather than the gross carrying amount.

Expected life

Lifetime expected credit losses must be measured over the expected life of a financial asset. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options, except or certain revolver financial instruments where the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period (for example credit cards and overdrafts). Potential future modifications of contracts are not taken into account when determining the expected life or exposure at default until the modifications occur.

Modelling techniques

Expected credit losses (ECL) are calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD). The Basel ECL calculations will be leveraged for IFRS 9 modelling but adjusted for key differences which include:

- BCBS requires 12 month through the economic cycle losses whereas IFRS 9 requires 12 month or lifetime point in time losses based on conditions at the reporting date and multiple forecasts of the future economic conditions over the expected lives; and
- IFRS 9 models do not include some of the conservative BCBS model floors and downturn assessments and require discounting to the reporting date at the original effective interest rate rather than using the cost of capital to the date of default.

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

1.22 New standards and interpretations not yet adopted (continued)

Management adjustments will be made to modeled output to account for situations where known or expected risk factors and information have not been considered in the modelling process, for example forecast economic scenarios for uncertain political events.

Project governance and credit risk management

The group has a jointly accountable risk and finance implementation and governance programme with representation from all impacted departments. During 2016, work continued on the design and builds of impairment models, systems, processes, governance, controls and data collection and will continue to be refined during 2017. During 2017, there is a planned parallel run which includes continued model, process and output validation, testing, calibration and analysis.

There will be three different appropriate levels of impairment committees. In addition to the existing Group and Business level committees, Legal Entity committees are in place. The CROs and Chief Finance Officers (CFOs) will have joint accountability for signing off the results. Reported results and key messages will be communicated to the Group Audit and Compliance Committee and Risk Executive Committee.

Classification and measurement

IFRS 9 will require financial assets to be classified on the basis of two criteria:

1) The business model within which financial assets are managed; and

2) Their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest').

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest.

Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election for non traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in profit or loss.

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at fair value through profit and loss. Gains and losses on such financial liabilities arising from changes in the Group's own credit risk will be presented in other comprehensive income rather than in profit and loss. There is no subsequent reclassification of realised gains or losses on own credit to profit or loss.

The group's Classification and Measurement implementation programme is in progress. An assessment of potential changes to financial assets has been conducted, including an assessment of business models across various portfolios, and a review of contractual cash flow features for complex financial assets.

There are some classification changes expected but they are not expected to be significant from a Group perspective. Business models are determined on initial application and this may differ from the model at the initial assessment date for certain portfolios, and contractual cash flow characteristics assessed as at this date may not be representative of the population on transition.

The focus of the project during 2017 will be on finalising processes, governance and controls in preparation for initial application in 2018. IFRS 9 is applied retrospectively, although comparatives are not restated, with adjustments arising from classification and measurement changes recognised in opening retained earnings.

Hedge accounting

IFRS 9 contains revised requirements on hedge accounting, which are more closely aligned with an entity's risk management strategies and risk management objectives. The new rules would replace the current quantitative effectiveness test with a simpler version, and requires that an economic relationship exists between the hedged item and the hedging instrument. Under the new rules, voluntary hedge de-designations would not be allowed.

Until the IASB completes its accounting for dynamic risk management project, adoption of the IFRS 9 hedge accounting requirements is optional, and certain aspects of IAS 39, being the portfolio fair value hedge for interest rate risk, would continue to be available for entities (while applying IFRS 9 to the remainder of the entity's hedge accounting relationships).

Based on analysis performed, upon the Group's adoption of IFRS 9, the group expects to continue applying IAS 39 hedge accounting, although it will implement the amended IFRS 7 hedge accounting disclosure requirements.

IFRS 4 Insurance Contracts – Applying IFRS 9 Financial instruments (amendments) allow an entity that issues insurance contracts the opportunity to utilise two options, where IFRS 9 is applied prior to the forthcoming insurance contracts standard.

These are:

(a) the overlay approach – which permits an insurer to reclassify certain income/expenditure, arising from designated financial instruments, from profit or loss to OCI; and

(b) the deferral approach – temporary exemption from IFRS 9 for insurers whose predominant activity is issuing insurance contracts.

The amendments will not have an impact on the Group, as the Group will not elect to apply the overlay approach, and does not qualify for the deferral approach.

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

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

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 (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

The five steps in the model are as follows:

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

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Enhanced guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration and multiple element arrangements, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenues are also introduced.

IFRS 15 is applicable to reporting periods beginning on or after 1 January 2018. An adjusted retrospective application is required. The Group is in the process of assessing the impact.

IFRS 16 Leases (IFRS 16) sets out the principles for the recognition, measurement, presentation and disclosure of leases. One of the key changes brought by IFRS 16 is the elimination of the classification of leases as either operating leases or finance leases for a lessee, and the introduction a single lessee accounting model.

Applying that model, a lessee is required to recognise:

(a) a right of use asset together with a lease liability representing the future lease payments for all leases (unless the lease term is shorter than 12 months or the underlying asset is of low value and the related exemptions are elected); and

(b) depreciation of lease assets separately from interest on lease liabilities in the statement of comprehensive income.

The standard provides revised guidance in defining what constitutes a lease and how the lease term is determined as well as enhanced disclosure requirements for both lessees and lessors about its leasing activities and how exposures are managed.

The effective date of IFRS 16 is 1 January 2019, with an allowance for early adoption, provided the entity applies IFRS 15 at the same time.

The implementation of IFRS 16 is expected to give rise to an increase in property, plant and equipment (right of use assets) and lease liabilities as lessee operating leases are currently not capitalised. This is not expected to have a significant impact on the Group's statement of financial position.

IAS Statement of Cash Flow Statement (IAS 7) (amendments) introduce additional disclosures with respect to the entity's management of liabilities arising from financing activities. The amendments are required to be applied retrospectively and will be applicable to reporting periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact on 2017 disclosures.

IAS 12 Income Taxes (IAS 12) (amendments) clarify the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value. The amendments are effective for reporting periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact.

IAS 40 Investment Property (IAS 40) (amendments) clarify when an entity should transfer property into, or out of, investment property. The amendments are generally required to be applied prospectively and will be applicable to reporting periods beginning on or after 1 January 2018. The Group is in the process of assessing the impact.

IFRIC 22 Foreign Currency Transactions and Advance Considerations clarify the exchange rates to be used in foreign currency transactions depending on whether they are considered monetary or non-monetary in nature. There is a choice as to whether an entity applies the interpretation retrospectively or prospectively; it is applicable to reporting periods beginning on or after 1 January 2018. The Group is in the process of assessing the impact.

	Group 2016 Rm	Group 2015 Rm
2. Cash, cash balances and balances with central banks		
Balances with other central banks	**13 395**	12 141
Balances with the SARB	**18 552**	17 459
Coins and bank notes	**13 141**	12 899
Money market assets	**4 918**	3 405
	50 006	45 904

Included above are money market assets of **R1 578m** (2015: R732m) which are linked to investment contracts (refer to note 23.1).

The minimum reserve balance to be held in cash with the South African Reserve Bank is calculated under the provision of Regulation 27. The balance is 2,5% of the adjusted liabilities as set out in regulation 27. The required average daily minimum reserve balance must be held with the Reserve Bank as from the fifteenth business day of the month following the month to which the BA310 return relates and cannot be utilised in the normal course of business.

	Group 2016 Rm	Group 2015 Rm
3. Investment securities		
Government bonds	**46 781**	45 578
Listed equity instruments	**3 144**	3 034
Money market assets	**26**	39
Other debt securities	**29 062**	20 094
Treasury bills	**32 365**	30 649
Unlisted equity and hybrid instruments	**2 937**	1 571
	114 315	100 965

Government bonds valued at **R10 374m** (2015: R9 725m) have been pledged with the SARB and other Central Banks.

R10 006m (2015: R9 725m) of this amount relates to repurchase agreements.

	Group 2016 Rm	Group 2015 Rm
4. Loans and advances to banks		
Loans and advances to banks	**49 789**	85 951

Included above are reverse repurchase agreements of **R18 768m** (2015: R21 324m) and other collateralised loans of **R635m** (2015: R2 252m) relating to securities borrowed.

	Group 2016 Rm	Group 2015 Rm
5. Trading and hedging portfolio assets		
Commodities	**1 485**	2 005
Debt instruments	**23 753**	29 219
Derivative assets (refer to note 59.4)	**45 153**	78 277
Commodity derivatives	**797**	212
Credit derivatives	**184**	912
Equity derivatives	**1 607**	2 184
Foreign exchange derivatives	**15 210**	27 727
Interest rate derivatives	**27 355**	47 242
Equity instruments	**17 883**	17 321
Money market assets	**7 962**	10 341
Total trading portfolio assets	**96 236**	137 163
Hedging portfolio assets (refer to note 59.6)	**1 745**	2 232
	97 981	139 395

Trading portfolio assets with carrying values of **R13 820m** (2015: R18 111m) and **R2 649m** (2015: R2 001m) were pledged as security for repurchase and scrip lending agreements respectively. 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.

	Group 2016 Rm	Group 2015 Rm
6. Other assets		
Accounts receivable and prepayments	**17 488**	16 121
Deferred costs	**553**	436
Deferred acquisition costs (refer to note 6.1)	**430**	238
Other deferred costs	**123**	198
Inventories	**431**	452
Cost	**433**	484
Write-down	**(2)**	(32)
Retirement benefit fund surplus (refer to note 44)	**553**	631
Settlement accounts	**6 517**	8 206
	25 542	25 846
6.1 Deferred acquisition costs		
Balance at the beginning of the reporting period	**238**	149
Additions	**623**	329
Amortisation charge	**(427)**	(240)
Foreign exchange movement	**(4)**	—
Balance at the end of the reporting period	**430**	238

Deferred acquisition costs relate to the Group's insurance and investment businesses.

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

	Group 2016 Rm	Group 2015 Rm
Non-current assets held for sale		
Balance at the beginning of the reporting period	1 700	972
Disposals	(173)	(383)
Transfer to cash, cash balances and balances with central banks	(33)	—
Transfer to loans and advances to banks	(48)	—
Transfer to other assets	(20)	—
Transfer to reinsurance assets	(140)	—
Transfer to investment securities	(1 140)	—
Transfer from cash, cash balances and balances with central banks	2	—
Transfer from other assets	73	—
Transfer from investment securities	—	1 282
Transfer from investment properties (refer to note 13)	748	—
Fair value adjustments on investment securities	(201)	(15)
Adjustments to underlying assets of subsidiaries held for sale	—	(156)
Increase in other assets	55	—
Balance at the end of the reporting period	823	1 700
Non-current liabilities held for sale		
Balance at the beginning of the reporting period	233	372
Transfer to other liabilities	(93)	—
Transfer to policyholder liabilities under insurance contracts	(140)	—
Transfer from other liabilities	9	—
Adjustments to underlying liabilities of subsidiaries held for sale	—	(139)
Balance at the end of the reporting period	9	233

The following movements in non-current assets and non-current liabilities held for sale were effected during the current financial reporting period:

- RBB transferred investment properties with a total carrying value of R456m and a subsidiary with total assets of R367m and total liabilities of R9m to non-current assets and non-current liabilities held for sale. The Commercial Property Finance (CPF) Equity division disposed of an investment security and investment property with a carrying value of R15m and R64m respectively.
- Head Office disposed of property and equipment with a carrying value of R94m.
- WIMI transferred a consolidated structured entity with total assets of R245m and total liabilities of R233m out of non-current assets and non-current liabilities held for sale. This was done following a reassessment by management of the time expected to be taken to effect disposal.
- CIB transferred investment securities with a carrying value of R1 136m out of non-current assets held for sale. This was done following a change in management intention with regard to disposal.

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

- CIB transferred investment securities with a carrying value of R1 282m to non-current assets held for sale.
- Disposals of non-current assets held for sale occurred in RBB (including CPF) and Head Office.

	Group 2016 Rm	Group 2015 Rm
8. Loans and advances to customers		
Corporate overdrafts and specialised finance loans	**8 285**	8 784
Credit cards	**41 000**	42 257
Foreign currency loans	**29 478**	22 964
Instalment credit agreements, (refer to note 8.1)	**76 219**	74 845
Gross advances	**94 488**	91 931
Unearned finance charges	**(18 269)**	(17 086)
Loans to associates and joint ventures (refer to note 49.5)	**20 183**	17 079
Microloans	**4 636**	3 941
Mortgages	**270 876**	273 078
Other advances	**25 636**	31 204
Overdrafts	**39 920**	37 007
Overnight finance	**15 574**	15 249
Personal and term loans	**86 206**	88 262
Preference shares	**17 443**	16 127
Reverse repurchase agreements (Carries)	**16 116**	20 310
Wholesale overdrafts	**88 453**	69 352
Gross loans and advances to customers	**740 025**	720 459
Impairment losses on loans and advances (refer to note 9)	**(19 716)**	(17 100)
	720 309	703 359

The Group has securitised certain loans and advances to customers, the total value of these securitised assets is **R5 851m** (2015: R12 038m). Included above are collateralised loans of **R191m** (2015: R1 086m) 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 working capital solutions, collateralised loans and specialised products in Rest of Africa.

	Group 2016 Gross advances Rm	2016 Unearned finance charges Rm	2016 Net advances Rm	2015 Gross advances Rm	2015 Unearned finance charges Rm	2015 Net advances Rm
8.1 Instalment credit agreements						
Maturity analysis						
Less than one year	**28 895**	**(7 124)**	**21 771**	29 363	(6 810)	22 553
Between one and five years	**62 859**	**(10 986)**	**51 873**	60 109	(10 155)	49 954
More than five years	**2 734**	**(159)**	**2 575**	2 459	(121)	2 338
	94 488	**(18 269)**	**76 219**	91 931	(17 086)	74 845

The Group 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 **R7 010m** (2015: R5 530m).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R1 660m** (2015: R890m).

	Group 2016 Rm	Group 2015 Rm
9. Impairment losses on loans and advances to customers		
Comprising:		
Identified impairments	**16 806**	14 277
Unidentified impairments	**2 910**	2 823
	19 716	17 100
Note	8	8

9. Impairment losses on loans and advances to customers

Reconciliation of allowance for impairment losses on loans and advances to customers	Group 2016 Retail Banking South Africa Rm	Business Banking South Africa Rm	RBB Rest of Africa Rm	CIB Rm	WIMI Rm	Head Office and other operations Rm	Total Rm
Balance at the beginning of the reporting period	**10 676**	**1 813**	**2 789**	**1 717**	**65**	**40**	**17 100**
Net present value unwind on non-performing book	**(601)**	**(98)**	**—**	**—**	**—**	**—**	**(699)**
Exchange differences	**—**	**—**	**(382)**	**(139)**	**—**	**—**	**(521)**
Transfer between segments	**(4)**	**(16)**	**—**	**20**	**—**	**—**	**—**
Amounts written-off	**(4 294)**	**(442)**	**(941)**	**(248)**	**(7)**	**—**	**(5 932)**
Impairment raised/(reversed) – identified	**6 010**	**591**	**1 395**	**1 019**	**38**	**—**	**9 053**
Impairment raised/(reversed) – unidentified	**158**	**107**	**98**	**413**	**(25)**	**(36)**	**715**
	11 945	**1 955**	**2 959**	**2 782**	**71**	**4**	**19 716**

Reconciliation of allowance for impairment losses on loans and advances to customers	2015 Retail Banking South Africa Rm	Business Banking South Africa Rm	RBB Rest of Africa Rm	CIB Rm	WIMI Rm	Head Office and other operations Rm	Total Rm
Balance at the beginning of the reporting period	10 912	2 028	2 354	754	82	—	16 130
Net present value unwind on non-performing book	(594)	(130)	—	—	—	—	(724)
Exchange differences	—	—	300	136	—	—	436
Transfer between segments	—	—	(86)	86	—	—	—
Amounts written-off	(5 063)	(784)	(719)	(57)	(15)	—	(6 638)
Impairment raised/(reversed) – identified	5 464	572	870	545	(1)	2	7 452
Impairment raised/(reversed) – unidentified	(43)	127	70	253	(1)	38	444
	10 676	1 813	2 789	1 717	65	40	17 100

9.1 Statement of comprehensive income charge

	Group 2016 Rm	Group 2015 Rm
Impairments raised during the reporting period	**9 768**	7 896
Identified impairments	**9 053**	7 452
Unidentified impairments	**715**	444
Recoveries of loans and advances previously written-off	**(1 017)**	(976)
	8 751	6 920

	Group 2016 Rm	Group 2015 Rm
10. Reinsurance assets		
Insurance contracts (refer to note 24)	**985**	581
Life insurance contracts	**93**	24
Short-term insurance contracts	**892**	557
	985	581

Included in 'other assets – accounts receivables and prepayments' is **R531m** (2015: R325m) relating to amounts receivable from reinsurers for claims made against them.

	Group 2016 Rm	Group 2015 Rm
11. Investments linked to investment contracts		
Debt instruments	**506**	694
Derivative instruments (refer to note 59.3)	**39**	19
Listed equity instruments	**15 117**	16 104
Money market instruments	**2 085**	1 105
Unlisted equity and hybrid instruments	**1 069**	1 595
	18 816	19 517

	Group 2016 Rm	Group 2015 Rm
12. Investments in associates and joint ventures		
Unlisted investments	**1 065**	1 000
12.1 Movement in carrying value of associates and joint ventures accounted for under the equity method		
Balance at the beginning of the reporting period	**1 000**	845
Share of current reporting period post-tax results	**115**	129
Share of current reporting period results before taxation	**152**	177
Taxation on reporting period results	**(37)**	(48)
Net movement resulting from acquisitions, disposals and transfers	**7**	40
Dividends received	**(15)**	(14)
Impairment (refer to note 39)	**(42)**	—
Balance at the end of the reporting period	**1 065**	1 000

12.2 *Associates and joint ventures*

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

Group share	Associates 2016 Rm	Associates 2015 Rm	Joint ventures 2016 Rm	Joint ventures 2015 Rm
Post-tax (loss)/profit from continuing operations	**(32)**	2	**147**	127
Total comprehensive income	**(32)**	2	**147**	127

During the current reporting period the Group disposed of its entire 49% shareholding in Rainfin (Pty) Ltd with a carrying value of **Rnil** (2015: R37m).

12. Investments in associates and joint ventures (continued)

12.3 *Analysis of carrying value of associates and joint ventures accounted for under the equity method*

	Group 2016 Rm	Group 2015 Rm
Unlisted investments		
Shares at cost	**100**	150
Share of post-acquisition reserves	**965**	850
	1 065	1 000

12.4 *Carrying value of associates and joint ventures*

	Group 2016 Associates Rm	Group 2016 Joint ventures Rm	Group 2016 Total Rm	Group 2015 Associates Rm	Group 2015 Joint ventures Rm	Group 2015 Total Rm
Equity accounted	**201**	**864**	**1 065**	267	733	1 000
Designated at fair value through profit or loss	**21**	**437**	**458**	22	555	577
	222	**1 301**	**1 523**	289	1 288	1 577

The investment in associates and joint ventures designated at fair value through profit or loss are presented within Investment Securities (note 3).

Refer to note 49.5 for additional disclosure of the Group's investments in associates and joint ventures.

In the prior reporting period the Group acquired additional shares in a non-core joint venture, previously designated at fair value through profit and loss for R14m, resulting in the Group obtaining control of the entity.

13. Investment properties

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**1 264**	727
Additions	**28**	17
Additions through business combinations (refer to note 57.1)	**—**	462
Change in fair value (refer to notes 37 and 38)	**84**	(47)
Disposals[1]	**(83)**	(1)
Foreign exchange movements	**(67)**	106
Transfer to non-current assets held for sale (refer to note 7)	**(748)**	—
Balance at the end of the reporting period	**478**	1 264

Investment properties comprise a number of properties leased to third parties for either commercial or residential use. Each of the leases contains an initial rental period ranging from six months to ten years, depending on the use of the building being leased. Subsequent renewals are negotiated with the lessee. No contingent rentals are charged.

Note

[1] Investment property of R18m was transferred to Property, Plant and Equipment due to a change in the use of the assets during the year.

Notes to the consolidated financial statements
for the reporting period ended 31 December

	Group					
	2016			2015		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
14. Property and equipment						
Computer equipment	**7 546**	**(3 988)**	**3 558**	6 547	(3 499)	3 048
Freehold property	**6 848**	**(477)**	**6 371**	6 618	(431)	6 187
Furniture and other equipment	**8 553**	**(4 534)**	**4 019**	8 080	(4 983)	3 097
Leasehold property	**1 550**	**(923)**	**627**	1 948	(1 067)	881
Motor vehicles	**149**	**(81)**	**68**	140	(101)	39
	24 646	**(10 003)**	**14 643**	23 333	(10 081)	13 252

Group 2016								
Reconciliation of property and equipment	**Opening balance Rm**	**Additions Rm**	**Disposals Rm**	**Transfer from investment properties Rm**	**Foreign exchange movements Rm**	**Depre-ciation Rm**	**Impairments charge Rm**	**Closing balance Rm**
Computer equipment	**3 048**	**1 309**	**(14)**	**—**	**(21)**	**(764)**	**—**	**3 558**
Freehold property	**6 187**	**474**	**(301)**	**18**	**31**	**(38)**	**—**	**6 371**
Furniture and other equipment	**3 097**	**2 089**	**(255)**	**—**	**(129)**	**(783)**	**—**	**4 019**
Leasehold property	**881**	**167**	**(153)**	**—**	**(210)**	**(58)**	**—**	**627**
Motor vehicles	**39**	**66**	**(6)**	**—**	**(4)**	**(27)**	**—**	**68**
	13 252	**4 105**	**(729)**	**18**	**(333)**	**(1 670)**	**—**	**14 643**
Note				13		38	39	

2015								
Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfer from investment properties Rm	Foreign exchange movements Rm	Depre-ciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	2 162	1 600	(18)	—	(2)	(694)	—	3 048
Freehold property	5 298	908	(24)	—	33	(28)	—	6 187
Furniture and other equipment	2 896	1 018	(121)	—	37	(733)	—	3 097
Leasehold property	793	108	(8)	—	56	(67)	(1)	881
Motor vehicles	28	43	(10)	—	4	(26)	—	39
	11 177	3 677	(181)	—	128	(1 548)	(1)	13 252
Note				13		38	39	

Included in the above additions is **R2 111m** (2015: R286m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction. During the year under review, an amount of **R989m** (2015: R236m) was transferred from assets under construction and brought into use.

Investment property was transferred to Property and Equipment due to a change in the use of the assets during the year.

	Group					
	2016			2015		
	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
15. Goodwill and intangible assets						
Computer software development costs	6 700	(3 805)	2 895	5 342	(2 987)	2 355
Customer lists and relationships	674	(611)	63	745	(307)	438
Goodwill	1 081	(165)	916	1 080	(132)	948
Other	269	(94)	175	90	(59)	31
	8 724	(4 675)	4 049	7 257	(3 485)	3 772

	Group 2016								
Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combinations	Disposals Rm	Foreign exchange movements Rm	Amor-tisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	2 355	1 507	23	(9)	(64)	(582)	(335)	—	2 895
Customer lists and relationships	438	—	—	—	—	(31)	(283)	(61)	63
Goodwill	948	—	20	—	(18)	—	(34)	—	916
Other	31	14	102	—	(5)	(28)	—	61	175
	3 772	1 521	145	(9)	(87)	(641)	(652)	—	4 049
Note			57.1			38	39		

	2015								
Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combinations	Disposals Rm	Foreign exchange movements Rm	Amor-tisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	1 945	871	—	(19)	46	(416)	(72)	—	2 355
Customer lists and relationships	480	1	—	—	2	(45)	—	—	438
Goodwill	762	—	164	—	23	—	(1)	—	948
Other	32	13	—	—	—	(14)	—	—	31
	3 219	885	164	(19)	71	(475)	(73)	—	3 772
Note			57.1			38	39		

The majority of computer software development costs were internally generated with the remainder externally acquired. Included in computer software development costs is **R1 581m** (2015: R857m) relating to assets under construction.

During the current year, two of the Group's intangible assets were impaired. An acquired customer list was fully impaired following an adjustment to the interest rate outlook for the related business. The second impairment relates to the costs previously spent by the Group on the Virtual Bank initiative. In calculating the impairment to be recognised, the Group determined the value in use based on a discounted cash flow methodology.

15. Goodwill and intangible assets (continued)

Composition of goodwill

	Group 2016 Rm	Group 2015 Rm
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
Absa Asset Management Proprietary Limited	**30**	30
Barclays Bank of Mauritius Limited	**40**	46
Barclays Bank of Ghana Limited	**65**	65
Glenrand MIB employee benefits and healthcare	**21**	21
Global Alliance Seguros S.A.	**24**	24
Nile Bank Limited	**100**	122
First Assurance Company Limited	**140**	164
Woolworths Financial Services Proprietary Limited	**364**	364
Absa Instant Life Proprietary Limited	**20**	—
	916	948

In considering reasonably possible changes to key assumptions, even if the estimated discount rate and/or growth rate was changed by **2%** (2015: 2%), no additional impairment loss would be recognised (2015: no impairment loss).

16. Deferred tax

16.1 *Reconciliation of net deferred tax liability/(asset)*

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**(721)**	422
Deferred tax on amounts charged directly to other comprehensive income and equity	**(532)**	(986)
Charge to profit or loss (refer to note 41)	**(81)**	(18)
Tax effect of translation and other differences	**1 191**	(139)
Balance at the end of the reporting period	**(143)**	(721)

16.2 *Deferred tax liability/(asset)*

	Group 2016 Rm	Group 2015 Rm
Tax effects of temporary differences between tax and book value for:		
Deferred tax liability	**1 185**	544
Prepayments, accruals and other provisions[1]	**812**	763
Capital Allowances[1]	**1 045**	724
Cash flow hedge and available for sale reserve[1]	**72**	(578)
Fair value adjustments on financial instruments	**(82)**	92
Impairment of loans and advances	**(411)**	(303)
Lease and rental debtor allowances	**(209)**	(179)
Property allowances	**153**	139
Retirement benefit asset and liabilities	**97**	151
Share-based payments	**(292)**	(265)
Deferred tax asset	**(1 328)**	(1 265)
Assessed losses	**(396)**	(293)
Fair value adjustments on financial instruments	**(43)**	(84)
Impairment of loans and advances	**(704)**	(637)
Lease and rental debtor allowances	**(8)**	(8)
Other differences	**(171)**	(169)
Retirement benefit assets	**7**	(60)
Share-based payments	**(13)**	(14)
Net deferred tax liability/(asset)	**(143)**	(721)

16.3 *Future tax relief*

The Group has estimated tax losses of **R2 444m** (2015: R2 262m) which are available for set-off against future taxable income. Deferred tax assets of **R396m** (2015: R293m) relating to tax losses carried forward were recognised.

The assessed losses in Barclays Bank of Mozambique expire after five years of origination. The Group has unrecognised losses of **R1 024m** (2015: R1 215m).

Note

[1] 'Capital allowances' have been disaggregated out of 'Prepayments, accruals and other provisions' in both the current (R1 045m) and prior year (R745m) as well as 'Cash flow hedge and available for sale reserve' have been restated out of 'Prepayments, accruals and other provisions' in both the current (R72m) and prior year (-R572m). These restatements to comparatives were done to provide more relevant detail to users of the annual financial statements.

17. Deposits from banks

	Group 2016 Rm	Group 2015 Rm
Call deposits	**4 874**	8 160
Fixed deposits	**9 895**	8 986
Foreign currency deposits	**15 772**	11 337
Notice deposits	**625**	522
Other	**2 916**	12 180
Repurchase agreements	**19 110**	21 795
	53 192	62 980

18. Trading and hedging portfolio liabilities

	Group 2016 Rm	Group 2015 Rm
Derivative liabilities (refer to note 59.4)	**40 920**	86 695
Commodity derivatives	**819**	107
Credit derivatives	**238**	893
Equity derivatives	**1 366**	3 826
Foreign exchange derivatives	**14 173**	28 563
Interest rate derivatives	**24 324**	53 306
Short positions	**6 509**	3 712
Total trading portfolio liabilities	**47 429**	90 407
Hedging portfolio liabilities (refer to note 59.6)	**2 064**	4 531
	49 493	94 938

19. Other liabilities

	Group 2016 Rm	Group 2015 Rm
Accruals	**2 558**	2 020
Audit fee accrual	**106**	79
Creditors	**12 315**	10 243
Deferred income	**555**	551
Retirement benefit funds and post-retirement medical plan obligations (refer to note 44)	**442**	612
Settlement balances	**11 332**	11 168
Share-based payment liability (refer to note 56)	**388**	309
	27 696	24 982

20. Provisions

	Group 2016 Staff bonuses and incentive provisions Rm	Group 2016 Sundry provisions Rm	Group 2016 Total Rm
Balance at the beginning of the reporting period	1 884	1 352	3 236
Additions	1 116	340	1 456
Amounts used	(1 107)	(447)	(1 554)
Reversals	(6)	(127)	(133)
Balance at the end of the reporting period	1 887	1 118	3 005

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R2 341m** (2015: R2 937m).

Sundry provisions include amounts with respect to fraud cases, litigation and insurance claims.

21. Deposits due to customers

	Group 2016 Rm	Group 2015 Rm
Call deposits	**62 426**	72 172
Cheque account deposits	**200 541**	200 725
Credit card deposits	**1 906**	2 002
Fixed deposits	**166 148**	170 549
Foreign currency deposits	**24 825**	27 865
Notice deposits	**59 358**	48 954
Other	**3 313**	13 971
Repurchase agreements	**3 970**	4 620
Savings and transmission deposits	**152 378**	147 561
	674 865	688 419

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

22. Debt securities in issue

	Group 2016 Rm	Group 2015 Rm
Commercial paper	**1 166**	2 096
Credit linked notes	**10 295**	11 597
Floating rate notes	**60 441**	54 801
Negotiable certificates of deposit	**43 094**	32 767
Other	**706**	549
Promissory notes	**1 171**	1 232
Senior notes	**22 507**	24 916
Structured notes and bonds	**334**	725
	139 714	128 683

	Group 2016 Rm	Group 2015 Rm
23. Liabilities under investment contracts		
Balance at the beginning of the reporting period	**24 209**	23 299
Change in investments contracts (refer to note 34)	**359**	284
Inflows on investment contracts	**7 796**	5 085
Policyholder benefits on investment contracts	**(2 997)**	(4 362)
Linked investment policies	**(169)**	(97)
Balance at the end of the reporting period	**29 198**	24 209

	Group 2016 Total assets linked to investment contracts Rm	Intercompany eliminations[1] Rm	Net assets attributable to external policyholders Rm
23.1 Assets linked to investment contracts			
Deferred taxation	**198**	**—**	**198**
Money market assets (refer to note 2)	**1 578**	**—**	**1 578**
Investments linked to investment contracts (refer to note 11)	**27 504**	**(8 688)**	**18 816**
Other assets	**4**	**—**	**4**
Other liabilities	**(31)**	**—**	**(31)**
	29 253	**(8 688)**	**20 565**

	2015 Total assets linked to investment contracts Rm	Intercompany eliminations[1] Rm	Net assets attributable to external policyholders Rm
Assets linked to investment contracts			
Deferred taxation	—	—	—
Money market assets (refer to note 2)	732	—	732
Investments linked to investment contracts (refer to note 11)	23 483	(3 966)	19 517
Other assets	4	—	4
Other liabilities	(10)	—	(10)
	24 209	(3 966)	20 243

Note

[1] Intercompany eliminations relate to investments held in products of the Group.

24. Policyholder liabilities under insurance contracts

	Group 2016 Gross Rm	Group 2016 Reinsurance Rm	Group 2016 Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 24.1)	1 077	(679)	398
Claims reported and loss adjustment expense	920	(660)	260
Claims incurred but not reported	157	(19)	138
Unearned premiums at the end of the reporting period	986	(213)	773
Balance at the beginning of the reporting period	1 181	(179)	1 002
Foreign exchange movement	(59)	2	(57)
Increase during the reporting period	1 394	(92)	1 302
Release during the reporting period	(1 530)	56	(1 474)
	2 063	(892)	1 171
Long-term insurance contracts (refer to note 24.2)	2 406	(93)	2 313
	4 469	(985)	3 484

	2015 Gross Rm	2015 Reinsurance Rm	2015 Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 24.1)	915	(378)	537
Claims reported and loss adjustment expense	759	(324)	435
Claims incurred but not reported	156	(54)	102
Unearned premiums at the end of the reporting period	1 181	(179)	1 002
Balance at the beginning of the reporting period	1 072	(306)	766
Increase during the reporting period	2 368	(384)	1 984
Release during the reporting period	(2 259)	511	(1 748)
	2 096	(557)	1 539
Long-term insurance contracts (refer to note 24.2)	2 244	(24)	2 220
	4 340	(581)	3 759

	Group 2016 Rm	Group 2015 Rm
Comprising:		
Unit-linked insurance contracts		
Gross	1 427	1 469
Non unit-linked insurance contracts	2 057	2 290
Gross	3 042	2 871
Reinsurance (refer to note 10)	(985)	(581)
	3 484	3 759

24. Policyholder liabilities under insurance contracts (continued)

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

	Group 2016 Gross Rm	Group 2016 Reinsurance Rm	Group 2016 Net Rm
Balance at the beginning of the reporting period	**915**	**(378)**	**537**
Foreign exchange movements	**(44)**	**7**	**(37)**
Cash paid for claims settled during the reporting period	**(2 395)**	**888**	**(1 507)**
Increase in claims arising from the current reporting period's claims outstanding	**1 880**	**(1 088)**	**792**
Increase in claims arising from the previous reporting period's claims outstanding	**721**	**(108)**	**613**
Balance at the end of the reporting period (refer to note 24)	**1 077**	**(679)**	**398**

	2015 Gross Rm	2015 Reinsurance Rm	2015 Net Rm
Balance at the beginning of the reporting period	535	(272)	263
Acquisition of subsidiary	357	(45)	312
Cash paid for claims settled during the reporting period	(2 087)	367	(1 720)
Increase in claims arising from the current reporting period's claims outstanding	1 725	(332)	1 393
Increase in claims arising from the previous reporting period's claims outstanding	385	(96)	289
Balance at the end of the reporting period (refer to note 24)	915	(378)	537

24.2 Reconciliation of gross long-term insurance contracts

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**2 244**	2 264
Change in reinsurance assets	**(69)**	5
Foreign exchange movements	**(8)**	5
Acquisition of subsidiary	**—**	11
Movement on expected claims experience	**105**	13
Transfer adjustment	**—**	16
Change in insurance contract liabilities (refer to note 34)	**134**	(70)
Change in economic assumptions	**(21)**	(57)
Change in methodology	**36**	(33)
Changes in non-economic assumptions	**47**	12
Expected cash flow	**1 109**	896
Expected release of margins	**(1 219)**	(904)
Experience variances	**2**	(18)
Change in liabilities valued on a retrospective basis	**(84)**	(111)
New business	**198**	91
Transfer of policies	**—**	2
Unwind of discount rate	**66**	52
Balance at the end of the reporting period (refer to note 24)	**2 406**	2 244
Recoverable from reinsurers (refer to note 10)	**93**	24
Net liabilities	**2 313**	2 220
Unit-linked liabilities	**1 427**	1 469
Non-linked liabilities	**886**	751
	2 406	2 244

			Group 2016 Rm	Group 2015 Rm
25. Borrowed funds				
Subordinated callable notes issued by Absa Bank Limited				
The following subordinated debt instruments qualify as Tier 2 capital in terms of Basel III.				
Interest rate	**Final maturity date**	**Note**		
8,295%	21 November 2023	i	**1 188**	1 188
10,28%	3 May 2022	ii	**600**	600
Three-month Johannesburg Interbank Agreed Rate (JIBAR) +2,10%	3 May 2022	iii	**400**	400
Three-month JIBAR + 1,95%	21 November 2022	iv	**1 805**	1 805
Three-month JIBAR + 2,05%	21 November 2023	v	**2 007**	2 007
Consumer Price Index (CPI) linked notes, fixed at the following coupon rates: 5,50%	7 December 2028	vi	**1 500**	1 500
Subordinated callable notes issued by Barclays Africa Group Limited				
10,05%	5 February 2025	vii	**807**	807
10,835%	19 November 2024	viii	**130**	130
11,365%	4 September 2025	ix	**508**	508
11,40%	29 September 2025	x	**288**	288
11,74%	20 August 2026	xi	**140**	—
11,81%	3 September 2027	xii	**737**	737
12,43%	5 May 2026	xiii	**200**	—
Three-month Johannesburg Interbank Agreed Rate (JIBAR)				
Three-month JIBAR + 3,30%	19 November 2024	xiv	**370**	370
Three-month JIBAR + 3,50%	5 February 2025	xv	**1 693**	1 693
Three-month JIBAR + 3,50%	4 September 2025	xvi	**437**	437
Three-month JIBAR + 3,60%	3 September 2027	xvii	**30**	30
Three-month JIBAR + 4,00%	5 May 2026	xviii	**31**	—
Three-month JIBAR + 4,00%	20 August 2026	xix	**1 510**	—
Three-month JIBAR + 4,00%	3 November 2026	xx	**500**	—
Subordinated callable notes issued by other subsidiaries				
One-hundred and eighty-two day Zambian Government Treasury Bill rate + 2,50% (capped at 13,00%)	18 May 2016	xxi	**—**	71
United States dollar three-month London Interbank Offered Rate (LIBOR) + 1,00% (non-qualifying)	31 March 2018	xxii	**—**	102
National Bank of Commerce 16,44% fixed rate note	29 January 2024	xxiii	**31**	36
Accrued interest			**805**	684
Fair value adjustments on total subordinated debt instruments			**(44)**	(242)
			15 673	13 151

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

ii. The 10,28% fixed rate notes may be redeemed in full at the option of Absa Bank Limited 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 2022. If Absa Bank Limited 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.

iii. The three-month JIBAR plus 2,10% floating rate notes may be redeemed in full at the option of Absa Bank Limited 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 2022. If Absa Bank Limited does not exercise the redemption option, then the coupon rate payable after 3 May 2017 reprices from three-month JIBAR plus 2,10% to three-month JIBAR plus 4,10%.

25. Borrowed funds (continued)

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

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

vi. The 5,50% CPI linked notes may be redeemed in full at the option of Absa Bank Limited on 7 December 2023. Interest is paid semi-annually in arrears on 7 June and 7 December of each year, provided that the last day of payment shall be 7 December 2028. If Absa Bank Limited does not exercise the redemption option, a coupon step up of 150 basis points (bps) shall apply.

vii. The 10,05% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 February 2020. Interest is paid semi-annually in arrears on 5 February and 5 August. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 5 February 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

viii. The 10,835% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 19 November 2019. Interest is paid semi-annually in arrears on 19 May and 19 November. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 19 November 2019. There is no step-up in the coupon rate if Barclays Africa Group Limited does not exercise the redemption option.

ix. The 11,365% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 4 September 2020. Interest is paid semi-annually in arrears on 4 March and 4 September. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

x. The 11,40% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 29 September 2020. Interest is paid semi-annually in arrears on 29 March and 29 September. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 29 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xi. The 11,74% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 20 August 2021. Interest is paid semi-annually in arrears on 20 August and 20 February. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 20 August 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xii. The 11,81% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 September 2022. Interest is paid semi-annually in arrears on 3 March and 3 September. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xiii. The 12,43% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xiv. The three-month JIBAR plus 3,30% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 19 November 2019. Interest is paid quarterly in arrears on 19 February, 19 May, 19 August and 19 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 19 November 2019. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xv. The three-month JIBAR plus 3,50% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 February 2020. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 February 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xvi. The three-month JIBAR plus 3,50% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 4 September 2020. Interest is paid quarterly in arrears on 4 March, 4 June, 4 September and 4 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xvii. The three-month JIBAR plus 3,60% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xviii. The three-month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

25. Borrowed funds (continued)

xix. The three-month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 20 August 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xx. The three-month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 November 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xxi. The floating rate notes issued by Barclays Zambia, were redeemed in full on 18 May 2016. Interest was paid semi-annually in arrears on 18 May and 18 November.

xxii. The floating rate notes issued by Barclays Bank of Uganda Limited to Barclays Bank PLC were redeemed in full on 31 March 2016. The note bore interest at the USD three-month LIBOR plus 1,00%. Interest was paid quarterly in arrears on 31 March, 30 June, 30 September and 31 December. The group decided to exercise their option to early redeem the note before the redemption date of 31 March 2018.

xxiii. The 16,44% fixed rate notes issued by National Bank of Commerce, may be redeemed in full on 29 January 2019. The notes bear fixed interest at a rate of 16,44%. Interest is paid semi-annually in arrears on 29 July and 29 January.

Notes i to xx are listed on the Bond Exchange of South Africa (BESA).

In accordance with the MOI, the borrowing powers of Absa Bank Limited and Barclays Africa Group Limited are unlimited.

	Group	
	2016 Rm	2015 Rm
26. Share capital and premium		
26.1 Ordinary share capital		
Authorised		
880 467 500 (2015: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
847 750 679 (2015: 847 750 679) ordinary shares of R2,00 each	**1 696**	1 696
1 075 595 (2015: 2 025 369) treasury shares held by Group entities	**(3)**	(5)
	1 693	1 691
Total issued capital		
Share capital	**1 693**	1 691
Share premium	**4 467**	4 250
	6 160	5 941

Authorised shares

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

Unissued shares

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

The Group has a share incentive trust in terms of which shares are issued and share awards are granted. As required by IFRS, Absa Group Limited Share Incentive Trust has been consolidated into the Group's annual financial statements.

Shares issued during the year under review

There were no shares issued during the current reporting period.

Shares issued during the prior year

There were no shares issued during the previous reporting period.

27. Other reserves

27.1 General credit risk reserve

The general credit risk reserve consists of the following:

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

27.2 Available-for-sale reserve

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

27.3 Cash flow hedging reserve

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

27.4 Foreign currency translation reserve

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

27.5 Insurance contingency reserve

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

27.6 Foreign insurance subsidiary regulatory reserve

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

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

27.7 Share-based payment reserve

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

27.8 Associates' and joint ventures' reserve

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

27.9 Retained earnings

The retained earnings comprises of the cumulative total comprehensive income recognised from inception (reduced by any amounts transferred to as separate reserve), and reduced by dividends paid to date and any total comprehensive income relating to disposed subsidiaries.

	Group 2016 Rm	Group 2015 Rm
28. Non-controlling interest – preference shares		
Authorised		
30 000 000 (2015: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2015: 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 only subsidiary that gives rise to a significant non-controlling interest is Absa Bank Limited. While Barclays Africa Group Limited holds 100% of the voting rights in Absa Bank Limited, Absa Bank Limited has preference shares in issue that are disclosed as non-controlling interests.

The preference shares have a dividend rate of 70% of the prime overdraft lending rate. The holders of the preference 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 if a resolution is proposed by Absa Bank Limited which directly affects the rights attached to the preference shares or the interest of the shareholders. Payment of dividends and principal is at the discretion of the Group. The shareholders only have rights to the share capital and share premium linked to the shares, in the event of insolvency, and to any dividend that is declared, but unpaid.

As at the reporting date, there were no preference dividends that have been declared but remain unpaid. Refer to the consolidated financial statements of Absa Bank Limited for detailed information regarding the financial position and financial performance of Absa Bank Limited.

	Group 2016 Rm	Group 2015 Rm
29. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	13	22
Fair value adjustments on hedging instruments	(1 936)	2 365
Investment securities	10 172	5 842
Loans and advances to banks	1 794	1 257
Loans and advances to customers	73 708	63 125
Corporate overdrafts and specialised finance loans	801	442
Credit cards	6 721	6 566
Foreign currency loans	930	720
Instalment credit agreements	8 053	7 365
Interest on impaired financial assets (refer to note 9)	699	724
Loans to associates and joint ventures	1 481	1 135
Microloans	1 020	759
Mortgages	25 443	21 959
Other advances	1 397	1 142
Overdrafts	4 347	3 521
Overnight finance	1 350	1 095
Personal and term loans	13 330	11 921
Preference shares	1 271	952
Wholesale overdrafts	6 865	4 824
Other interest	1 363	992
	85 114	73 603
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 59.9)	1 340	(1 591)
Investment securities	1 736	(1 523)
Loans and advances to customers	(396)	(68)
Fair value adjustments on hedging instruments	(1 750)	2 630
Cash flow hedges (refer to note 59.7)	268	1 111
Economic hedges	153	75
Fair value hedges (refer to note 59.9)	(2 171)	1 444
Interest on financial assets held at amortised cost	83 250	68 190
Interest on financial assets held as available-for-sale financial assets	3 851	2 833
Interest on financial assets designated at fair value through profit or loss	(1 577)	1 541
Cash, cash balances and balances with central banks	8	17
Fair value hedging instruments (refer to note 59.9)	(186)	(265)
Investment securities	1 045	1 623
Loans and advances to customers	(2 444)	166
	85 114	73 603

Interest income on ‘other advances’ includes items such as interest on factored debtors’ books.

Other interest includes items such as overnight interest on contracts as well as interest income on defined benefit plan assets.

Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2016 Rm	Group 2015 Rm
30. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds[1]	1 675	955
Debt securities in issue	10 763	7 536
Deposits due to customers	28 792	25 704
Call deposits	5 121	3 778
Cheque account deposits	4 108	4 086
Credit card deposits	7	8
Fixed deposits	7 838	7 634
Foreign currency deposits	19	40
Notice deposits	4 047	3 205
Other deposits due to customers	1 494	1 717
Savings and transmission deposits	6 158	5 236
Deposits from banks	2 154	959
Call deposits	376	425
Fixed deposits	1 823	523
Foreign currency deposits	—	11
Other	(45)	—
Fair value adjustments on hedging instruments	(890)	573
Other[1]	617	(531)
	43 111	35 196
Classification of interest expense and similar charges		
Fair value adjustments on amortised cost items instruments in a fair value hedging relationship (refer to note 59.9)	866	(925)
Borrowed funds[1]	171	(190)
Debt securities in issue	695	(735)
Fair value adjustments on hedging instruments	(856)	717
Cash flow hedges (refer to note 59.7)	8	(135)
Economic hedges	—	10
Fair value hedges (refer to note 59.9)	(864)	842
Interest on financial liabilities designated at fair value through profit or loss	8	(144)
Borrowed funds[1]	42	—
Fair value hedging instruments (refer to note 59.9)	(34)	(144)
Interest on financial liabilities held at amortised cost[1]	43 093	35 548
	43 111	35 196

Other interest and similar charges includes items such as interest expense on the defined benefit obligation, overnight interest on contracts for difference as well as inter-segment eliminations between 'interest and similar income', 'interest expense and similar charges' and 'gains and losses from banking and trading activities'.

Note

[1] Interest expenses **R315m** (31 December 2015) in the prior year have been restated from 'Borrowed Funds' and placed within 'Other' to ensure more useful and accurate information.

31. Net fee and commission income

	Group 2016 Rm	Group 2015 Rm
Asset management and other related fees	**169**	108
Consulting and administration fees	**743**	779
Credit-related fees and commissions	**17 938**	17 279
Cheque accounts	**4 334**	4 159
Credit cards	**2 609**	2 172
Electronic banking	**5 012**	4 871
Other	**3 699**	3 786
Savings accounts	**2 284**	2 291
Insurance commission received	**1 128**	1 145
Asset management, markets execution and investment banking fees	**400**	333
Merchant income	**1 757**	1 731
Other	**393**	334
Trust and other fiduciary service fees	**1 444**	1 443
Portfolio and other management fees	**1 147**	1 151
Trust and estate income	**297**	292
Fee and commission income	**23 972**	23 152
Fee and commission expense	**(3 249)**	(2 997)
Brokerage fees[1]	**(142)**	(126)
Cheque processing fees	**(134)**	(127)
Clearing and settlement charges[1]	**(711)**	(560)
Notification fees[1]	**(202)**	(192)
Insurance commission paid	**(1 150)**	(1 039)
Other[2]	**(797)**	(829)
Valuation fees	**(113)**	(124)
	20 723	20 155

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

31.1 Included above are net fees and commissions linked to financial instruments not at fair value

	Group 2016 Rm	Group 2015 Rm
Cheque accounts	**4 334**	4 159
Credit cards	**2 609**	2 172
Electronic banking	**5 012**	4 871
Other	**3 699**	3 786
Savings accounts	**2 284**	2 291
Fee and commission income	**17 938**	17 279
Fee and commission expense	**(1 709)**	(1 622)
	16 229	15 657

Credit cards include acquiring and issuing fees.

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

Notes

[1] The Group has reassessed the presentation of the component net fee and commission expenditure. 'Brokerage fees', 'Clearing and settlement charges', and 'Notification fees' are separately presented in the current reporting period. In the previous reporting period, these amounts were included within 'Other fee and commission expense'.

[2] In the current reporting year, the Group presents 'Transaction-based legal fees' of **R1m** (2015: R1m) and 'Trust and other fiduciary service fees' of **R62m** (2015: R71m), within 'Other fee and commission expense'.

32. Net insurance premium income

	Group 2016 Rm	Group 2015 Rm
Gross insurance premiums	**8 102**	8 181
Life insurance contracts	**3 733**	3 346
Short-term insurance contracts	**4 369**	4 835
Premiums ceded to reinsurers	**(1 116)**	(1 878)
Reinsurance on life insurance contracts	**(321)**	(239)
Reinsurance on short-term insurance contracts	**(795)**	(1 639)
	6 986	6 303
Comprising (net of reinsurance)		
Life	**3 412**	3 107
Credit life	**1 550**	859
Funeral business	**670**	502
Home mortgage protection	**630**	601
Other	**562**	1 145
Short-term	**3 574**	3 196
Commercial business	**619**	271
Personal business	**2 955**	2 925
	6 986	6 303

33. Net claims and benefits incurred on insurance contracts

	Group 2016 Rm	Group 2015 Rm
Gross claims and benefits incurred on insurance contracts	**4 387**	4 178
Life insurance claims and benefits	**1 207**	1 110
Short-term insurance claims and benefits	**3 180**	3 068
Reinsurance recoveries	**(696)**	(1 033)
Reinsurance recoveries on life insurance contracts	**(129)**	(135)
Reinsurance recoveries on short-term insurance contracts	**(567)**	(898)
	3 691	3 145
Comprising (net of reinsurance)		
Life	**1 078**	975
Credit life	**321**	166
Funeral business	**178**	148
Home mortgage protection	**380**	373
Other	**199**	288
Short-term	**2 613**	2 170
Commercial business	**997**	358
Personal business	**1 616**	1 812
	3 691	3 145

34. Changes in investment and insurance contract liabilities

	Group 2016 Rm	Group 2015 Rm
Change in insurance contract liabilities (refer to note 24.2)	**134**	(70)
Change in investment contract liabilities (refer to note 23)	**359**	284
	493	214

35. Gains and losses from banking and trading activities

	Group 2016 Rm	Group 2015 Rm
Net gains/(losses) on investments	**237**	(225)
Debt instruments designated at fair value through profit or loss	**225**	18
Equity instruments designated at fair value through profit or loss	**9**	(33)
Available-for-sale unwind from reserves	**3**	(210)
Net trading result	**5 341**	4 103
Net trading income excluding the impact of hedge accounting	**5 431**	4 253
Ineffective portion of hedges	**(90)**	(150)
Cash flow hedges (refer to note 59.7)	**(53)**	(188)
Fair value hedges (refer to note 59.9)	**(37)**	38
Other gains	**113**	55
	5 691	3 933

Net trading result and other gains on financial instruments

	Group 2016 Rm	Group 2015 Rm
Net trading income excluding the impact of hedge accounting	**5 431**	4 242
(Losses)/gains on financial instruments designated at fair value through profit or loss	**(3 423)**	7 119
Net losses on financial assets designated at fair value through profit or loss	**(767)**	(1 036)
Net (losses)/gains on financial liabilities designated at fair value through profit or loss	**(2 656)**	8 155
Gains/(losses) on financial instruments held for trading	**8 854**	(2 877)
Other gains	**113**	55
Gains on financial instruments designated at fair value through profit or loss	**61**	41
Gains on financial instruments held for trading	**52**	14

	Group 2016 Rm	Group 2015 Rm
36. Gains and losses from investment activities		
Net gains on investments activities	**47**	679
Policyholder insurance contracts	**201**	85
Policyholder investment contracts	**(445)**	337
Shareholder funds	**291**	257
Other gains	**4**	107
	51	786
Classification of gains from investment activities		
Gains on financial instruments designated at fair value through profit or loss	**41**	681
Other	**6**	(2)
	47	679

	Group 2016 Rm	Group 2015 Rm
37. Other operating income		
Foreign exchange differences, including amounts recycled from other comprehensive income	**360**	327
Income from investment properties	**242**	144
Change in fair value (refer to note 13)	**84**	35
Rentals	**158**	109
Income from maintenance contracts	**36**	30
Profit on disposal of intangible assets	**—**	7
Profit on sale of property and equipment	**9**	14
Profit on disposal of developed properties	**17**	31
Gross sales	**47**	81
Cost of sales	**(30)**	(50)
(Loss)/profit on sale of repossessed properties	**(25)**	13
Gross sales	**23**	38
Cost of sales	**(48)**	(25)
Rental income	**76**	79
Sundry income	**409**	328
	1 124	973

'Sundry income' includes service fees levied on asset finance as well as profit on disposal of non-core assets.

38. Operating expenses

	Group 2016 Rm	Group 2015 Rm
Administration fees	**722**	788
Amortisation of intangible assets (refer to note 15)	**641**	475
Auditors' remuneration	**319**	277
Audit fees – current reporting period	**222**	213
Audit fees – under provision	**15**	8
Audit-related fees	**44**	47
Other services	**38**	9
Cash transportation	**963**	884
Depreciation (refer to note 14)	**1 670**	1 548
Equipment costs	**461**	441
Rentals	**95**	83
Maintenance	**366**	358
Information technology	**3 131**	2 274
Investment properties charges – change in fair value (refer to note 13)	**—**	82
Marketing costs	**1 585**	1 740
Operating lease expenses on properties	**1 665**	1 657
Other	**1 737**	1 650
Printing and stationery	**405**	390
Professional fees	**1 742**	1 902
Property costs	**1 718**	1 563
Staff costs	**22 090**	20 902
Bonuses	**1 902**	1 875
Other	**1 179**	1 061
Salaries and current service costs on post-retirement benefit funds	**17 878**	16 984
Deferred cash and share-based payments (refer to note 56)	**755**	662
Training costs	**376**	320
Telephone and postage	**1 107**	1 088
	39 956	37 661

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 **R286m** (2015: R357m).

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.

	Group 2016 Rm	Group 2015 Rm
39. Other impairments		
(Reversal)/impairment raised on financial instruments	(4)	10
Other	694	74
Goodwill (refer to note 15)	34	1
Intangible assets (refer to note 15)	618	72
Investments in associates and joint ventures (refer to note 12)	42	—
Property and equipment (refer to note 14)	—	1
	690	84

	Group 2016 Rm	Group 2015 Rm
40. Indirect taxation		
Training levy	193	180
VAT net of input credits	1 237	1 179
	1 430	1 359

	Group 2016 Rm	Group 2015 Rm
41. Taxation expense		
Current		
Foreign taxation	267	178
Current tax	5 623	5 673
Current tax – previous reporting period	26	66
	5 916	5 917
Deferred		
Deferred tax (refer to note 16.1)	(81)	(18)
Accelerated tax depreciation	188	109
Allowances for loan losses	(174)	(130)
Other provisions	(457)	(137)
Other temporary differences	(204)	208
Fair value adjustments on financial instruments	419	(69)
Retirement benefit fund and liabilities	147	1
	5 835	5 899
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	21 682	21 303
Share of post-tax results of associates and joint ventures (refer to note 12)	(115)	(129)
	21 567	21 174
Tax calculated at a tax rate of 28%	6 039	5 929
Effect of different tax rates in other countries	64	62
Expenses not deductible for tax purposes	505	510
Recognition of previously unrecognised deferred tax assets	(198)	
Income not subject to tax	(784)	(708)
Other	37	57
Non-taxable portion of capital gain	172	49
	5 835	5 899

42. Earnings per share

42.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders, by the weighted average number of ordinary shares in issue during the reporting period

	Group 2016 Rm	Group 2015 Rm
Basic earnings attributable to ordinary equity holders	**14 708**	14 331
Weighted average number of ordinary shares in issue (millions)	**846,5**	846,8
Issued shares at the beginning and end of the reporting period	**847,8**	847,8
Treasury shares held by Group entities (weighted)	**(1,3)**	(1,0)
Basic earnings per share (cents)	**1 737,5**	1 692,4

42.2 Diluted earnings per share

Diluted earnings are determined by adjusting profit or loss attributable to the ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares

	Group 2016 Rm	Group 2015 Rm
Diluted earnings attributable to ordinary equity holders	**14 708**	14 331
Diluted weighted average number of ordinary shares in issue (millions)	**846,6**	847,3
Weighted average number of ordinary shares in issue	**846,5**	846,8
Adjustments for share options issued at no value	**0,1**	0,5
Diluted earnings per share (cents)	**1 737,3**	1 691,4

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

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

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

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

	Group			
	2016		2015	
	Gross Rm	**Net Rm**	Gross Rm	Net Rm

43. Headline earnings

	2016 Gross Rm	**2016 Net Rm**	2015 Gross Rm	2015 Net Rm
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Group		**14 708**		14 331
Total headline earnings adjustment:		**272**		(44)
IAS 36 – Goodwill impairment (refer to note 39)	**34**	**34**	1	1
IFRS 5 – Gains on disposal of non-current assets held for sale	**(31)**	**(25)**	(1)	(1)
IAS 16 – Profit on disposal of property and equipment	**(29)**	**(21)**	(13)	(10)
IAS 21 – Recycled foreign currency translation reserve	**(320)**	**(297)**	(267)	(267)
IAS 28 – Impairment of investments in associates and joint ventures (refer to note 39)	**42**	**34**	—	—
IAS 36 – Impairment of property and equipment (refer to note 39)	**—**	**—**	1	1
IAS 36 – Impairment of intangible assets (refer to note 39)	**618**	**610**	72	51
IAS 38 – Gain on disposal of intangible assets (refer to note 37)	**—**	**—**	(7)	(5)
IAS 39 – Release of available-for-sale reserves (refer to note 35)	**(3)**	**(2)**	210	152
IAS 40 – Change in fair value of investment properties	**(70)**	**(61)**	47	34
		14 980		14 287
Headline earnings per ordinary share (cents)		**1 769,6**		1 687,2
Diluted headline earnings per ordinary share (cents)		**1 769,4**		1 686,2

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

44. Retirement benefit obligations

	Group **2016 Rm**	2015 Rm
Surplus disclosed in 'Other assets'		
Absa Pension Fund defined benefit plan (refer to notes 6 and 44.1.1)	**466**	466
Other defined benefit plans of subsidiaries (refer to notes 6 and 44.2.1)	**87**	165
	553	631
Obligations disclosed in 'Other liabilities'		
Subsidiaries' post-retirement medical aid plans (refer to notes 19 and 44.3)	**198**	175
Other defined benefit plans of subsidiaries (refer to notes 19 and 44.2.1)	**244**	437
	442	612
Statement of comprehensive income charge included in staff costs and interest expense		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 44.1.6)	**(15)**	12
Other defined benefit plans of subsidiaries in a deficit position (refer to note 44.2.6)	**71**	41
Other defined benefit plans of subsidiaries in a surplus position (refer to note 44.2.6)	**(21)**	(65)
Subsidiaries' post-retirement medical aid plans	**(11)**	18
	24	6
Recognised in other comprehensive income		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 44.1.6)	**17**	(12)
Other defined benefit plans of subsidiaries in a deficit position (refer to note 44.2.6)	**70**	9
Other defined benefit plans of subsidiaries in a surplus position (refer to note 44.2.6)	**119**	54
Subsidiaries' post-retirement medical aid plans	**55**	63
	261	114

44. Retirement benefit fund obligations *(continued)*

The Group operates a number of pension fund schemes (defined benefit schemes and defined contribution schemes) and post-retirement medical aid plans. The most significant schemes operated by the Group are the Absa Pension Fund and the Barclays Bank Kenya Pension Fund. Apart from these, the Group operates a number of smaller pension and post-retirement medical aid plans. The benefits provided under these schemes, the approach to funding, and the legal basis of the plans reflect their local environments.

44.1 The 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 once every three years. The most recent statutory valuation of The Fund was effected on 31 March 2016 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 Accounts (ESA). According to The Fund rules and the PF Act, 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 PF 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 objective of the Board is to direct, control and oversee the operations 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, that they 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 were amended in July 2015 to allow a retiring member who had joined the Fund before 1 July 2015 the choice to receive either a conventional annuity or a living annuity from the Fund (as was previously the case) or to purchase a pension from a registered insurer (new option). Members joining the Fund on or after 1 July 2015 have the choice to receive a living annuity from the Fund or to purchase a pension from a registered insurer.

Should a retiree elect a conventional annuity, the Group is thereafter exposed to longevity and other actuarial risk. The conventional annuity is calculated based on the defined contribution plan assets at the retirement date. The Group 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 as well as members who joined the fund on/after 1 July 2015 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. Net defined benefit assets relating to these pensioners that have elected to receive a living annuity, amount to **R3 539,5m** (2015: R3 315,1m).

	Group Absa Pension Fund	
	2016	2015
Categories of The Fund		
Defined benefit active members	**20**	21
Defined benefit deferred pensioners	**3**	3
Defined benefit pensioners	**8 427**	8 533
Defined contribution active members	**28 896**	31 328
Defined contribution pensioners	**2 735**	2 561
Duration of the scheme – defined benefit (years)	**9,6**	10,0
Duration of the scheme – defined contribution (years)	**23,3**	23
Expected contributions to The Fund for the next 12 months (Rm)	**1 497,6**	1 625

The benefits provided by the defined benefit portion of The Fund are based on a formula, taking into account years of membership and remuneration levels. The benefits provided by the defined contribution portion of The Fund 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 Group has measured the liability for the defined contribution portion of The Fund 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 Group'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 Liability Driven Investment (LDI) mandate. This mandate has been introduced in the 2015 reporting period, previously, the Fund was 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.

44. Retirement benefit fund obligations *(continued)*

44.1 Absa Pension Fund (continued)

44.1.1 Reconciliation of the net defined benefit plan surplus

	Group 2016 Rm	Group 2015 Rm
Reconciliation of the net surplus		
Present value of funded obligations	(25 037)	(24 398)
Defined benefit portion	(7 491)	(7 390)
Defined contribution portion	(17 546)	(17 008)
Fair value of the plan assets	27 102	26 341
Defined benefit portion	9 556	9 333
Defined contribution portion	17 546	17 008
Funded status	2 065	1 943
Irrecoverable surplus (effect of asset ceiling)	(1 599)	(1 477)
Net surplus arising from the defined benefit obligation	466	466

44.1.2 Reconciliation of movement in the funded obligation

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	(24 398)	(23 236)
Defined benefit portion	(7 390)	(7 372)
Defined contribution portion	(17 008)	(15 864)
Reconciling items – defined benefit portion	(101)	(18)
Actuarial gains – financial	97	378
Actuarial gains/(losses) – experience adjustments	178	(30)
Benefits paid	648	553
Current service costs	(30)	(48)
Interest expense	(729)	(588)
Defined contribution member transfers	(265)	(283)
Reconciling items – defined contribution portion	(538)	(1 144)
Increase in obligation linked to plan assets return	(1 299)	(1 251)
Employer contributions	(866)	(878)
Employee contributions	(587)	(617)
Disbursements and member transfers	2 214	1 602
Balance at the end of the reporting period	(25 037)	(24 398)

44.1.3 Reconciliation of movement in the plan assets

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	26 341	24 762
Defined benefit portion	9 333	8 898
Defined contribution portion	17 008	15 864
Reconciling items – defined benefit portion	223	435
Benefits paid	(648)	(553)
Employer contributions	2	—
Interest income	923	710
Return on plan assets in excess of interest	(319)	(5)
Defined contribution member transfers	265	283
Reconciling items – defined contribution portion	538	1 144
Return on plan assets	1 299	1 251
Employer contributions	866	878
Employee contributions	587	617
Disbursements and member transfers	(2 214)	(1 602)
Balance at the end of the reporting period	27 102	26 341

	Group 2016 Rm	Group 2015 Rm

44. Retirement benefit fund obligations *(continued)*
44.1 Absa Pension Fund (continued)
44.1.4 Reconciliation of movement in the irrecoverable surplus

	2016 Rm	2015 Rm
Balance at the beginning of the reporting period	**(1 477)**	(1 060)
Interest on irrecoverable surplus	**(149)**	(86)
Changes in the irrecoverable surplus in excess of interest	**27**	(331)
Balance at the end of the reporting period	**(1 599)**	(1 477)

44.1.5 Nature of the pension fund assets
Plan assets relating to the defined benefit plan

	Group 2016 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Defined benefit portion	**4 560**	**4 499**	**497**	**9 556**
Quoted fair value	**4 450**	**4 465**	**387**	**9 302**
Unquoted fair value	**3**	**—**	**16**	**19**
Own transferable financial instruments	**107**	**34**	**1**	**142**
Investments in listed property entities/funds	**—**	**—**	**93**	**93**
Defined contribution portion	**3 138**	**9 659**	**4 749**	**17 546**
Quoted fair value	**1 861**	**9 598**	**3 057**	**14 516**
Unquoted fair value	**828**	**—**	**909**	**1 737**
Own transferable financial instruments	**449**	**61**	**3**	**513**
Investments in listed property entities/funds	**—**	**—**	**780**	**780**
	7 698	**14 158**	**5 246**	**27 102**

	Group 2015 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Defined benefit portion	4 391	4 341	601	9 333
Quoted fair value	3 734	4 301	373	8 408
Unquoted fair value	578	—	136	714
Own transferable financial instruments	79	40	—	119
Investments in listed property entities/funds	—	—	92	92
Defined contribution portion	2 985	9 400	4 623	17 008
Quoted fair value	1 526	9 340	3 229	14 095
Unquoted fair value	1 044	—	469	1 513
Own transferable financial instruments	415	60	161	636
Investments in listed property entities/funds	—	—	764	764
	7 376	13 741	5 224	26 341

44. Retirement benefit fund obligations *(continued)*

44.1 Absa Pension Fund (continued)

44.1.6 Movements in the defined benefit plan presented in the statement of comprehensive income

	Group 2016 Rm	Group 2015 Rm
Recognised in profit or loss:		
Net interest income	**(45)**	(36)
Current service cost	**30**	48
	(15)	12
Recognised in other comprehensive income:		
Actuarial (gains)/losses – financial	**(97)**	(378)
Actuarial adjustments (gains)/losses – experience	**(178)**	30
Return on plan assets in excess of interest	**319**	5
Changes in the irrecoverable surplus in excess of interest	**(27)**	331
	17	(12)

44.1.7 Actuarial assumptions used:

	Group 2016	Group 2015
Discount rate (%) p.a.	**9,1**	10,1
Inflation rate (%) p.a.	**6,6**	7,7
Expected rate on the plan assets (%) p.a.	**10,4**	11,5
Future salary increases (%) p.a.	**7,6**	8,7
Average life expectancy in years of pensioner retiring at 60 – Male	**21,3**	21,2
Average life expectancy in years of pensioner retiring at 60 – Female	**26,2**	26,1

44.1.8 Sensitivity analysis of the significant actuarial assumptions

Group 2016	Reasonable possible change Rm	Increase/(decrease) on defined benefit obligation Rm
Increase in discount rate (%)	**0,5**	**(452)**
Increase in inflation (%)	**0,5**	**486**
Increase in life expectancy (years)	**1**	**311**

2015	Reasonable possible change Rm	Increase/(decrease) on defined benefit obligation Rm
Increase in discount rate (%)	0,5	(451)
Increase in inflation (%)	0,5	493
Increase in life expectancy (years)	1	308

44.1.9 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 491m** (2015: R7 390m).

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 **R17 546m** (2015: R17 008m) 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.

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans

Defined benefit structure

The benefits provided by the defined benefit structures are based on a formula, taking into account years of membership and remuneration levels. For funds where a minimum pension increase of the lower of CPI or a fixed percentage (which varies by fund) is guaranteed, additional discretionary pension increases may be granted at the discretion of the Group. For funds where a minimum increase is not guaranteed, the trustees may decide on increases in pensions subject to affordability.

The majority of the defined benefit liability relates to deferred pensioners and pensioners. There is not a significant number of active members accruing additional defined benefit liabilities.

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

In the current reporting period, Barclays Bank Mauritius and Barclays Bank Mozambique paid a cash contribution into their Pension Funds to reduce the deficit reflected in the valuations as at 31 December 2015. The Group's contributions were: Barclays Bank Mauritius R192m and Barclays Bank Mozambique R19m.

Defined contribution structure

The benefits provided by the defined contribution structures are determined by accumulated retirement funding contributions and the return on investments.

The defined contribution information has not been included in the defined benefit disclosures; this presentation is different to that of the Absa Pension Fund due to the different plan rules of the Absa Pension Fund.

The nature of the plan rules governing the Rest of Africa pension funds is such that any optionality is not considered significant and is therefore not included in the valuation or disclosure of the defined benefit obligations. On 31 May 2015, Barclays Bank Botswana's deferred defined benefit members' benefits were converted to defined contribution benefits. A curtailment gain of R1m was recognised in the statement of comprehensive income.

The funds are governed by legislation applicable in the various countries in which the funds are based. The funds are operated on a pre-funded basis. That is, assets are accumulated on a monthly basis with the aim that sufficient funding exists to meet the benefits payable under all modes of exit. Actuarial funding valuations are performed every three years regardless whether or not these are required by legislation. The most recent actuarial valuations of the funds were carried out as at 31 December 2016. Contributions are generally determined by the Employer in consultation with the Actuary following the funding valuation to ensure the sustainability and financial soundness of the funds. The staff costs expense for the defined contribution plans is **R122m** (2015: R83m). Surpluses and deficits are dealt with in a manner which is consistent with the fund rules and applicable legislation. Minimum funding requirements are limited to the deficits of the fund.

The Pension Fund plans across Rest of Africa are administered by separate funds that are legally separated from the individual companies. The boards of trustees of the funds are responsible for the overall management of the funds.

Statutory valuations are carried out on the defined benefit funds every three years. Based on the results of the valuation, a contribution rate is recommended by the actuary. The power of deciding what the final applicable contribution rate should be rests with the employer on advice from the actuary, in some cases with the agreement of the Trustees. Where pension increases are granted in excess of that which can be afforded by the Fund, the employer must agree to such an increase and will make an additional contribution to fund this. In addition, should the valuation disclose a deficit and regulations require special additional contributions to be made to the Fund, the employer will need to make such contributions in line with a funding plan approved by the relevant country's Regulator.

Within the Rest of Africa funds, the asset allocation is determined taking into account legislative constraints, the available opportunity set of securities in the country across the different asset classes, fund manager offerings in the country, diversification across different asset classes and region (where applicable) and the nature and term of the liabilities. The asset investment strategy is set to target a return which is based on the actuarial assumptions used in the Fund valuation, over a 5 to 7 year term.

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans *(continued)*

The retirement liabilities shown relate to employees and pensioners who are members of various funds, details of which are shown in the following table:

	Group						
	2016						
	Barclays Bank of Botswana	Barclays Bank of Kenya	Kenya First Assurance	Barclays Bank of Zambia	Barclays Bank of Seychelles	Barclays Bank of Mauritius	Barclays Bank of Mozambique
Membership							
Defined benefit active members	—	6	76	—	8	310	—
Defined benefit deferred pensioners	—	936	25	479	8	51	660
Defined benefit pensioners	189	1 508	8	168	3	230	983
Defined contribution active members	1 177	2 489	2 489	1 134	257	577	897
Duration of the scheme (years)	11	7	13	3	16	18	10
Expected contributions to the plan for the next 12 months (Rm)	—	4,2	1,4	5,4	0,3	17,1	—

	2015						
	Barclays Bank of Botswana	Barclays Bank of Kenya	Kenya First Assurance	Barclays Bank of Zambia	Barclays Bank of Seychelles	Barclays Bank of Mauritius	Barclays Bank of Mozambique
Membership							
Defined benefit active members	—	9	76	—	12	310	—
Defined benefit deferred pensioners	—	976	25	502	9	51	537
Defined benefit pensioners	198	1 513	8	168	3	230	968
Defined contribution active members	1 233	—	—	1 111	241	577	839
Duration of the scheme (years)	11	7	12	8	17	18	11
Expected contributions to the plan for the next 12 months (Rm)	—	4,9	1,4	5,2	0,4	36,1	—

	Group	
	2016 Rm	2015 Rm
44.2.1 Defined benefit plan reconciliations		
Present value of funded defined benefit obligations	(2 202)	(2 678)
Fair value of the defined benefit plan assets	2 089	2 446
Funded defined benefit plan status	(113)	(232)
Irrecoverable surplus (effect of asset ceiling)	(44)	(40)
Net deficit arising from defined benefit obligation	(157)	(272)
44.2.2 Reconciliation of movement in the defined benefit obligation		
Balance at the beginning of the reporting period	(2 678)	(2 500)
Actuarial gains/(losses)	(71)	88
Actuarial gains/(losses) – changes in financial assumptions	(39)	100
Actuarial gains/(losses) – experience adjustments	(32)	(12)
Benefits paid	162	206
Current service costs	(31)	(30)
Interest expense	(222)	(227)
Past service costs including curtailments	—	52
Settlement gains/(losses)	—	9
Acquisition in a business combination	—	(14)
Foreign exchange differences	638	(262)
Balance at the end of the reporting period	(2 202)	(2 678)

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans *(continued)*

44.2.3 Reconciliation of movement in the plan assets

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**2 446**	1 401
Benefits paid	**(162)**	(206)
Employer contributions	**230**	917
Interest income on the plan assets	**208**	228
Remeasurement – return on plan assets in excess of interest	**(96)**	(121)
Settlement gains/(losses)	**—**	(8)
Acquisition in a business combination	**—**	(27)
Foreign exchange differences	**(537)**	262
Balance at the end of the reporting period	**2 089**	2 446

44.2.4 Reconciliation of movement in the irrecoverable surplus

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**(40)**	—
Interest on irrecoverable surplus	**(5)**	—
Changes in the irrecoverable surplus in excess of interest	**(22)**	(30)
Acquisition in a business combination	**—**	(5)
Foreign exchange differences	**23**	(5)
Balance at the end of the reporting period	**(44)**	(40)

44.2.5 Nature of the defined benefit plan assets

Group 2016	Fair value of plan assets: Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Quoted fair value	**239**	**424**	**532**	**1 195**
Unquoted fair value	**276**	**46**	**454**	**776**
Own transferable financial instruments	**—**	**3**	**—**	**3**
Own occupied or used property	**—**	**—**	**115**	**115**
	515	**473**	**1 101**	**2 089**

2015	Fair value of plan assets: Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Quoted fair value	254	440	386	1 080
Unquoted fair value	364	53	807	1 224
Own transferable financial instruments	11	3	—	14
Own occupied or used property	—	—	128	128
	629	496	1 321	2 446

The 'Other instruments' category of plan assets for the Rest of Africa comprises both cash and property investments.

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans (continued)

44.2.6 Movements in the defined benefit plan presented in the statement of comprehensive income

	Group 2016 Rm	Group 2015 Rm
Recognised in profit or loss:		
Net interest expense/(income)	**19**	(1)
Current service cost	**31**	30
Past service cost including curtailments	**—**	(52)
Settlements gains/losses	**—**	(1)
	50	(24)
Recognised in other comprehensive income:		
Actuarial (gains)/losses – changes in financial assumptions	**39**	(100)
Actuarial (gains)/losses – experience adjustments	**32**	12
Remeasurement – return on the plan assets in excess of interest	**96**	121
Changes in the irrecoverable surplus in excess of interest	**22**	30
	189	63

44.2.7 The actuarial assumptions (weighted averages) include:

	Group 2016	Group 2015
Discount rate (%)	**11,4**	10,1
Inflation (%)	**7,1**	5,9
Future pension increases (%)	**5,4**	3,6
Future salary increases (%)	**6,4**	5,7
Average life expectancy in years of pensioner retiring at 60 – Male	**18**	17,7
Average life expectancy in years of pensioner retiring at 60 – Female	**21,9**	21,3

44.2.8 Sensitivity analysis of significant assumptions (weighted averages)

Group 2016	Reasonable possible change	Increase/ (decrease) on defined benefit obligation Rm
Significant actuarial assumption		
Increase in discount rate (%)	**0,5**	**(115)**
Increase in inflation (%)	**0,5**	**57**
Increase in life expectancy (years)	**1**	**52**

2015	Reasonable possible change	Increase/ (decrease) on defined benefit obligation Rm
Significant actuarial assumption		
Increase in discount rate (%)	0,5	(135)
Increase in inflation (%)	0,5	64
Increase in life expectancy (years)	1	59

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans *(continued)*

44.2.9 Sensitivity analysis

The sensitivity analysis presented in this note may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

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

44.3 Post-retirement medical aid plans

Certain of the Group's subsidiaries subsidise either medical aid contributions or actual incurred medical costs after retirement. The accrued and future liabilities in respect of these post-retirement medical costs are valued either annually, or every three years, on the reporting date, and projected thereafter. These liabilities were actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions, as well as appropriate medical inflation and discount rates.

The present value of the post-retirement medical aid plan liabilities is **R198m** (2015: R175m) and the fair value of related plan assets is **R2m** (2015: 2m).

	Group	
	2016 Rm	2015 Rm
45. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend **(29 July 2016: 460 cents)** (29 July 2015: 450 cents)	**3 900**	3 815
Final dividend **(23 February 2017: 570 cents)** (1 March 2016: 550 cents)	**4 832**	4 663
	8 732	8 478
Dividends declared to ordinary equity holders (net of treasury shares)[1]		
Interim dividend **(29 July 2016: 460 cents)** (29 July 2015: 450 cents)	**3 888**	3 807
Final dividend **(23 February 2017: 570 cents)** (1 March 2016: 550 cents)	**4 820**	4 651
	8 708	8 458
Dividends declared to non-controlling preference equity holders		
Interim dividend **(29 July 2016: 3 696,57534 cents)** (29 July 2015: 3 282,8082 cents)	**183**	162
Final dividend **(23 February 2017: 3 644,79452 cents)** (1 March 2016: 3 395,47945 cents)	**180**	168
	363	330
Dividends paid to ordinary equity holders (net of treasury shares)[1]		
Final dividend net of treasury shares **(1 March 2016: 550 cents)** (3 March 2015: 525 cents)	**4 648**	4 442
Interim dividend net of treasury shares **(29 July 2016: 460 cents)** (29 July 2015: 450 cents)	**3 888**	3 806
	8 536	8 248
Dividends paid to non-controlling preference equity holders		
Final dividend **(1 March 2016: 3 395,47945 cents)** (3 March 2015: 3 210,8904 cents)	**168**	159
Interim dividend **(29 July 2016: 3 696,57534 cents)** (29 July 2015: 3 282,8082 cents)	**183**	162
	351	321

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

46.1 Reverse repurchase agreements and securities borrowed

As part of the reverse repurchase agreements, the Group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **R35 711m** (2015: R44 972m) of which **Rnil** (2015: Rnil) have been sold or repledged.

Note

[1] The dividends paid on treasury shares are calculated on payment date.

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

46.2 Repurchase agreements and securities lent

The following table shows the carrying amount of transferred assets that have not resulted in any derecognition, together with the associated liabilities.

	Group 2016				
	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	**23 826**	**(23 080)**	**23 826**	**(23 080)**	**746**
Equity instruments	**2 649**	**(173)**	**2 649**	**(173)**	**2 476**

	2015				
	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	27 837	(26 415)	27 837	(26 415)	1 422
Equity instruments	2 001	(1 231)	2 001	(1 231)	770

The transferred assets are presented in the 'Trading Portfolio assets and investment securities lines' on the statement of financial position.

47. Transfer of financial assets

Transfer of financial assets involving structured entities

In the ordinary course of its normal banking activities the Group transfers financial assets to SEs, either legally (where legal rights to the cash flows from the asset are transferred to the counterparty) or beneficially (where the Group 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.

47.1 Transfer of financial assets that does not result in derecognition

	Group 2016				
	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	**124**	**(124)**	**124**	**(124)**	**—**

	2015				
	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	181	(181)	181	(181)	—

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 Group.

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.

47. Transfer of financial assets *(continued)*

47.2 Transfer of financial assets that results in partial derecognition

The Group 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** (2015: R1 175m) and the current carrying amount as at the reporting date is **R749m** (2015: R978m). There are no liabilities associated with the assets transferred.

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

The instance may arise where the Group 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 2016, the Group had no continuing involvement where financial assets have been derecognised in their entirety (31 December 2015: None).

48. Offsetting financial assets and financial liabilities

Where relevant the Group 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 financial liabilities that are reported net on the statement of financial position. Also presented are derivative financial instruments and reverse repurchase and repurchase agreements and other similar lending and borrowing agreements that are subject to enforceable master netting 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 Group's actual credit exposure as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

	Group 2016							
	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 Rm	Net amounts reported on the statement of financial position[1] Rm	Offsetting financial instruments Rm	Financial collateral[2] Rm	Net amount Rm	Amounts not subject to enforceable netting arrangements[3] Rm	Total per statement of financial position[4] Rm
Derivative financial assets	45 428	(2 130)	43 298	(35 340)	(2 810)	5 148	3 639	46 937
Reverse repurchase agreements and other similar secured lending	35 711	—	35 711	—	(35 711)	—	—	35 711
Total assets	81 139	(2 130)	79 009	(35 340)	(38 521)	5 148	3 639	82 648
Derivative financial liabilities	(42 697)	2 130	(40 567)	35 340	66	(5 161)	(2 417)	(42 984)
Repurchase agreements and other similar secured borrowings	(23 253)	—	(23 253)	—	23 222	(31)	—	(23 253)
Total liabilities	(65 950)	2 130	(63 820)	35 340	23 288	(5 192)	(2 417)	(66 237)

Notes

[1] Net amounts reported on the statement of financial position comprise exposures that have 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.

[2] 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.

[3] 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.

[4] 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'.

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

	Group 2015							
	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 Rm	Net amounts reported on the statement of financial position[1] Rm	Offsetting financial instruments Rm	Financial collateral[2] Rm	Net amount Rm	Amounts not subject to enforceable netting arrangements[3] Rm	Total per statement of financial position[4] Rm
Derivative financial assets	76 478	—	76 478	(62 857)	(6 330)	7 291	4 031	80 509
Reverse repurchase agreements and other similar secured lending	44 972	—	44 972	—	(44 972)	—	5 693	50 665
Total assets	121 450	—	121 450	(62 857)	(51 302)	7 291	9 724	131 174
Derivative financial liabilities	(84 253)	—	(84 253)	62 857	47	(21 349)	(6 973)	(91 226)
Repurchase agreements and other similar secured borrowing	(27 588)	—	(27 588)	—	27 588	—	(58)	(27 646)
Total liabilities	(111 841)	—	(111 841)	62 857	27 635	(21 439)	(7 031)	(118 872)

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 Group are further explained in the Credit risk mitigation, collateral and other credit enhancements section of note 63.

Notes

1 Net amounts reported on the statement of financial position comprise exposures that have 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.
2 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.
3 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.
4 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'.

49. Related parties

Barclays Bank PLC owns **50,1%** (2015: 62,3%) of the ordinary shares in the Group. The remaining **49,9 %** (2015: 37,7%) of the shares are widely held on the JSE.

49.1 Transactions with key management personnel

IAS 24 Related Party Disclosures (IAS 24), requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the 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 outstanding balances at the reporting date with related parties and related party transactions conducted during the reporting period are as follows:

	Group	
	2016 Rm	2015 Rm
Key management personnel compensation		
Directors		
Deferred cash payments	**6**	5
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**53**	40
Share-based payments	**33**	35
	93	81
Other key management personnel		
Deferred cash payments	**18**	17
Post-employment benefit contributions	**2**	3
Salaries and other short-term benefits	**58**	58
Share-based payments	**39**	58
	117	136

	Group			
	2016		2015	
	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	**41**	**24**	38	23
Inception/(discontinuance) of related party relationships[1]	**(1)**	**—**	0	—
Loans issued and interest earned	**72**	**7**	92	21
Loans repaid	**(63)**	**(22)**	(89)	(20)
Balance at the end of the reporting period	**49**	**9**	41	24
Interest income	**(4)**	**(2)**	(3)	(2)
Deposits				
Balance at the beginning of the reporting period	**31**	**6**	8	1
(Discontinuance)/inception of related party relationships[1]	**(0)**	**(0)**	(1)	6
Deposits received	**144**	**15**	242	3
Deposits repaid and interest paid	**(157)**	**(17)**	(218)	(4)
Balance at the end of the reporting period	**18**	**4**	31	6
Interest expense	**1**	**1**	1	0
Guarantees	**75**	**44**	74	42

Note

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

49. Related parties *(continued)*

49.1 *Transactions with key management personnel (continued)*

	Group 2016 Transactions with key management Rm	Group 2016 Transactions with entities controlled by key management Rm	Group 2015 Transactions with key management Rm	Group 2015 Transactions with entities controlled by key management Rm
Other investments				
Balance at the beginning of the reporting period	27	34	37	1
(Discontinuance)/inception of related party relationships[1]	(10)	—	(18)	—
Value of new investments/contributions	91	5	35	34
Value of withdrawals/disinvestments	(5)	(2)	(26)	(3)
Fees and charges	(0)	(0)	(0)	(0)
Investment returns	2	2	(1)	2
Balance at the end of the reporting period	105	39	27	34

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

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 Group.

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R0,67m** (2015: R0,16m) and received claims of **R0,16m** (2015: Rnil)

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

	Group[2] 2016 Parent company Rm	Group[2] 2016 Fellow subsidiaries and associates and joint ventures of the parent company Rm	Group[2] 2015 Parent company Rm	Group[2] 2015 Fellow subsidiaries and associates and joint ventures of the parent company Rm
Balances				
Loans and advances to banks	15 732	773	32 924	3 143
Derivative assets	13 553	(44)	30 385	41
Other assets	18	216	957	180
Investment securities	(0)	—	87	—
Deposits from banks	(3 990)	(188)	(8 930)	(2 599)
Debt securities in issue	—	—	(44)	—
Derivative liabilities	(15 966)	(2)	(32 706)	—
Other liabilities	(1)	(108)	(300)	(200)
Borrowed funds	—	—	(102)	—
Transactions				
Interest and similar income	(91)	(2)	(55)	(2)
Interest expense and similar charges	(10)	4	91	—
Net fee and commission (income)/expense	(5)	(2)	(21)	(3)
Gains and losses from banking and trading activities	(145)	—	342	—
Other operating income	(3)	—	(79)	—
Operating expenditure/(recovered expenses)	48	(549)	32	(560)
Dividends paid	4 859	—	5 151	—

Note

[1] During the prior reporting period this entity ceased to be a subsidiary of Barclays Africa Limited and rather became a direct subsidiary of Barclays Africa Group Limited.

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

49. Related parties *(continued)*

49.2 Balances and transactions with the parent company, fellow subsidiaries, and associates and joint ventures of the parent company (continued)

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. Settlement must be in the currency required by the related party. 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.

49.3 Subsidiaries and consolidated structured entities

The following information provided is in respect of the Group'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 Group'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.

			Group	
Name	Nature of business	Country of incorporation	**2016 % holding**	2015 % holding
Barclays Africa Group Limited and its subsidiaries				
Absa Capital Securities Proprietary Limited	Stockbrokers.	South Africa	**100**	100
Absa Development Company Holdings Proprietary Limited	Specialises in township development and sale of residential, commercial and industrial land.	South Africa	**100**	100
Absa Manx Insurance Company Limited	Captive insurance company for the Group and responsible for investment in insurances markets.	South Africa	**100**	100
Absa Stockbrokers Proprietary Limited	Enables customers to trade online or by telephone in shares, warrants and exchange-traded funds.	South Africa	**100**	100
Absa Trading and Investments Solutions Holdings Proprietary Limited	Holding company for ATIS Group.	South Africa	**100**	100
Barclays Bank of Ghana Limited	Provides retail and corporate banking.	Ghana	**100**	100
Barclays Bank of Kenya Limited	Provides retail and corporate banking.	Kenya	**69**	69
Barclays Bank Mozambique S.A. (BBM)	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.	Mozambique	**98**	98
Barclays Bank of Botswana Limited	Provides retail and corporate banking.	Botswana	**68**	68
Barclays Bank Mauritius Limited	Provides retail and corporate banking.	Mauritius	**100**	100
Barclays Bank Seychelles Limited	Provides retail and corporate banking.	Seychelles	**100**	100
Barclays Bank Tanzania Limited	Provides retail and corporate banking.	Tanzania	**100**	100
Barclays Bank Uganda Limited	Provides retail and corporate banking.	Uganda	**100**	100
Barclays Bank of Zambia PLC[1]	Provides retail and corporate banking.	Zambia	**100**	—
Diluculo Investments Proprietary Limited	Investment holding and management company, providing project and management services to property funds and trading projects.	South Africa	**100**	100
National Bank of Commerce Limited (NBC)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.	Tanzania	**55**	55
Woolworths Financial Services Proprietary Limited	Provides credit cards, in-store cards and personal loans.	South Africa	**50**	50

A full list of subsidiaries and consolidated SEs is available, on request, at the registered address of the Group.

Note

[1] During the prior reporting period this entity ceased to be a subsidiary of Barclays Africa Limited and rather became a direct subsidiary of Barclays Africa Group Limited.

49. Related parties *(continued)*

49.3 *Subsidiaries and consolidated structured entities* *(continued)*

Name	Nature of business	Country of incorporation	Group 2016 % holding	Group 2015 % holding
Absa Bank Limited and its subsidiaries	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers and clients.	South Africa	100	100
Absa Capital Representative Office Nigeria Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	100	100
Absa Technology Finance Solutions Proprietary Limited	Financial broker/executive finance company.	South Africa	100	100
Absa Vehicle and Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	100	100
Alberton Industrial Properties Proprietary Limited	Obtains loans from Absa Bank to finance Devco subsidiaries.	South Africa	100	100
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	100	100
Absa Financial Services and its subsidiaries	Holding company of financial service-related entities.	South Africa	100	100
Absa Financial Services Africa Holdings Proprietary Limited	Holding company of African financial service-related entities.	South Africa	100	100
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.	South Africa	100	100
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.	South Africa	100	100
Absa Insurance Risk Management Services Limited	Provides short-term insurance and other related insurance products.	South Africa	100	100
Barclays Life Botswana Proprietary Limited	Provides life assurance products focusing on risk and investment products that Absa's offering to various market segments in Botswana	Botswana	100	100
Absa Life Limited	Provides life assurance products, focusing on risk and investment products, that complement the Group's offerings to various market segments.	South Africa	100	100
Absa Trust Limited	Trust administrative services.	South Africa	100	100
Barclays Life Zambia Limited	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments in Zambia.	Zambia	100	100
Global Alliance Seguros S.A.	Provides non-life insurance in Mozambique.	Mozambique	100	100
First Assurance Holdings Limited	Provides short-term insurance and other related insurance products	Kenya	100	100
Instant Life (Pty) Ltd	Provides life assurance products through cell arrangements	South Africa	75	—

A full list of subsidiaries and consolidated SEs is available, on request, at the registered address of the Group.

Name	Nature of business	Country of incorporation	Group 2016 % holding	Group 2015 % holding
49. Related parties *(continued)*				
49.3 Subsidiaries and consolidated structured entities *(continued)*				
Barclays Africa Limited and its subsidiaries	Investment Holding Company.	United Kingdom	**100**	100
Barclays Bank of Zambia PLC	Provides retail and corporate banking.	Zambia	**—**	100
Share trusts				
Absa Group Limited Share Incentive Trust	Share purchase and option scheme available to senior staff.	South Africa	**n/a**	n/a
Structured entities				
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 Group's dividends which it distributes to identified community-related projects.	South Africa	**n/a**	n/a
Home Obligor Mortgages Enhanced Securities (RF) 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
Impumelelo CP Note Programme 1 (RF) Limited	Special purpose, bankruptcy-remote company incorporated for the purpose of issuing Absa Bank guaranteed Commercial Paper and medium-term notes.	South Africa	**n/a**	n/a

A full list of subsidiaries and consolidated SEs is available, on request, at the registered address of the Group.

	Group 2016 Rm	Group 2015 Rm
Subsidiaries' aggregate profits and losses after taxation	**9 671**	13 116

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

There are significant restrictions on the ability of the Group to require distributions of capital, access the assets, or repay the liabilities of members of its group arising from regulatory and contractual requirements and from the protective rights of non-controlling interests.

Regulatory requirements

The Group's banking and insurance 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 minimum amount of RC required to be maintained by the Group was **R73,0bn** (2015: R70,2bn).

Contractual requirements

Certain of the Group's securitisation and SEs 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 Group 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 2016 was **R7bn** and **R6,9bn** respectively (2015: R8,4bn and R4,3bn respectively).

Protective rights of non-controlling interests

Absa Bank Limited has issued equity preference shares in issue, which are non-controlling interests of the Group. Under the terms of these instruments, the preference shareholders will not be entitled to vote at any meeting of Absa Bank Limited, unless the preference dividend is declared, but remains in arrear and unpaid after six months from the due date. Alternatively, voting rights will be granted if a resolution of Absa Bank Limited is proposed which directly affects the rights attached to the Absa Bank Limited preferences shares, which shall include any resolutions for the winding up of the Absa Bank Limited or for the reduction of its share capital or share premium accounts.

The particulars of these instruments are shown in note 28.

49. Related parties *(continued)*

49.5 Associates, joint ventures and retirement benefit fund

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

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

	Group		
	2016		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Group	—	11 645	11 645
Value of Absa defined contribution pension fund investments managed by the Group	—	17 546	17 546
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	37	37
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	107	107
Statement of financial position			
Other assets	—	553	553
Loans and advances to customers (refer to note 8)	20 183	—	20 183
Other liabilities	—	442	442
Statement of comprehensive income			
Interest and similar income	1 481	1 131	2 612
Interest expense and similar charges	—	(1 105)	(1 105)
Fee and commission income	9 352	—	9 352
Fee and commission expense	123	—	123
Current service costs (refer to note 44)	—	(61)	(61)
Operating expenses	631	—	631

	2015		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Group	—	11 782	11 782
Value of Absa defined contribution pension fund investments managed by the Group	—	17 008	17 008
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	43	43
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	90	90
Statement of financial position			
Other assets	—	631	631
Loans and advances to customers (refer to note 8)	17 079	—	17 079
Other liabilities	—	(612)	(612)
Statement of comprehensive income			
Interest and similar income	(983)	(938)	(1 921)
Interest expense and similar charges	19	901	920
Fee and commission income	11	—	11
Current service costs (refer to note 44)	—	78	78
Staff Costs (Contributions to Absa Pension Fund)	—	—	—
Past service – curtailments	—	(53)	(53)
Operating expenses	1	—	1

49. Related parties *(continued)*

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

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

		Group	
Name	Nature of business	**2016 Ownership %**	2015 Ownership %
Equity-accounted associates			
SBV Services Proprietary Limited	Cash transportation services.	**25**	25
The Document Exchange Association	Facilitates the electronic exchange of documents between the banks.	**25**	33
The South African Bankers Services Company Proprietary Limited	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	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.

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

SBV Services Proprietary Limited and The South Africa Bankers Services Company Proprietary Limited have a reporting date of 30 June 2016.

50. Structured entities

Exchange-traded funds

Exchange-traded funds (ETFs) are passively managed index funds that are listed and traded on a securities exchange. An ETF tracks the performance of and/or gains a broad exposure to a particular index, sector or commodity for individual and institutional investors. All ETFs have a marketmaker to ensure that liquidity is always maintained, and in many instances, the Group will act in this capacity. The Group may therefore hold a direct interest in the fund, but the magnitude of such interest will vary with sufficient regularity. Whether the Group consolidates any of the funds depends on the magnitude of the interest held therein, as well as on the Group's ability to direct the relevant activities of the fund, either directly or indirectly. The Group, through its contractual undertaking to act as marketmaker, ensures that liquidity is always maintained. The Group earns management fee income from its involvement in the funds. To the extent that the Group holds participatory units in the funds, the Group 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 Group has used SEs in order to securitise loans that were originated by the Group. These entities have minimal equity and therefore rely on funding in the form of notes in order to acquire the underlying loans. The Group 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 Group 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 Group, the Group will not have power over the relevant activities of the vehicle. The Group earns interest income on the notes issued by the vehicles, together with management fees from the Group's ongoing involvement. To the extent that the notes are fair valued, unrealised gains and losses are generated, which are recognised by the Group in profit or loss.

50. Structured entities *(continued)*

Fund management

The Group manages a number of unit trust funds, ranging from lower risk fixed income funds to higher risk specialist equity funds, which are either managed solely by the Group or form part of the Group's multi-management offering. Unit trusts are regulated by the Financial Services Board and the Collective Investment Schemes Control Act. The Group's interest is generally restricted to fund service and asset management fees, which are based on assets under management. The Group may hold direct interests in a number of the funds; however, the magnitude of such interest varies with sufficient regularity. Whether the Group consolidates any of these funds through its direct interest depends on the magnitude of the interest held therein, as well as on the Group's ability to direct the relevant activities of the fund, either directly or indirectly. The Group earns management fee income from its involvement in the funds, as well as unrealised gains and losses as a result of revaluations of the units held directly in the funds.

Structured investment vehicles

The Group 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 Group 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 Group provides financing to a number of SEs, 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 Group recognises interest income from its investments. Often the Group subscribes for preference shares in these vehicles together with other financial institutions on a syndicated basis. The Group 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 Group a financial guarantee or a put option, so as to provide security in the event of default.

Funding vehicles

The Group provides funding in the form of loans to bankruptcy remote SEs 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 Group earns interest on the loans. The loans are either measured at amortised cost, or are designated as at fair value through profit or loss.

50.1 Consolidated structured entities

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

			Group	
Name	Nature of support	Reason for providing support	**2016 Rm**	2015 Rm
The Absa Foundation Trust	Donation	The Trust was constituted to fund community upliftment and social welfare programmes.	**75**	71

The Group has consolidated The Absa Foundation Trust since 2006.

The Group intends to provide financial support to the Absa Foundation Trust in 2017.

50. Structured entities *(continued)*

50.2 Unconsolidated structured entities

The level of risk that the Group 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 Group holds an interest, information about such entities has been aggregated according to the purpose for which the entity was established.

	Group 2016						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
Assets							
Trading portfolio assets	—	—	—	—	—	—	—
Investment securities	—	3	492	31	797	—	1 323
Debt securities	—	—	421	31	—	—	452
Equity securities	—	3	71	—	797	—	871
Loans and advances to customers	9 632	—	—	2 169	—	520	12 321
Derivatives held for trading	—	—	—	1	—	—	1
Interest rate derivatives (carrying value)	—	—	—	1	—	—	1
Interest rate derivatives (notional value)	—	—	—	971	—	—	971
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	—	508	—	—	508
Other assets	—	57	—	—	—	—	57
	9 632	60	492	2 709	797	520	14 210
Liabilities							
Derivatives held for trading	—	—	—	1	—	—	1
Interest rate derivatives (carrying value)	—	—	—	1	—	—	1
Interest rate derivatives (notional value)	—	—	—	404	—	—	404
Deposits due to customers	—	—	—	1 187	—	—	1 187
	—	—	—	1 188	—	—	1 188
Maximum exposure to loss[2]	9 632	60	492	2 709	797	520	14 210
Total size of entities[3]	54 403	103 331	565	4 811	29 241	520	192 871

Notes

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

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

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

50. Structured entities *(continued)*
50.2 *Unconsolidated structured entities (continued)*

	Group 2015						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
Assets							
Trading portfolio assets	—	—	—	920	—	—	920
Investment securities	—	40	136	559	1 184	—	1 919
Debt securities	—	—	—	559	1 184	—	1 743
Equity securities	—	40	136	—	—	—	176
Loans and advances to customers	9 566	—	—	1 860	—	546	11 972
Derivatives held for trading	—	—	—	13	—	—	13
Interest rate derivatives (carrying value)	—	—	—	13	—	—	13
Interest rate derivatives (notional value)	—	—	—	340	—	—	340
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	—	400	—	—	400
Other assets	—	63	—	—	—	—	63
	9 566	103	136	3 752	1 184	546	15 287
Liabilities							
Derivatives held for trading	—	—	—	49	—	—	49
Interest rate derivatives (carrying value)	—	—	—	49	—	—	49
Interest rate derivatives (notional value)[1]	—	—	—	1 359	—	—	1 359
Deposits due to customers	—	44	—	1 606	—	—	1 650
	—	44	—	1 655	—	—	1 699
Maximum exposure to loss[2]	9 566	103	136	3 752	1 184	546	15 287
Total size of entities[3]	61 603	92 637	1 410	5 953	32 098	546	194 247

Notes

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

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

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

50. Structured entities *(continued)*

50.2 Unconsolidated structured entities (continued)

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

	Group			
	2016 Losses recognised in profit or loss		2015 Losses recognised in profit or loss	
	Derivatives Rm	**Impairment losses Rm**	Derivatives Rm	Impairment losses Rm
Preference funding vehicle	**—**	**15**	—	—

Financial support provided or to be provided to unconsolidated structured entities

The Group did not provide any financial support during the current reporting period (2015: Rnil) to unconsolidated structured entities.

50.3 Sponsored entities

The Group 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 Group:

	Group	
	2016 Rm	2015 Rm
Loans and advances	**—**	1 500

	Group	
	(Unaudited) 2016 Rm	(Unaudited) 2015 Rm
51. Assets under management and administration		
Alternative asset management and exchange-traded funds	**75 492**	89 284
Deceased estates	**2 662**	2 148
Other	**24 818**	13 232
Portfolio management	**31 596**	39 048
Trusts	**4 201**	3 023
Unit trusts	**149 229**	127 434
	287 998	274 169

	Group	
	2016 Rm	2015 Rm
52. Financial guarantee contracts		
Financial guarantee contracts	**10**	24

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

	Group 2016 Rm	Group 2015 Rm
53. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**521**	901

The Group has capital commitments in respect of computer equipment and property development.

Management is confident that future net revenues and funding will be sufficient to cover these commitments.

	2016 Rm	2015 Rm
Operating lease payments due		
No later than one year	**1 309**	758
Later than one year and no later than five years	**2 946**	1 742
Later than five years	**1 228**	956
	5 483	3 456

The operating lease commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Group.

Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

	2016 Rm	2015 Rm
Sponsorship payments due		
No later than one year	**84**	147
Later than one year and no later than five years	**20**	177
	104	324

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

	2016 Rm	2015 Rm
Other commitments		
No later than one year	**—**	991

The South Africa Reserve Bank (SARB) announced in August 2014 that Africa Bank Limited (a subsidiary of Africa Bank Investments Limited) would be placed under curatorship. A consortium of six South African banks (including Barclays Africa Group Limited) and the Public Investment Corporation (PIC) had underwritten R5bn respectively. In the current financial reporting period, African Bank Holdings Limited (that is, the holding company of 'Good Bank', African Bank Limited) was successfully capitalised, with BAGL subscribing for a portion of the issued ordinary shares. The investment is recognised within Investment Securities, and the remaining commitment which was underwritten by Barclays Africa Group Limited, but guaranteed by SARB, has been extinguished during the current reporting period.

	Group 2016 Rm	Group 2015 Rm
54. Contingencies		
Guarantees	**38 441**	37 901
Irrevocable debt facilities	**135 935**	152 984
Irrevocable equity facilities	**141**	364
Letters of credit[1]	**8 481**	8 207
Other	**135**	5 325
	183 133	204 781

Note

[1] The presentation of commitments for 2015 has been revised following the reallocation of an amount of R740m from Commitments to Letters of Credit (within Contingencies) so as to more appropriately reflect the substance of the item.

54. Contingencies *(continued)*

Guarantees include performance and payment guarantee contracts.

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

Legal proceedings

The Group has been party to proceedings against it during the reporting period, and as at the reporting date the following material cases are disclosed:

- Pinnacle Point Holdings Proprietary Limited (PPG): New Port Finance Company and the trustees of the Winifred Trust (the plaintiffs) allege a local bank conducted itself unlawfully, and that Absa Bank Limited (the Bank) was privy to such conduct. They have instituted proceedings against the Bank for damages for an amount of R1 387m. Although Pinnacle Point Holdings' claim has been withdrawn, the second to fifth plaintiff's claims remain and will proceed to trial.
- Ayanda Collective Investment Scheme (the Scheme): Absa Capital Investor Services was the trustee of Ayanda Collective Investment Scheme, in which Corporate Money Managers (CMM) managed a portfolio of assets within the Scheme. The joint curators of the CMM group of companies and the Altron Pension Fund (an investor in the fund) allege that the defendants caused damages to them 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, in respect of which they seek payment of R1 157m.

The Group is engaged in various other legal, competition and regulatory matters both in South Africa and a number of other jurisdictions. It is involved in legal proceedings which arise in the ordinary course of business from time to time, including (but not limited to) disputes in relation to contracts, securities, debt collection, consumer credit, fraud, trusts, client assets, competition, data protection, money laundering, employment, environmental and other statutory and common law issues.

The Group is also subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies in connection with (but not limited to) consumer protection measures, compliance with legislation and regulation, wholesale trading activity and other areas of banking and business activities in which the Group is or has been engaged.

At the present time, the Group does not expect the ultimate resolution of any of these other matters to have a material adverse effect on its financial position. However, in light of the uncertainties involved in such matters and the matters specifically described in this note, there can be no assurance that the outcome of a particular matter or matters will not be material to the Group's results of operations or cash flow for a particular period, depending on, amongst other things, the amount of the loss resulting from the matter(s) and the amount of income otherwise reported for the reporting period.

The Group has not disclosed the contingent liabilities associated with these matters either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the outcome of the matter. Provision is made for all liabilities which are expected to materialise.

Regulatory matters

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

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

Absa Bank Limited, a subsidiary of Barclays Africa Group Limited, has identified potentially fraudulent activity by certain of its customers using import advance payments for imports in 2014 and 2015 to effect foreign exchange transfers from South Africa to beneficiary accounts located in East Asia, UK, Europe and the US. As a result, the Group has been conducting a review of relevant activity, processes, systems and controls. The Group is keeping relevant authorities informed as to the status of this matter and is providing information to these authorities as part of its ongoing cooperation. It is not currently possible to estimate the financial impact of the actions described on the Group, if any.

In February 2017 the South African Competition Commission (SACC) referred Absa Bank Limited, among other banks, to the Competition Tribunal to be prosecuted for breaches of South African competition law related to Foreign Exchange trading of South African Rand. The SACC found from its investigation that, between 2007 – 2013, the respondents had engaged in various forms of collusive behaviour. Absa Bank Limited and its parent Barclays PLC brought the conduct to the attention of the SACC under its leniency programme and have cooperated with, and will continue to cooperate with, the SACC in relation to this matter. The SACC is therefore not seeking an order from the Tribunal to impose any administrative fine on Absa Bank Limited.

Income taxes

The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and worldwide provisions for income taxes necessarily involves a degree of estimation and judgement. There may be 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 Group's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority. The Group 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 which such determination is made. The risks are managed in accordance with the Group's Tax Risk Framework.

	Group 2016 Rm	Group 2015 Rm
55. Cash and cash balances		
Cash, cash balances and balances with central banks[1]	**13 141**	12 899
Loans and advances to banks[2]	**4 593**	8 467
	17 734	21 366
56. Deferred cash and share-based payments		
Share-based payments expense	**563**	523
Equity-settled arrangements:		
Barclays Africa Group Limited Long-Term Incentive Plan (LTIP)	**47**	30
Barclays Africa Group Limited Joiners Share Value Plan (JSVP)	**29**	(20)
Barclays Africa Group Limited Share Value Plan (SVP)	**232**	165
Barclays Africa Group Limited Share Incentive Awards (SIA)	**58**	39
Barclays Africa Group Limited Retention Share Value Plan (SVP Cliff)	**129**	64
Cash-settled arrangements:		
Barclays Africa Group Limited Deferred Award Plan (DAP)	**—**	(91)
Barclays Africa Group Limited Phantom Joiners Share Award Plan (JSAP)	**1**	10
Barclays Africa Group Limited Joiners Share Value Plan (JSVP)	**7**	99
Barclays Africa Group Limited Share Value Plan (SVP)	**22**	117
Barclays Africa Group Limited Share Incentive Awards (SIA)	**—**	30
Barclays Africa Group Limited Retention Share Value Plan (SVP Cliff)	**31**	92
Barclays Africa Group Limited Role Based Pay (RBP)	**6**	10
Other cash-settled arrangements	**1**	(22)
Deferred cash expense		
Barclays Africa Group Limited Cash Value Plan (CVP)	**192**	139
Total deferred cash and share-based payments (refer to note 38)	**755**	662
Total carrying amount of liabilities for cash-settled arrangements (refer to note 19)	**388**	309
Total carrying amount of the equity-settled share-based payment (refer to the statement of changes in equity)	**892**	729

In 2015, the Group sought, and received shareholder approval to modify its remuneration structures by implementing a new equity-settled share scheme. The awards granted in 2015 to eligible participants under the Barclays Africa Group Limited Share Value Plan (SVP), were accordingly granted as equity-settled awards under the rules of the new scheme. In addition to making a new award under the equity-settled scheme rules, the Group also gave participants the option to convert their outstanding cash-settled awards in consideration for equivalent equity-settled awards, while keeping the terms and conditions of the replacement awards unchanged. 95% of the participants elected the option and their awards were converted effective 4 September 2015. The converted awards are considered separate equity-settled share schemes. To achieve the effect of economic neutrality in the conversion, the award values were however increased by 0,5% to reflect the additional Securities Transfer Tax which would be due on vesting. This resulted in an additional **R0,3m** (2015: R1,2m) expense being recorded.

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Barclays Africa Group Limited share price.

For part of 2015 the Group entered into forward contracts referencing Barclays Africa Group Limited shares in order 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 were designated into cash flow hedging relationships. These hedges were all closed out by 31 December 2015.

Included in the share-based payments expense are hedging gains of **Rnil** (2015: R96,1m) relating to the Share Value Plan.

Notes

[1] Includes coins and banks notes.

[2] Includes call advances, which are used as working capital by the Group.

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

Barclays Africa Group Limited Long-Term Incentive Plan

The Long-Term Incentive Plan (LTIP) is an equity-settled share-based payment arrangement. 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. Dividends accumulate and are reinvested over the period.

Barclays Africa Group Limited Deferred Award Plan

The Deferred Award Plan (DAP) was a cash-settled share-based payment arrangement. The DAP awards (and any associated notional dividends) were awarded at no cost to the participants. The awards vested 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 was paid to the participants was 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 were met. If the Group failed to meet the minimum performance criteria, the awards made in that tranche were forfeited in total. Dividends accumulated over the vesting period and were paid at maturity.

Barclays Africa Group Limited Phantom Joiners Share Award Plan

The Phantom Joiners Share Award Plan (JSAP) 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 Award Plan

The Joiners Share Value Plan (JSVP) 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 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.

Barclays Africa Group Limited Share Value Plan

The Share Value Plan (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 on vesting. The Group retains the obligation to settle in cash, certain historic SVP awards that were not converted to equity-awards in 2015. The amount that is paid to the cash-settled 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. On vesting, equity-settled participants are awarded Barclays Africa Group Limited ordinary shares in settlement of their awards. 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 scheme 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.

Barclays Africa Limited Retention Share Value Plan

The Share Value Retention Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, subject to their own independent non-market-related performance condition on vesting. The Group retains the obligation to settle in cash, certain historic SVP Cliff awards that were not converted to equity-awards in 2015. The amount that is paid to the cash-settled 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. On vesting, equity-settled participants are awarded Barclays Africa Group Limited ordinary shares in settlement of their awards. 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.

Barclays Africa Group Limited Role Based Pay

The Role Based Pay (RBP) is a cash settled share scheme for Code staff. It limits the maximum level of variable compensation that may be paid to certain employees to 1x fixed pay, or 2x fixed pay with shareholder approval. The cash element will be paid at the same time as salary and the share element will be delivered quarterly, with the shares subject to a holding period. Dividends accumulate and are reinvested over the period.

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

	Number of awards '000											
	2016						2015					
	Opening balance	**Effect of conversion**	**Granted**	**Forfeited**	**Exercised**	**Closing balance**	Opening balance	Effect of conversion	Granted	Forfeited	Exercised	Closing balance
Equity-settled:												
LTIP	**1 194**	**—**	**5 390**	**(512)**	**(379)**	**5 693**	1 871	—	33	(667)	(43)	1 194
JSAP	**21**	**—**	**—**	**(3)**	**(16)**	**2**	—	21	—	—	—	21
JSVP	**566**	**(4)**	**171**	**(27)**	**(349)**	**357**	—	496	90	(20)	—	566
SVP	**2 571**	**110**	**1 720**	**(172)**	**(1 292)**	**2 937**	—	1 158	1 505	(89)	(3)	2 571
SIA	**380**	**—**	**487**	**—**	**(358)**	**509**	—	—	380	—	—	380
SVP Cliff	**2 644**	**56**	**88**	**(243)**	**(34)**	**2 511**	—	2 024	740	(120)	—	2 644
Cash-settled:												
DAP	**—**	**—**	**—**	**—**	**—**	**—**	580	—	—	(4)	(576)	—
JSAP	**—**	**—**	**—**	**—**	**—**	**—**	139	(21)	—	—	(118)	—
JSVP	**27**	**4**	**2**	**(2)**	**(23)**	**8**	738	(496)	231	(70)	(376)	27
SVP	**440**	**(110)**	**13**	**(8)**	**(202)**	**133**	2 712	(1 158)	24	(71)	(1 067)	440
SIA	**—**	**—**	**—**	**—**	**—**	**—**	218	—	8	—	(226)	—
SVP Cliff	**489**	**(56)**	**11**	**(26)**	**—**	**418**	2 627	(2 024)	—	(103)	(11)	489
RBP	**70**	**—**	**22**	**—**	**(16)**	**76**	—	—	78	—	(8)	70

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.

	Weighted average share price at the exercise date (rands)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (rands)	
	2016	2015	**2016**	2015	**2016**	2015
Equity-settled:						
LTIP	**143,97**	179,62	**2,75**	0,74	**148,90**	155,48
JSAP	**142,80**	—	**0,25**	0,78	**174,98**	174,98
JSVP	**174,75**	—	**1,46**	1,55	**164,73**	175,55
SVP	**174,46**	—	**2,00**	1,77	**160,07**	182,78
SIA	**145,97**	—	**0,67**	0,67	**145,97**	173,76
SVP Cliff	**180,19**	—	**0,96**	1,55	**176,88**	178,61
Cash-settled:						
DAP	**—**	190,93	**—**	—	**—**	—
JSAP	**—**	178,32	**—**	—	**—**	—
JSVP	**154,13**	172,76	**1,28**	1,70	**172,02**	—
SVP	**142,46**	186,78	**0,20**	0,24	**131,73**	143,48
SIA	**—**	172,35	**—**	—	**—**	—
SVP Cliff	**—**	189,15	**0,16**	1,17	**129,30**	129,30
RBP	**157,44**	176,99	**2,76**	—	**167,27**	167,27

Future cash flow effects associated with equity settled share based payments

	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Estimate of amount expected to be transferred to tax authorities	**278**	482	**—**	760

The estimates provided above indicate the amounts which are expected to be transferred to tax authorities relating to the employees' tax obligations on equity schemes which have been granted but which vest in future periods. The amounts were estimated based on the number of awards expected to vest, the share price as at year-end and an estimate of the average applicable employee effective tax rate.

Deferred cash

Barclays Africa Group Limited Cash Value Plan

The Cash Value Plan (CVP) is a deferred cash settled 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 2016 is **10%** (2015: 10%) of the initial value of the award that vests.

57. Acquisitions and disposals of businesses and other similar transactions

57.1 Acquisitions of businesses during the current reporting period

In order to continue building and shaping the Group's predictive underwriting products, expertise and technology, the Group acquired a 75% controlling stake in Absa Instant Life Proprietary Limited, previously known as Instant Life Proprietary Limited. The acquisition of the investment had an effective acquisition date of 31 March 2016 and is a business combination within the scope of IFRS 3. The acquisition date fair value of the consideration transferred amounted to R100m.

The non-controlling interest below was measured at their proportionate share of the acquiree's identifiable net assets. Goodwill of R20m has been recognised and includes, but is not limited to, the insurer's workforce and the increased market share gained.

The transaction is currently being evaluated in terms of the Purchase Price Allocation (PPA). The initial accounting considerations include the valuation of intangible assets (identified in terms of IFRS3 – i.e. Value of business acquired and software system) and share-based payments.

From the date of acquisition, Absa Instant Life contributed revenue of R9m to the total income earned by the Group. If the combination had taken place at the beginning of the year, an additional R5m would have been generated by the Group, thereby resulting in a total income of R14m. From the date of acquisition, Absa Instant Life contributed losses after tax of R12m to total profits earned by the Group. If the combination taken place at the beginning of the year, losses after tax of an additional R3m would have been incurred by the Group, thereby resulting in a total loss after tax of R15m.

	Instant Life	Group
	2016	
	Fair value	recognised on acquisition
	Rm	Rm
Consideration at date of acquisition:		
Cash	100	100
Total consideration	**100**	**100**
Recognised amounts of identifiable assets acquired and liabilities assumed		
Loans and advances to banks	6	6
Other assets	14	14
Intangible assets	125	125
Other liabilities	(5)	(5)
Deferred tax liabilities	(32)	(32)
Provisions	(1)	(1)
Total identifiable net assets	**107**	**107**
Total NCI	**(27)**	**(27)**
Goodwill	**20**	**20**
Total	**100**	**100**

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

	Group	
	2016	2015
	Rm	Rm
Summary of net cash outflow due to acquisitions	100	384

57.1.2 Disposals of businesses during the current reporting period

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

57.2.1 Acquisitions of businesses during the previous reporting period

The Group acquired 63% of the issued ordinary share capital of First Assurance Company Limited (FACL), an East African insurer, with operations in both Kenya and Tanzania. The acquisition of the investment in FACL had an effective acquisition date of 30 October 2015, and is a business combination within the scope of IFRS 3.

The non-controlling interest below was measured at their proportionate share of the acquiree's identifiable net assets. Goodwill of R164m has been recognised mainly attributable to intangible assets that do not qualify for recognition on the basis that they are not separable. The Purchase Price Allocation (PPA) for the transaction has been finalised with no differences to the provisional amounts published in the previous reporting period being noted. From the date of acquisition, FACL contributed R26m to the total income of the Group in 2015. Had the acquisition taken place at the beginning of 2015, the total income for the Group would have increased by R152m for 2015 year-end reporting. From the date of acquisition, FACL contributed R9m to profit after tax of the Group in 2015. Had the acquisition taken place at the beginning of 2015, profit after tax for the Group would have increased by R37m for 2015 year-end reporting.

The Group also purchased additional shares in a non-core joint venture which resulted in an increase in the Group's effective shareholding from 50% to 67% and a business combination in terms of IFRS 3. The acquisition occurred on 18 November 2015. A bargain purchase gain of R4m was recognised in the statement of comprehensive income.

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

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

	First Assurance Holdings	Other	Group
	2015		
	Fair value recognised on acquisition		
	Rm	Rm	Rm
Consideration at date of acquisition:			
Cash	370	14	384
Total consideration	370	14	384
Recognised amounts of identifiable assets acquired and liabilities assumed			
Property, plant and equipment	28	—	28
Investment securities	145	—	145
Loans and advances to banks	196	—	196
Other assets	440	5	445
Investment properties	170	292	462
Current tax assets	2	—	2
Other liabilities	(65)	(1)	(66)
Insurance liabilities	(586)	—	(586)
Deferred tax liabilities	(3)	(4)	(7)
Loans from subsidiaries	—	(176)	(176)
Loans from Absa Group companies	—	(90)	(90)
Total identifiable net assets	327	26	353
Total NCI	(121)	(8)	(129)
Goodwill/(Bargain purchase)	164	(4)	160
Total	370	14	384

57.2.2 Disposals of businesses during the previous reporting period

National Bank of Commerce Limited (NBC) was recapitalised through a rights issue to all its shareholders during 2013. As the Government of Tanzania (GoT) was unable to subscribe to their rights at the time, an option was granted to GoT providing it with the right to purchase its pro rata portion of the shares from the Group within a period of two years after the rights issue. The GoT exercised their option during the previous reporting period which resulted in a decrease of the Group's shareholding from 66% to 55%.

58. Segment report

58.1 *Summary of segments*

The Group has identified its reportable segments based on a combination of products and services offered to customers and clients, external revenue generation and the location of the markets served. RBB, CIB and WIMI have been identified as reportable segments of the Group in the manner in which the Group's businesses are managed and reported to the CODM. None of these operating segments have been aggregated. The remaining business units are aggregated into the segment, Head Office, Treasury and Other Operations.

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

- RBB
  - Business Banking South Africa: provides a comprehensive range of commercial banking products and services to large, medium and small Business businesses.
  - Retail Banking South Africa: 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 as well as Woolworths Financial Services, which offers credit cards, personal loans and short-term insurance products.
    - 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.
  - RBB Rest of Africa: offers a comprehensive suite of retail and business banking products and services to individual and commercial customers on the African continent outside of South Africa.

58. Segment report (continued)

58.1 *Summary of segments (continued)*

- 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 government clients.
- WIMI: comprises wealth management services, various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services and a variety of investment products.
- Head Office, Treasury and Other Operations: consists of various non-banking activities and includes investment income earned by the Group, as well as income earned by the London branch, Absa Manx Holdings and Corporate Real Estate Services.

The following 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 segments.

- Statutory liquid assets allocations in loan portfolios that were moved from WIMI to RBB in previous reporting periods were reassessed and resulted in a restatement of Interest and similar charges of R6m between WIMI and RBB.
- The Group refined its transfer pricing and allocation of endowment methodologies, resulting in a restatement of Net interest income of R53m from CIB to RBB (R31m) and WIMI (R22m).
- The Group reassessed its cost allocation and recovery methodologies, resulting in the restatements of operating expenses of R328m from CIB (R38m) and Head Office, Treasury and Other Operations (R290m) to RBB and total assets of R60m from CIB South Africa to CIB Rest of Africa.
- Interest rates on internal cash balances were aligned to market-related rates, resulting in a restatement of Net interest income of R41m from CIB to Head Office, Treasury and Other Operations.
- Certain shared services operations that were previously conducted by RBB were transferred to Head Office, Treasury and Other Operations, resulting in a restatement of net interest expense of R7m and operating expenses of R311m.
- Africa Corporate Development (previously reported in CIB Private Equity) was moved from CIB to Head Office, Treasury and Other Operations to better align the management thereof. This resulted in a restatement of operating expenses of R4m between these segments.
- Cheque income and the associated costs were moved from CIB to RBB to better align the ownership of the product and the management thereof. This resulted in a restatement between CIB and RBB of Fee and commission income of R36m as well as Operating expenses of R21m.
- Integrated Processing Solutions was moved from RBB to Head Office, Treasury and Other Operations to better align the ownership of the investment and the management thereof and resulted in a restatement of Investments in associates and joint ventures of R32m between these segments.
- The Rest of Africa treasury function (previously reported in RBB and CIB) was moved to Head Office, Treasury and Other Operations resulting in a restatement of Net interest income of R53m between RBB, CIB and Head Office, Treasury and Other Operations.

	Group		
	2016		
	South Africa and other international operations Rm	**Rest of Africa Rm**	**Total Rm**
58.2 Segment report per geographical segment			
Net interest income – external	**31 177**	**10 826**	**42 003**
Non-interest income – external	**24 955**	**5 436**	**30 391**
Total assets	**936 713**	**164 310**	**1 101 023**

	2015		
	South Africa and other international operations Rm	Rest of Africa Rm	Total Rm
Segment report per geographical segment			
Net interest income – external	29 292	9 115	38 407
Non-interest income – external[1]	23 963	4 828	28 791
Total assets	957 223	187 381	1 144 604

Note

[1] These numbers have been restated, refer to note 58.1.

58. Segment report (continued)

Statement of comprehensive income (Rm)

	RBB 2016	RBB 2015[1]	CIB 2016	CIB 2015[1]
Net interest income	**33 083**	30 886	**9 375**	7 851
Net interest income – external	**42 586**	39 218	**8 401**	5 106
Net interest income – internal	**(9 503)**	(8 332)	**974**	2 745
Non-interest income	**19 134**	18 274	**6 679**	5 890
Non-interest income – external	**18 350**	17 555	**10 884**	9 479
Non-interest income – internal	**784**	719	**(4 205)**	(3 589)
Total income	**52 217**	49 160	**16 054**	13 741
Impairment losses on loans and advances	**(7 374)**	(6 094)	**(1 403)**	(793)
Operating income before operating expenses	**44 843**	43 066	**14 651**	12 948
Operating expenses	**(30 273)**	(28 223)	**(7 547)**	(7 373)
Depreciation and amortisation	**(871)**	(796)	**(63)**	(76)
Other operating expenses	**(29 402)**	(27 427)	**(7 484)**	(7 297)
Other	**(706)**	(402)	**(200)**	(149)
Other impairments	**(284)**	(14)	**(42)**	(2)
Indirect taxation	**(422)**	(388)	**(158)**	(147)
Share of post-tax results of associates and joint ventures	**134**	123	**11**	1
Operating profit before income tax	**13 998**	14 564	**6 915**	5 427
Tax expenses	**(4 135)**	(4 219)	**(1 454)**	(1 126)
Profit for the reporting period	**9 863**	10 345	**5 461**	4 301
Profit attributable to:				
Ordinary equity holders	**9 106**	9 584	**5 065**	3 999
Non-controlling interest – ordinary shares	**527**	553	**280**	195
Non-controlling interest – preference shares	**230**	208	**116**	107
	9 863	10 345	**5 461**	4 301
Headline earnings	**9 313**	9 605	**5 098**	3 999
Operating performance (%)				
Net interest margin on average interest-bearing assets[2]	**4,44**	4,34	**2,49**	2,38
Credit loss ratio[2, 3]	**1,46**	1,24	**0,53**	0,37
Non-interest income as % of income[4]	**36,6**	37,2	**41,6**	42,9
Income growth[4]	**6**	6	**17**	8
Operating expenses growth[4]	**7**	4	**2**	9
Cost-to-income ratio[4]	**58,0**	57,4	**47,0**	53,7
Statement of financial position (Rm)				
Loans and advances to customers	**484 598**	483 755	**229 432**	213 625
Loans and advances to banks	**6 348**	5 296	**34 122**	43 987
Investment securities	**42 138**	42 513	**25 431**	20 126
Other assets	**275 808**	280 611	**263 629**	296 977
Total assets	**808 892**	812 175	**552 614**	574 715
Deposits due to customers	**346 413**	344 847	**225 416**	241 689
Debt securities in issue	**871**	1 561	**14 326**	16 401
Other liabilities	**450 974**	449 429	**305 926**	307 999
Total liabilities	**798 258**	795 837	**545 668**	566 089
Financial performance (%)				
Return on average risk-weighted assets[2]	**2,41**	2,55	**2,27**	1,93
Return on average assets[2]	**1,16**	1,25	**0,90**	0,81
RoRC[2]	**21,3**	22,0	**19,90**	17,40

Notes

1 These numbers have been restated, refer to note 58.1.
2 These ratios are unaudited.
3 The calculation of the credit loss ratio was amended to include impairment losses on loans and advances for the reporting period and dividing it by total gross loans and advances to customers and banks (calculated on a daily weighted average), resulting in a restatements of comparative credit loss ratios. Based on previous methodology the ratio would have been **1,23** (2015: 1,05).
4 These ratios have been calculated by management based on extracted audit information contained in the annual financial statements.
5 Head Office and inter-segment eliminations do not represent a reportable segment, but the reconciliation to the Group results in terms of IFRS 8.

Notes to the consolidated financial statements

for the reporting period ended 31 December

WIMI		Head Office and other operations[5]		Group	
2016	2015[1]	**2016**	2015[1]	**2016**	2015[1]
375	273	**(830)**	(603)	**42 003**	38 407
280	226	**(9 264)**	(6 143)	**42 003**	38 407
95	47	**8 434**	5 540	**—**	—
4 848	4 962	**(270)**	(335)	**30 391**	28 791
5 321	5 435	**(4 164)**	(3 678)	**30 391**	28 791
(473)	(473)	**3 894**	3 343	**—**	—
5 223	5 235	**(1 100)**	(938)	**72 394**	67 198
(10)	5	**36**	(38)	**(8 751)**	(6 920)
5 213	5 240	**(1 064)**	(976)	**63 643**	60 278
(3 346)	(3 018)	**1 210**	953	**(39 956)**	(37 661)
(92)	(101)	**(1 285)**	(1 049)	**(2 311)**	(2 022)
(3 254)	(2 917)	**2 495**	2 002	**(37 645)**	(35 639)
(171)	(204)	**(1 043)**	(688)	**(2 120)**	(1 443)
(58)	(81)	**(307)**	15	**(691)**	(82)
(113)	(123)	**(736)**	(703)	**(1 429)**	(1 361)
—	—	**(30)**	5	**115**	129
1 696	2 018	**(927)**	(706)	**21 682**	21 303
(346)	(603)	**100**	49	**(5 835)**	(5 899)
1 350	1 415	**(827)**	(657)	**15 847**	15 404
1 364	1 405	**(827)**	(657)	**14 708**	14 331
(19)	4	**—**	—	**788**	752
5	6	**—**	—	**351**	321
1 350	1 415	**(827)**	(657)	**15 847**	15 404
1 399	1 452	**(830)**	(769)	**14 980**	14 287
n/a	n/a	**n/a**	n/a	**4,92**	4,81
0,13	(0,07)	**n/a**	n/a	**1,08**	0,92
92,8	94,8	**n/a**	n/a	**42,0**	42,8
(0)	7	**n/a**	n/a	**8**	6
11	4	**n/a**	n/a	**6**	5
64,1	57,6	**n/a**	n/a	**55,2**	56,0
5 660	5 350	**619**	629	**720 309**	703 359
1 973	2 225	**7 346**	34 443	**49 789**	85 951
4 687	4 642	**42 059**	33 684	**114 315**	100 965
38 882	31 681	**(361 709)**	(354 940)	**216 610**	254 329
51 202	43 898	**(311 685)**	(286 184)	**1 101 023**	1 144 604
5 144	5 160	**97 892**	96 723	**674 865**	688 419
—	—	**124 517**	110 721	**139 714**	128 683
40 602	33 226	**(613 338)**	(561 799)	**184 164**	228 855
45 746	38 386	**(390 929)**	(354 355)	**998 743**	1 045 957
n/a	n/a	**n/a**	n/a	**2,14**	2,18
3,03	3,36	**n/a**	n/a	**1,34**	1,37
23,9	24,7	**n/a**	n/a	**n/a**	n/a

58. Segment report (continued)

	Retail Banking South Africa	
	2016 Rm	2015[1] Rm
Statement of comprehensive income (Rm)		
Net interest income	**19 736**	19 009
Net interest income – external	**34 400**	31 843
Net interest income – internal	**(14 664)**	(12 834)
Non-interest income	**12 819**	12 282
Non-interest income – external	**12 038**	11 551
Non-interest income – internal	**781**	731
Total income	**32 555**	31 291
Impairment losses on loans and advances	**(5 445)**	(4 772)
Operating income before operating expenses	**27 110**	26 519
Operating expenses	**(17 589)**	(16 545)
Depreciation and amortisation	**(356)**	(336)
Other operating expenses	**(17 233)**	(16 209)
Other	**(546)**	(251)
Other impairments	**(283)**	—
Indirect taxation	**(263)**	(251)
Share of post-tax results of associates and joint ventures	**134**	123
Operating profit before income tax	**9 109**	9 846
Tax expenses	**(2 552)**	(2 757)
Profit for the reporting period	**6 557**	7 089
Profit attributable to:		
Ordinary equity holders	**6 129**	6 702
Non-controlling interest – ordinary shares	**252**	228
Non-controlling interest – preference shares	**176**	159
	6 557	7 089
Headline earnings	**6 406**	6 691
Operating performance (%)		
Net interest margin on average interest-bearing assets[2]	**3,52**	3,54
Credit loss ratio[2,3]	**1,39**	1,23
Non-interest income as percentage of income[4]	**39,4**	39,3
Income growth[4]	**4**	6
Operating expenses growth[4]	**6**	2
Cost-to-income ratio[4]	**54,0**	52,9
Statement of financial position (Rm)		
Loans and advances to customers	**375 082**	374 997
Loans and advances to banks	**6 284**	5 266
Investment securities	**31 921**	32 285
Other assets	**201 615**	190 591
Total assets	**614 902**	603 139
Deposits due to customers	**176 952**	166 015
Debt securities in issue	**871**	1 561
Other liabilities	**427 878**	425 946
Total liabilities	**605 701**	593 522
Financial performance (%)		
Return on average risk-weighted assets[2]	**2,61**	2,75
Return on average assets[2]	**1,07**	1,16

Notes

1 These numbers have been restated, refer to note 58.1.
2 These ratios are unaudited.
3 The calculation of the credit loss ratio was amended to include impairment losses on loans and advances for the reporting period and dividing it by total gross loans and advances to customers and banks (calculated on a daily weighted average), resulting in a restatements of comparative credit loss ratios. Based on previous methodology the ratio would have been **1,23** (2015: 1,05).
4 These ratios have been calculated by management based on extracted audit information contained in the annual financial statements.

Business Banking South Africa 2016 Rm	Business Banking South Africa 2015[1] Rm	RBB Rest of Africa 2016 Rm	RBB Rest of Africa 2015[1] Rm	Total RBB 2016 Rm	Total RBB 2015[1] Rm
6 068	5 736	7 279	6 141	33 083	30 886
2 378	2 313	5 808	5 062	42 586	39 218
3 690	3 423	1 471	1 079	(9 503)	(8 332)
3 543	3 372	2 772	2 620	19 134	18 274
3 540	3 372	2 772	2 632	18 350	17 555
3	—	—	(12)	784	719
9 611	9 108	10 051	8 761	52 217	49 160
(581)	(545)	(1 348)	(777)	(7 374)	(6 094)
9 030	8 563	8 703	7 984	44 843	43 066
(5 860)	(5 536)	(6 824)	(6 142)	(30 273)	(28 223)
(20)	—	(495)	(460)	(871)	(796)
(5 840)	(5 536)	(6 329)	(5 682)	(29 402)	(27 427)
(29)	(39)	(131)	(112)	(706)	(402)
—	(13)	(1)	(1)	(284)	(14)
(29)	(26)	(130)	(111)	(422)	(388)
—	—	—	—	134	123
3 141	2 988	1 748	1 730	13 998	14 564
(868)	(847)	(715)	(615)	(4 135)	(4 219)
2 273	2 141	1 033	1 115	9 863	10 345
2 204	2 092	773	790	9 106	9 584
15	—	260	325	527	553
54	49	—	—	230	208
2 273	2 141	1 033	1 115	9 863	10 345
2 138	2 124	769	790	9 313	9 605
5,82	5,78	9,06	8,25	4,44	4,34
0,86	0,85	2,96	1,93	1,46	1,24
36,9	37,0	27,6	29,9	36,6	37,2
6	3	15	12	6	6
6	6	11	7	7	4
61,0	60,8	67,9	70,1	58,0	57,4
69 479	63 545	40 037	45 213	484 598	483 755
64	30	—	—	6 348	5 296
10 211	10 223	6	5	42 138	42 513
34 979	42 455	39 214	47 565	275 808	280 611
114 733	116 253	79 257	92 783	808 892	812 175
108 783	110 096	60 678	68 736	346 413	344 847
—	—	—	—	871	1 561
3 624	3 838	19 472	19 645	450 974	449 429
112 407	113 934	80 150	88 381	798 258	795 837
2,93	3,00	1,14	1,27	2,41	2,55
1,85	1,93	0,90	0,97	1,16	1,25

59. Derivatives

59.1 Derivative financial instruments

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

The derivative instrument contract 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 Group'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 or hedges of net investments in foreign operations. At the reporting date, the Group did not have any compound financial instruments with multiple embedded derivatives in issue.

The Group trades the following derivative instruments:

Foreign exchange derivatives

The Group'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 Group'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 Group'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 Group'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 Group also enters into fund-linked derivatives, being swaps and options which include mutual funds, hedge funds, indices and multi-asset portfolios as underlying.

Commodity derivatives

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

59.2 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 Group'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 Group's net exposure to, or position in any of the markets that the Group trades in.

59. Derivatives *(continued)*

59.3 Derivative financial instruments

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

	2016			2015		
	Assets Rm	**Liabilities Rm**	**Notional contract amount Rm**	Assets Rm	Liabilities Rm	Notional contract amount Rm
Derivatives held for trading	45 153	(40 920)	5 250 754	78 277	(86 695)	4 822 438
Derivatives designated as hedging instruments	1 745	(2 064)	167 080	2 232	(4 531)	176 435
Other	39	—	822	19	—	849
Total derivatives	46 937	(42 984)	5 418 656	80 528	(91 226)	4 999 722

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

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

	Group					
	2016			2015		
	Assets Rm	**Liabilities Rm**	**Notional contract amount Rm**	Assets Rm	Liabilities Rm	Notional contract amount Rm
Foreign exchange derivatives	15 210	(14 173)	613 710	27 727	(28 563)	879 407
Forwards	1 347	(936)	32 448	1 653	(2 751)	36 793
Futures	0	—	213 162	0	—	138 941
Swaps	13 308	(12 619)	339 917	23 136	(24 087)	604 566
Options	555	(618)	28 183	2 938	(1 725)	99 107
Interest rate derivatives	27 355	(24 324)	4 499 141	47 242	(53 306)	3 735 139
Forwards	1 011	(1 030)	3 006 259	1 627	(1 772)	2 244 296
Futures	0	—	35 759	52	(64)	37 565
Swaps	26 324	(23 266)	1 450 753	45 231	(51 113)	1 294 418
Options	20	(28)	6 370	332	(357)	158 860
Equity derivatives	1 607	(1 366)	114 792	2 184	(3 826)	166 462
Forwards	472	(231)	3 263	345	(1 275)	8 856
Futures	0	—	49 914	25	(54)	73 539
Swaps	377	(330)	9 278	256	(997)	19 213
Options	754	(801)	17 209	691	(1 418)	26 010
Options – exchange traded	0	—	26 837	4	—	30 839
Other – OTC	4	(4)	8 291	863	(82)	8 005
Commodity derivatives	797	(819)	12 790	212	(107)	11 866
Forwards	369	(418)	11 291	66	(22)	10 651
Swaps	95	(59)	605	106	(47)	958
Options	333	(342)	894	40	(38)	257
Credit derivatives						
Default swaps	184	(238)	10 321	912	(893)	29 564
Derivatives held for trading	45 153	(40 920)	5 250 754	78 277	(86 695)	4 822 438

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

59. Derivatives *(continued)*

59.5 *Derivative held for investment purposes*

Derivatives held for investment purposes for the 2016 period had a notional value of **R822m** (2015: R849m) and an asset carrying value of **R39m** (2015: R19m).

59.6 *Derivatives designated as hedging instruments – detail by market and instrument type*

	Group					
	2016			2015		
	Assets Rm	**Liabilities Rm**	**Notional contract amount Rm**	Assets Rm	Liabilities Rm	Notional contract amount Rm
Interest rate derivatives	**1 745**	**(1 973)**	**166 017**	2 232	(4 531)	176 435
Swaps – cash flow hedges	**627**	**(699)**	**125 684**	192	(2 827)	133 155
Swaps – fair value hedges	**1 118**	**(1 274)**	**40 333**	2 040	(1 704)	43 280
Foreign exchange derivatives						
Forward rate agreements – cash flow hedges	**—**	**(91)**	**1 063**	—	—	—
Derivatives designated as hedging instruments	**1 745**	**(2 064)**	**167 080**	2 232	(4 531)	176 435

59.7 *Derivatives designated as cash flow hedging instruments and hedges of net investment in foreign operations*

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

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

The Group's cash flow hedging instruments for foreign currency risk consist of foreign exchange contracts to protect the Group against the potential cash flow variability that results from exposure to mainly IT-related transactions in foreign currency.

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

	Group	
	2016 Rm	2015 Rm
Interest and similar income (refer to note 29)		
Interest rate risk	**268**	1 111
Other Operating income		
Hedges of net investments in foreign operations	**85**	—
Interest expense and similar charges (refer to note 30)		
Interest rate risk	**(8)**	135
Operating expenditure		
Foreign currency risk	**5**	—

59. Derivatives *(continued)*

59.7 Derivatives designated as cash flow hedging instruments and hedges of net investment in foreign operations (continued)

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:

	Group 2016 Rm	Group 2015 Rm
Gains and (losses) from banking and trading activities (refer note 35)		
Interest rate risk	(53)	(188)

The Group has hedged forecast cash flows, which primarily vary with interest rates. These cash flows are expected to impact the statement of comprehensive income in future financial periods as shown in the following table. 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:

	Group						
	2016						
	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							
Interest rate risk	337	205	103	11	—	—	656
Forecast payable cash flow	(309)	(189)	(124)	(118)	(106)	(62)	(908)
Interest rate risk	(263)	(140)	(124)	(118)	(106)	(62)	(813)
Foreign currency risk	(46)	(49)	—	—	—	—	(95)

	2015						
	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							
Interest rate risk	199	9	—	—	—	—	208
Forecast payable cash flow							
Interest rate risk	(127)	(890)	(803)	(606)	(321)	(114)	(2 861)

59. Derivatives *(continued)*

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

In the prior reporting period the Group used 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 were referenced to the market price of Barclays Africa Group Limited's shares. These hedges were all closed out by 2015 year-end.

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

	Group	
	2016 **Rm**	2015 Rm
Operating expenses – staff costs – share-based payments (refer to note 56)	—	96

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

59.9 Derivatives designated as fair value hedging instruments to protect against interest rate and exchange rate risk

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

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

Gains and (losses) on hedging instruments and hedged items:

	Group	
	2016 **Rm**	2015 Rm
Financial assets – fair value hedges		
Gains/(losses) on hedged items (assets) (refer to note 29)	**1 340**	(1 591)
(Losses)/gains on hedging instruments (assets) (refer to note 29)	**(2 171)**	1 444
Interest expense on hedging instruments (refer to note 29)	**(186)**	(265)
Financial liabilities – fair value hedges		
Gains/(losses) on hedged items (liabilities) (refer to note 30)	**(866)**	925
(Losses)/gains on hedging instruments (liabilities) (refer to note 30)	**864**	(842)
Interest income/(expense) on hedging instruments	**34**	144

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

	Group	
	2016 **Rm**	2015 Rm
Gains/(losses) from banking and trading activities (refer to note 35)	**(37)**	38

59.10 Counterparty netting and collateral

Derivative assets subject to counterparty netting agreements amounted to **R43 298m** (2015: R76 478m). Additionally, the Group held **R2 810m** (2015: R6 330m) of collateral against the net derivative asset exposure.

OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association (ISDA) Master Agreement is used by the Group. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

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

	2016 Fair value through profit or loss			
	Designated at fair value Rm	Held for trading Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	4 880	—	—	4 880
Investment securities	30 494	—	—	30 494
Loans and advances to banks	19 857	—	—	19 857
Trading portfolio assets	—	94 751	—	94 751
Hedging portfolio assets[1]	—	—	1 745	1 745
Other assets	9	—	—	9
Loans and advances to customers	24 076	—	—	24 076
Investments linked to investment contracts	18 776	40	—	18 816
Assets outside the scope of IAS 39	—	—	—	—
	98 092	94 791	1 745	194 628
Liabilities				
Deposits from banks	9 085	—	—	9 085
Trading portfolio liabilities	—	47 429	—	47 429
Hedging portfolio liabilities[2]	—	—	2 064	2 064
Other liabilities	45	—	—	45
Deposits due to customers	17 121	—	—	17 121
Debt securities in issue	5 517	—	—	5 517
Liabilities under investment contracts	29 198	—	—	29 198
Borrowed funds	—	—	—	—
Liabilities outside the scope of IAS 39	—	—	—	—
	60 966	47 429	2 064	110 459

	2015 Fair value through profit or loss			
	Designated at fair value Rm	Held for trading Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	3 372	—	—	3 372
Investment securities	24 316	—	—	24 316
Loans and advances to banks	24 328	—	—	24 328
Trading portfolio assets	—	135 158	—	135 158
Hedging portfolio assets[1]	—	—	2 232	2 232
Other assets	26	—	—	26
Loans and advances to customers	29 422	—	—	29 422
Investments linked to investment contracts	19 498	19	—	19 517
Assets outside the scope of IAS 39	—	—	—	—
	100 962	135 177	2 232	238 371
Liabilities				
Deposits from banks	12 018	—	—	12 018
Trading portfolio liabilities	—	90 407	—	90 407
Hedging portfolio liabilities[2]	—	—	4 531	4 531
Other liabilities	12	—	—	12
Deposits due to customers	17 799	—	—	17 799
Debt securities in issue	6 247	—	—	6 247
Liabilities under investment contracts	24 209	—	—	24 209
Borrowed funds	—	—	—	—
Liabilities outside the scope of IAS 39	—	—	—	—
	60 285	90 407	4 531	155 223

Notes

[1] Includes derivative assets to the amount of **R627m** (2015: R192m) and **R1 118m** (2015: R2 040m) that have been designated as cash flow and fair value hedging instruments respectively.

[2] Includes derivative liabilities to the amount of **R790m** (2015: R2 827m) and **R1 273m** (2015: R1 704m) that have been designated as cash flow and fair value hedging instruments respectively.

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

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

Notes to the consolidated financial statements

for the reporting period ended 31 December

2016

Available-for-sale: Designated as available-for-sale Rm	Available-for-sale: Hedged items[3] Rm	Available-for-sale: Total Rm	Amortised cost: Designated at amortised cost Rm	Amortised cost: Hedged items[3] Rm	Amortised cost: Total Rm	Assets/liabilities outside the scope of IAS 39[4] Rm	Total assets and liabilities Rm
—	—	—	45 126	—	45 126	—	50 006
56 059	27 762	83 821	—	—	—	—	114 315
—	—	—	29 932	—	29 932	—	49 789
—	—	—	—	—	—	1 485	96 236
—	—	—	—	—	—	—	1 745
—	—	—	22 120	—	22 120	3 413	25 542
—	—	—	696 231	2	696 233	—	720 309
—	—	—	—	—	—	—	18 816
—	—	—	—	—	—	24 265	24 265
56 059	27 762	83 821	793 409	2	793 411	29 163	1 101 023
—	—	—	44 107	—	44 107	—	53 192
—	—	—	—	—	—	—	47 429
—	—	—	—	—	—	—	2 064
—	—	—	23 600	—	23 600	4 051	27 696
—	—	—	657 744	—	657 744	—	674 865
—	—	—	123 600	10 597	134 197	—	139 714
—	—	—	—	—	—	—	29 198
—	—	—	11 754	3 919	15 673	—	15 673
—	—	—	—	—	—	8 912	8 912
—	—	—	860 805	14 516	875 321	12 963	998 743

2015

Available-for-sale: Designated as available-for-sale Rm	Available-for-sale: Hedged items[3] Rm	Available-for-sale: Total Rm	Amortised cost: Designated at amortised cost Rm	Amortised cost: Hedged items[3] Rm	Amortised cost: Total Rm	Assets/liabilities outside the scope of IAS 39[4] Rm	Total assets and liabilities Rm
—	—	—	42 532	—	42 532	—	45 904
38 369	38 280	76 649	—	—	—	—	100 965
—	—	—	61 623	—	61 623	—	85 951
—	—	—	—	—	—	2 005	137 163
—	—	—	—	—	—	—	2 232
—	—	—	22 875	—	22 875	2 945	25 846
—	—	—	673 830	107	673 937	—	703 359
—	—	—	—	—	—	—	19 517
—	—	—	—	—	—	23 667	23 667
38 369	38 280	76 649	800 860	107	800 967	28 617	1 144 604
—	—	—	50 962	—	50 962	—	62 980
—	—	—	—	—	—	—	90 407
—	—	—	—	—	—	—	4 531
—	—	—	21 398	—	21 398	3 572	24 982
—	—	—	670 620	—	670 620	—	688 419
—	—	—	110 612	11 824	122 436	—	128 683
—	—	—	—	—	—	—	24 209
—	—	—	9 614	3 537	13 151	—	13 151
—	—	—	—	—	—	8 595	8 595
—	—	—	863 206	15 361	878 567	12 167	1 045 957

61. Fair value disclosures

61.1 Assets and liabilities held at fair value

The following table shows the Group'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.

	Group							
	2016				2015			
	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	**2 388**	**2 492**	**—**	**4 880**	2 114	1 258	—	3 372
Investment securities	**60 051**	**50 906**	**3 358**	**114 315**	64 458	32 541	3 966	100 965
Loans and advances to banks	**—**	**19 286**	**571**	**19 857**	—	22 219	2 109	24 328
Trading and hedging portfolio assets	**33 572**	**61 419**	**1 505**	**96 496**	37 037	98 935	1 418	137 390
Debt instruments	**15 689**	**6 740**	**1 324**	**23 753**	18 891	9 430	897	29 218
Derivative assets	**—**	**46 717**	**181**	**46 898**	51	79 938	521	80 510
Commodity derivatives	**—**	**797**	**—**	**797**	—	212	—	212
Credit derivatives	**—**	**70**	**114**	**184**	—	889	23	912
Equity derivatives	**—**	**1 540**	**67**	**1 607**	6	2 134	43	2 183
Foreign exchange derivatives	**—**	**15 221**	**—**	**15 221**	45	27 696	3	27 744
Interest rate derivatives	**—**	**29 089**	**—**	**29 089**	—	49 007	452	49 459
Equity instruments	**17 883**	**—**	**—**	**17 883**	17 321	—	—	17 321
Money market assets	**—**	**7 962**	**—**	**7 962**	774	9 567	—	10 341
Other assets	**—**	**4**	**5**	**9**	—	1	25	26
Loans and advances to customers	**—**	**19 186**	**4 890**	**24 076**	3	21 908	7 511	29 422
Investment linked to investment contract	**16 335**	**2 481**	**—**	**18 816**	16 885	2 632	—	19 517
Total financial assets	**112 346**	**155 774**	**10 329**	**278 449**	120 497	179 494	15 029	315 020
Financial liabilities								
Deposits from banks	**—**	**9 085**	**—**	**9 085**	—	12 011	7	12 018
Trading and hedging portfolio liabilities	**6 508**	**42 677**	**308**	**49 493**	3 712	91 009	217	94 938
Derivative liabilities	**—**	**42 677**	**308**	**42 985**	—	91 009	217	91 226
Commodity derivatives	**—**	**875**	**—**	**875**	—	429	—	429
Credit derivatives	**—**	**137**	**101**	**238**	—	879	14	893
Equity derivatives	**—**	**1 306**	**60**	**1 366**	—	3 768	58	3 826
Foreign exchange derivatives	**—**	**14 173**	**—**	**14 173**	—	28 576	—	28 576
Interest rate derivatives	**—**	**26 186**	**147**	**26 333**	—	57 357	145	57 502
Short positions	**6 508**	**—**	**—**	**6 508**	3 712	—	—	3 712
Other liabilities	**—**	**4**	**41**	**45**	—	7	5	12
Deposits due to customers	**154**	**15 828**	**1 139**	**17 121**	111	15 131	2 557	17 799
Debt securities in issue	**261**	**4 652**	**604**	**5 517**	202	5 421	624	6 247
Liabilities under investment contracts	**—**	**29 055**	**—**	**29 055**	—	24 209	—	24 209
Total financial liabilities	**6 923**	**101 301**	**2 092**	**110 316**	4 025	147 788	3 410	155 223
Non-financial assets								
Commodity	**1 485**	**—**	**—**	**1 485**	2 005	—	—	2 005
Investment properties	**—**	**—**	**478**	**478**	—	—	1 264	1 264
Non-recurring fair value measurements								
Non-current assets held for sale[1]	**—**	**—**	**823**	**823**	—	—	1 700	1 700
Non-current liabilities held for sale[1]	**—**	**—**	**9**	**9**	—	—	233	233

Note

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

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61. Fair value disclosures *(continued)*

61.2 *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:

	Group 2016				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm
Opening balance at the beginning of the reporting period	**1 418**	**25**	**7 511**	**2 109**	**3 966**
Net interest income	—	—	297	—	56
Other income	—	—	—	—	—
Gains and losses from banking and trading activities	112	—	—	(140)	(1 079)
Gains and losses from investment activities	—	—	—	—	106
Purchases	1 308	(3)	—	70	543
Sales	(1 333)	(17)	(1 956)	(1 468)	(233)
Movement in other comprehensive income	—	—	—	—	(80)
Issues	—	—	—	—	—
Settlements	—	—	—	—	—
Transferred to/(from)	—	—	—	—	1 136
Movement in/(out) of Level 3	—	—	(962)	—	(1 057)
Closing balance at the end of the reporting period	**1 505**	**5**	**4 890**	**571**	**3 358**

	Group 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
Opening balance at the beginning of the reporting period	1 162	17	4 731	—	6 467
Net interest income	—	—	488	—	85
Other income	—	—	—	—	—
Gains and losses from banking and trading activities	323	—	—	—	—
Gains and losses from investment activities	—	—	—	(18)	50
Purchases	16	8	5 108	2 127	47
Sales	(83)	—	(2 816)	—	(2 718)
Movement in other comprehensive income	—	—	—	—	35
Issues	—	—	—	—	—
Settlements	—	—	—	—	—
Transferred to/(from) assets/liabilities	—	—	—	—	—
Movement in/(out) of Level 3	—	—	—	—	—
Closing balance at the end of the reporting period	1 418	25	7 511	2 109	3 966

61.2.1 Significant transfers between levels

During the 2016 and 2015 reporting periods, transfers between levels occurred because of changes in the observability of valuation inputs, in some instances owing to changes in the level of market activity.

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

Group 2016									
Investment properties Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Liabilities under investment contract Rm	Total liabilities at fair value Rm
1 264	—	16 293	7	217	5	2 557	624	—	3 410
—	—	353	—	—	—	—	—	—	—
17	—	17	—	—	—	—	—	—	—
—	—	(1 107)	—	91	—	—	—	—	91
—	—	106	—	—	—	139	(9)	—	130
28	—	1 946	—	—	—	—	—	—	—
(83)	—	(5 090)	—	—	—	—	—	—	—
—	—	(80)	—	—	—	—	—	—	—
—	—	—	—	—	36	1 953	—	—	1 989
—	—	—	(7)	—	—	(3 510)	(11)	—	(3 528)
(748)	—	388	—	—	—	—	—	—	—
—	—	(2 019)	—	—	—	—	—	—	—
478	—	10 807	—	308	41	1 139	604	—	2 092

Group 2015									
Investment properties Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Liabilities under investment contract Rm	Total liabilities at fair value Rm
727	1	13 105	—	320	28	5 530	42	3 022	8 942
—	—	573	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	323	—	(21)	—	—	—	—	(21)
60	—	92	—	—	(23)	132	172	(479)	(198)
478	—	7 784	—	—	—	—	—	—	—
(1)	(1)	(5 619)	—	—	—	—	—	—	—
—	—	35	—	—	—	—	—	—	—
—	—	—	7	1	—	3 112	410	—	3 530
—	—	—	—	(83)	—	(3 265)	—	—	(3 348)
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	(2 952)	—	(2 543)	(5 495)
1 264	—	16 293	7	217	5	2 557	624	—	3 410

61. Fair value disclosures *(continued)*

61.3 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:

	Group 2016							
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm	Investments linked to investment contracts Rm	Non-current assets held for sale Rm	Total assets at fair value Rm
Gains and losses from banking and trading activities	3	—	35	29	—	—	—	67

	2015							
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm	Investments linked to investment contracts Rm	Non-current assets held for sale Rm	Total assets at fair value Rm
Gains and losses from banking and trading activities	96	—	(28)	48	—	—	—	116

	Group 2016				
	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Liabilities under investment contracts Rm	Total liabilities at fair value Rm
Gains and losses from banking and trading activities	86	—	—	—	86

	2015				
	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Liabilities under investment contracts Rm	Total liabilities at fair value Rm
Gains and losses from banking and trading activities	79	—	—	—	79

61. Fair value disclosures *(continued)*

61.4 Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of possible alternative valuations. The assets and liabilities that most impact this sensitivity analysis are those with 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 of the asset or liability by more than 10% or the underlying value of the affected item.

This is demonstrated by the following sensitivity analysis which includes a reasonable range of possible outcomes:

		2016	
		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 and investments linked to investment contracts	Risk adjustment yield curves, future earnings and marketability discount	34/36	94/100
Loans and advances to customers	Credit spreads	72/71	—/—
Other assets	Credit spreads	—/—	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	175/175	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	20/20	—/—
Other liabilities	Volatility, credit spreads	—/—	—/—
		301/302	94/100

61. Fair value disclosures *(continued)*

61.4 Sensitivity analysis of valuations using unobservable inputs *(continued)*

		2015	
		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 and investments linked to investment contracts	Risk 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	—

61.5 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 observable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	Group	
	2016 Rm	2015 Rm
Opening balance at the beginning of the reporting period	**(105)**	(52)
New transactions	**(64)**	(91)
Amounts recognised in profit or loss during the reporting period	**30**	38
Closing balance at the end of the reporting period	**(139)**	(105)

61.6 Third-party credit enhancements

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

61. Fair value disclosures *(continued)*

61.7 Assets and liabilities not held at fair value

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

	Group				
	2016				
	Carrying value Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with other central banks	13 395	13 395	13 395	—	—
Balances with the SARB	18 552	18 552	18 552	—	—
Coins and bank notes	13 141	13 141	13 141	—	—
Money market assets	38	38	38	—	—
Cash, cash balances and balances with central banks	45 126	45 126	45 126	—	—
Loans and advances to banks	29 932	29 827	1 834	26 450	1 543
Other assets	22 120	22 188	9 640	7 832	4 716
Retail Banking South Africa	375 082	374 973	—	—	374 973
Credit cards	35 614	35 614	—	—	35 614
Instalment credit agreements	73 955	73 650	—	—	73 650
Loans to associates and joint ventures	18 933	18 933	—	—	18 933
Mortgages	223 662	223 674	—	—	223 674
Other loans and advances	510	510	—	—	510
Overdrafts	3 947	3 947	—	—	3 947
Personal and term loans	18 461	18 645	—	—	18 645
Business Banking South Africa	69 375	69 387	1 238	—	68 149
Mortgages (including CPF)	35 295	35 307	—	—	35 307
Overdrafts[1]	18 426	18 426	1 238	—	17 188
Term loans[1]	15 654	15 654	—	—	15 654
RBB Rest of Africa	40 037	40 027	—	5 415	34 612
CIB	205 464	205 464	15 588	39 975	149 901
WIMI	5 660	5 660	—	—	5 660
Head Office, Treasury and other operations	615	615	—	615	—
Loans and advances to customers – net of impairment losses	696 233	696 126	16 826	46 005	633 295
Total assets	793 411	793 267	73 426	80 287	639 554
Financial liabilities					
Deposits from banks	44 107	44 107	978	43 124	5
Other liabilities	23 600	23 584	7 646	10 721	5 217
Call deposits	62 426	62 426	15 500	46 926	—
Cheque account deposits	200 367	200 367	191 103	9 264	—
Credit card deposits	1 906	1 906	1 906	—	—
Fixed deposits	153 295	153 358	415	148 395	4 548
Foreign currency deposits	24 825	24 825	447	24 378	—
Notice deposits	59 358	59 371	1 674	57 697	—
Other deposits	3 189	3 189	1 236	1 898	55
Saving and transmission deposits	152 378	152 378	143 897	8 243	238
Deposits due to customers	657 744	657 820	356 178	296 801	4 841
Debt securities in issue	134 197	134 197	457	130 951	2 789
Borrowed funds	15 673	15 893	—	15 797	96
Total liabilities	875 321	875 601	365 259	497 394	12 948

Note

[1] Some overdrafts were reallocated to term loans to align to the way the products are utilised by the customers. The restatement effected resulted in a decrease of **R821m** (2015: R555m) in 'Overdrafts' with corresponding increase in 'Term loans'.

61. Fair value disclosures *(continued)*

61.7 Assets and liabilities not held at fair value (continued)

	Group				
	2015				
	Carrying value Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with other central banks	12 141	12 141	12 141	—	—
Balances with the SARB	17 459	17 459	17 459	—	—
Coins and bank notes	12 898	12 898	12 898	—	—
Money market assets	34	34	34	—	—
Cash, cash balances and balances with central banks	42 532	42 532	42 532	—	—
Loans and advances to banks	61 623	61 632	5 018	51 667	4 947
Other assets	22 875	22 875	13 428	3 872	5 575
Retail Banking South Africa	374 996	373 967	—	—	373 967
Credit cards	37 148	37 148	—	—	37 148
Instalment credit agreements	72 859	71 798	—	—	71 798
Loans to associates and joint ventures	16 175	16 175	—	—	16 175
Mortgages	228 349	228 359	—	—	228 359
Other loans and advances	367	367	—	—	367
Overdrafts	2 820	2 820	—	—	2 820
Personal and term loans	17 278	17 300	—	—	17 300
Business Banking South Africa	63 412	63 440	1 093	—	62 347
Mortgages (including CPF)	30 730	30 742	—	—	30 742
Overdrafts[1]	17 604	17 620	1 093	—	16 527
Term loans[1]	15 078	15 078	—	—	15 078
RBB Rest of Africa	45 212	45 212	—	13 056	32 156
CIB	184 342	184 344	21 046	42 387	120 911
WIMI	5 350	5 350	—	—	5 350
Head Office and other operations	625	625	—	389	236
Loans and advances to customers – net of impairment losses	673 937	672 938	22 139	55 832	594 967
Total assets	800 967	799 977	83 117	111 371	605 489
Financial liabilities					
Deposits from banks	50 962	50 962	7 243	43 386	333
Other liabilities	21 398	21 278	8 282	7 672	5 324
Call deposits	72 172	72 172	69 034	3 138	—
Cheque account deposits	200 614	200 614	192 769	7 845	—
Credit card deposits	2 002	2 002	2 002	—	—
Fixed deposits	157 661	157 774	5 222	133 368	19 184
Foreign currency deposits	27 865	27 865	465	27 400	—
Notice deposits	48 954	48 963	1 376	47 587	—
Other deposits	13 791	13 791	1 289	4 695	7 807
Saving and transmission deposits	147 561	147 561	138 881	8 320	360
Deposits due to customers	670 620	670 742	411 038	232 353	27 351
Debt securities in issue	122 436	119 859	157	117 605	2 097
Borrowed funds	13 151	13 520	—	12 739	781
Total liabilities	878 567	876 361	426 720	413 755	35 886

Note

[1] Some overdrafts were reallocated to term loans to align to the way the products are utilised by the customers. The restatement effected resulted in a decrease of **R821m** (2015: R555m) in 'Overdrafts' with corresponding increase in 'Term loans'.

62. Credit risk of financial instruments designated at fair value

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

	Group		Credit risk mitigation	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Assets				
Cash, cash balances and balances with central banks	**4 880**	3 372	**—**	—
Investment securities	**25 056**	19 939	**—**	—
Loans and advances to banks	**19 857**	24 328	**18 768**	19 423
Other assets	**9**	26	**—**	—
Loans and advances to customers	**24 076**	29 422	**16 201**	21 028
Investments linked to investment contracts	**18 776**	19 498	**—**	—
	92 654	96 585	**34 969**	40 451

The Group utilised credit derivatives and credit linked notes 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 amount of financial liabilities designated at fair value through profit or loss and the amount that the Group is contractually required to pay to the holder of the obligation at maturity.

	Group			
	2016		2015	
	Carrying value Rm	**Contractual obligation Rm**	Carrying value Rm	Contractual obligation Rm
Liabilities				
Deposits from banks	**9 085**	**10 771**	12 018	15 343
Other liabilities	**45**	**45**	12	12
Deposits due to customers	**17 121**	**20 454**	17 799	17 799
Debt securities in issue	**5 517**	**7 003**	6 247	7 058
Liabilities under investment contracts	**29 198**	**29 198**	24 209	24 209
	60 966	**67 471**	60 285	64 421

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

(Increase)/Decrease in fair value attributable to changes in own credit risk during the reporting period

	Group	
	2016 Rm	2015 Rm
Liabilities		
Deposits from banks and customers	**(12)**	130

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

	Group	
	2016 Rm	2015 Rm
Liabilities		
Deposits from banks and customers	**105**	93

The following approaches are used in determining changes in fair value due to changes in credit risk for deposits from banks and customers 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 funding issued by the Group. Most market parameters are either directly observable or are implied by 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.

63. Risk management

63.1 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 in the execution of the Group's strategy. It is essential that the business growth strategy is supported by an effective Enterprise Risk Management Framework (ERMF). Risk culture is closely aligned to that of the business. The Risk Function retains independence in analysis and decision-making.

The approach to managing risk is outlined in the ERMF, which provides the basis for setting policies and standards, and establishing the appropriate risk practices throughout the Group. It defines the risk management process and sets out the activities, tools, techniques and organisational arrangements to ensure that material risks can be identified and managed. It also ensures that appropriate responses are in place to protect the Group and prevent detriment to its stakeholders.

The ERMF includes those risks taken by the Group that are foreseeable, and material enough to merit establishing specific group-wide control frameworks. These are known as key risks and are grouped into five principal risks.

The three lines of defence operating model, which has been defined in the ERMF, enables the appropriate assignment of risk management activities between those parties that:

- Originate and own risk, and implement controls (first line);
- Oversee and challenge the first line, providing independent risk management activity and support controls (second line); and
- Provide assurance that risk processes are fit for purpose, and that they are being carried out as intended (third line).

The ERMF enables businesses and functions to be organised along the three lines by formalising independence and challenge, while promoting collaboration and the flow of information between all areas.

The ERMF is reviewed and approved annually by the Board.

Future priorities (Unaudited)

- Regularly review and alter risk appetite (where appropriate) to take account of global and local macroeconomic deterioration.
- Increase focus on governance and model risk across the Group.
- Continue to focus on technology, fraud (including cybercrime) and anti-money laundering.
- Increase focus on data initiatives, including those arising from regulations (eg BCBS 239, and IFRS 9).
- Continue to enhance our scenario development and stress testing processes.
- Embed enhanced Risk Measurement tools and models to include more extensive use of Economic Capital metrics.

Credit risk

The risk of financial loss should the Group's customers, clients or market counterparties fail to fulfil their contractual obligations due to a borrower, counterparty to a derivative transaction, or an issuer of debt securities defaulting on its contractual obligations.

Risk appetite

Risk appetite and stress testing are key components of the Group's management of risk and are embedded as part of the strategic planning process. The risk appetite statement describes and measures the amount and types of risk that the Group is prepared to take in executing its strategy. The Group's risk appetite framework combines a top-down view of capacity to take risk with a bottom-up view of the risk profile associated with each business area's plans.

63. Risk management *(continued)*

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

Risk appetite key indicators and triggers

The Group manages its risk profile in a forward-looking manner through a trigger and management action framework, which has been reviewed and strengthened. Key indicators and triggers have been developed to serve as an early warning system. The indicators include, inter alia, economic indices directly correlated with risk measures and key financial indicators. The indicators and triggers have been implemented at Group, Business Unit, country, and product levels, and are regularly monitored by management and reported to the Group Risk and Capital Management Committee (GRCMC) on a quarterly basis.

Stress testing

Stress testing is a key element of the Group's integrated planning and risk management processes. Through the use of stress testing and scenario analysis, the Group is able to assess the performance of the Group's portfolios in the expected economic environment and also evaluate the impact of adverse economic conditions.

Actual market stresses, which have been experienced throughout the financial system in recent years, have been used to inform the Group's capital planning process and enhance the stress scenarios employed. The Group takes into account the results of all such stress testing when assessing its internal and regulatory capital requirements including the setting of capital and liquidity buffers.

The GRCMC exercises governance oversight and approval authority over stress testing results.

Performance (unaudited)

- Loans and advances: Growth in loans and advances to customers moderated to 2,7%. In South Africa, solid growth was seen in the Business Bank and Corporate and Investment Bank portfolios, while the Retail portfolio remained overall flat. Notably, the home loans portfolio decreased by 2% during the year. The growth in South African Wholesale banking was offset by a decline across the Rest of Africa businesses.
- Impairments: The credit loss ratio deteriorated to **108 bps** (December 2015: 92 bps). The retail credit impairment charge increased to **R6 590m** (December 2015: R5 451m) due to deterioration across most retail portfolios in South Africa and Rest of Africa, and additional macroeconomic provisions of R141m. The deterioration in retail credit performance in South Africa can be ascribed to increased pressure on consumers as a result of the weakening macroeconomic environment. The wholesale credit impairment charge increased to **R2 197m** (December 2015: R1 431m) due to new single name impairments in CIB, Business Bank and Rest of Africa and additional macroeconomic provisions of R220m.
- Non-performing loans (NPLs): The balance of Retail NPLs increased by 9,8% due to higher roll into late arrears. The balance of Wholesale NPLs increased by 14,6% due to new defaults in the Consumer Sector and Rest of Africa. NPLs as a percentage of gross loans and advances increased to **3,9%** (December 2015: 3,5%) as a result of the higher NPL balances and restrained book growth. The NPL coverage ratio increased overall to **44,2%** (December 2015: 43,2%).
- Performing Coverage: Performing coverage increased further to **0,79%** (December 2015: 0,65%) due to additional macroeconomic provisions of R283m that were raised during the year as well as increased early arrears. This is against the backdrop of the increasingly challenging macroeconomic environment in which the bank operates.
- EAD/PD/LGD: PDs in the Retail portfolios increased, while LGDs decreased as a result of new model implementations across all Retail portfolios. EAD growth in Retail IRB portfolios is due to new EAD model implementations and reclassification of SME Corporates to SME Retail, while growth in Wholesale IRB portfolios is due to growth in Corporate and Sovereign exposures, offset by a reduction in Bank exposure.
- RWA as a percentage of EAD: The result of lower LGD levels in the Retail portfolios and continuing capital optimisation exercises resulted in lower RWA intensity levels.

Future priorities (Unaudited)

- Identify and actively manage credit risk trends and opportunities in order to deliver a world-class credit risk operation.
- Continue to refine and enhance the embedment of credit risk appetite throughout the group to ensure alignment of business strategy with credit risk appetite.
- Focus on data and systems as enablers of efficient credit risk management.
- Close monitoring of the macroeconomic environment and emerging risks, and implementation of agreed management actions when required.

63. Risk management *(continued)*

63.2 Credit risk

The following table analyses financial assets between those that are neither past due nor impaired and those that are past due and/or impaired. Past due/impaired assets are further analysed in the tables that follow.

Maximum exposure to credit risk

	Group				
	2016				
		Neither past due nor impaired[1]			
	Gross maximum exposure Rm	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total past due and/or impaired loans Rm
Balances with other central banks	13 395	5 612	7 783	—	—
Balances with the SARB	18 552	18 552	—	—	—
Money market assets	4 918	4 918	—	—	—
Cash, cash balances and balances with central banks (refer to note 2)	36 865	29 082	7 783	—	—
Government bonds	46 781	46 781	—	—	—
Other	29 088	18 169	10 919	—	—
Treasury bills	32 365	28 746	3 619	—	—
Investment securities (refer to note 3)	108 234	93 696	14 538	—	—
Loans and advances to banks (refer to note 4)	49 789	37 541	12 092	147	9
Debt instruments	23 753	20 007	3 746	—	—
Derivative assets	46 898	44 840	2 056	2	—
Money market assets	7 962	7 469	339	154	—
Trading and hedging portfolio assets (refer to note 5)	78 613	72 316	6 141	156	—
Accounts receivable	15 612	13 174	2 393	25	20
Settlement accounts	6 517	6 480	37	—	—
Other assets (refer to note 6)	22 129	19 654	2 430	25	20
RBB	501 457	77 404	342 428	26 465	55 160
Retail Bank South Africa	387 027	55 732	262 358	23 687	45 250
Credit cards	40 225	4 373	17 972	8 596	9 284
Instalment credit agreements	75 615	6 766	57 296	5 996	5 557
Loans to associates and joint ventures	18 933	18 933	—	—	—
Mortgages	226 984	23 431	171 920	5 671	25 962
Other loans and advances	510	86	394	30	—
Overdrafts	4 143	1 002	2 493	194	454
Personal and term loans	20 617	1 141	12 283	3 200	3 993
Business Bank South Africa	71 434	12 169	51 252	1 921	6 092
Mortgages (including CPF)	36 113	7 970	25 039	930	2 174
Overdrafts	19 213	1 794	14 760	582	2 077
Term loans	16 108	2 405	11 453	409	1 841
RBB Rest of Africa	42 996	9 503	28 818	857	3 818
CIB	232 214	153 880	70 152	3 425	4 757
WIMI	5 731	1 366	4 051	192	122
Head Office, Treasury and other operations	623	623	—	—	—
Loans and advances to customers (refer to note 8)	740 025	233 273	416 631	30 082	60 039
Insurance contracts	985	798	187	—	—
Investment contracts	—	—	—	—	—
Reinsurance assets (refer to note 10)	985	798	187	—	—
Debt instruments	506	506	—	—	—
Derivative instruments	39	39	—	—	—
Money market assets	2 085	2 085	—	—	—
Investments linked to investment contracts (refer to note 11)	2 630	2 630	—	—	—
Total gross maximum exposure to credit risk	1 039 270				
Impairments raised (refer to note 9)	(19 716)				
Total net exposure to credit risk as disclosed on the statement of financial position	1 019 554				
Assets not subject to credit risk	81 469				
Total assets per the statement of financial position	1 101 023				

Note

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

63. Risk management *(continued)*

63.2 *Credit risk (continued)*

Maximum exposure to credit risk

	Group 2015				
		Neither past due nor impaired[1]			
	Gross maximum exposure Rm	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total past due and/or impaired loans Rm
Balances with other central banks	12 141	4 819	7 322	—	—
Balances with the SARB	17 459	17 459	—	—	—
Money market assets	3 405	3 405	—	—	—
Cash, cash balances and balances with central banks (refer to note 2)	33 005	25 683	7 322	—	—
Government bonds	45 578	45 578	—	—	—
Other	20 133	15 973	4 160	—	—
Treasury bills	30 649	19 924	10 725	—	—
Investment securities (refer to note 3)	96 360	81 475	14 885	—	—
Loans and advances to banks (refer to note 4)	85 951	71 689	14 248	—	14
Debt instruments	29 219	27 850	1 369	—	—
Derivative assets[2]	80 509	78 595	1 914	—	—
Money market assets	10 341	7 979	2 362	—	—
Trading portfolio assets (refer to note 5)[2]	120 069	114 424	5 645	—	—
Accounts receivable	14 695	13 727	777	—	191
Settlement accounts	8 206	7 480	726	—	—
Other assets (refer to note 6)	22 901	21 207	1 503	—	191
RBB	499 033	153 912	264 114	26 920	54 087
Retail Bank South Africa	385 673	121 845	197 950	22 439	43 439
Credit cards	41 404	4 938	13 787	13 359	9 320
Instalment credit agreements	74 028	13 926	53 267	1 987	4 848
Loans to associates and joint ventures	16 176	16 176	—	—	—
Mortgages	231 656	82 530	118 982	4 780	25 364
Other loans and advances	367	82	273	12	—
Overdrafts	2 953	537	2 070	2	344
Personal and term loans	19 089	3 656	9 571	2 299	3 563
Business Bank South Africa	65 358	15 195	42 366	1 990	5 807
Mortgages (including CPF)	31 636	6 885	20 793	1 240	2 718
Overdrafts[3]	18 249	3 974	12 357	421	1 497
Term loans[3]	15 473	4 336	9 216	329	1 592
RBB Rest of Africa	48 002	16 872	23 798	2 491	4 841
CIB	215 342	135 065	69 986	5 189	5 102
WIMI	5 415	678	4 141	114	482
Head Office, Treasury and other operations	669	669	—	—	—
Loans and advances to customers (refer to note 8)	720 459	290 324	338 241	32 223	59 671
Insurance contracts	581	537	44	—	—
Investment contracts	—	—	—	—	—
Reinsurance assets (refer to note 10)	581	537	44	—	—
Debt instruments	694	694	—	—	—
Derivative instruments	19	19	—	—	—
Money market assets	1 105	1 105	—	—	—
Investments linked to investment contracts (refer to note 11)	1 818	1 818	—	—	—
Total gross maximum exposure to credit risk	1 081 144			—	—
Impairments raised (refer to note 9)	(17 100)				
Total net exposure to credit risk as disclosed on the statement of financial position	1 064 044				
Assets not subject to credit risk	80 560				
Total financial assets per the statement of financial position	1 144 604				

Notes

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

[2] In the current reporting period, the Group has aggregated the hedging portfolio derivative asset balances and comparatives have been restated accordingly.

[3] Some overdrafts were reallocated to term loans to align to the way the products are utilised by the customers, resulting in a restatement of the comparatives. The restatement was effected as follows: a decrease of R555m in the Overdrafts gross maximum exposures causing a decrease of R469m and R86m in the DG1-11 and DG 12-19 categories respectively; an increase of R555m in the Term loans gross maximum exposures causing an increase of R469m and R86m in the DG1-11 and DG 12-19 categories respectively.

63. Risk management *(continued)*

63.2 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 Group 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.

	Group	
	2016 Rm	2015 Rm
Financial guarantee contracts (refer to note 52)	**10**	24
Guarantees (refer to note 54)	**38 441**	37 901
Irrevocable debt facilities (refer to note 54)	**135 935**	152 984
Letters of credit (refer to note 54)[1]	**8 481**	8 207
Other (refer to note 54)	**135**	5 325
	183 002	204 441

Concentration 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.

	Group				
	2016				
Geographical concentration of risk	**Asia, Americas and Australia Rm**	**Europe[2] Rm**	**Rest of Africa Rm**	**South Africa Rm**	**Total Rm**
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	26	1	13 501	23 337	36 865
Investment securities	3 978	1 728	23 731	78 797	108 234
Loans and advances to banks	6 759	23 079	10 485	9 466	49 789
Trading portfolio assets	162	19 035	6 647	51 025	76 869
Hedging portfolio assets	28	581	—	1 135	1 744
Other assets	296	510	2 650	18 673	22 129
Loans and advances to customers	3 595	9 307	82 550	624 857	720 309
Reinsurance assets	83	230	488	184	985
Investments linked to investment securities	—	—	—	2 630	2 630
Subject to credit risk	14 927	54 471	140 052	810 104	1 019 554
Off-statement of financial position exposures					
Financial guarantee contracts	—	—	—	10	10
Guarantees	429	737	8 726	28 549	38 441
Irrevocable debt facilities	—	—	5 091	130 844	135 935
Letters of credit	1 307	1 459	5 604	111	8 481
Other	—	—	—	135	135
Subject to credit risk	1 736	2 196	19 421	159 649	183 002

Amounts presented in the above table are presented net of impairments, where relevant.

Notes

[1] The presentation of commitments for 2015 has been revised following the reallocation of an amount of R740m from Commitments to Letters of Credit (within Contingencies) so as to more appropriately reflect the substance of the item.

[2] Included within the balance in respect of Europe are exposures facing Barclays PLC.

63. Risk management *(continued)*

63.2 Credit risk *(continued)*

Geographical concentration of risk	Group 2015 Asia, Americas and Australia Rm	Europe[1] Rm	Rest of Africa Rm	South Africa Rm	Total Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	180	—	12 141	20 684	33 005
Investment securities	1 403	2 834	23 258	68 865	96 360
Loans and advances to banks	15 217	39 564	17 417	13 753	85 951
Trading portfolio assets	164	51 664	6 988	59 021	117 837
Hedging portfolio assets	33	857	17	1 325	2 232
Other assets	—	919	3 053	18 929	22 901
Loans and advances to customers	6 089	6 888	90 314	600 068	703 359
Reinsurance assets	71	167	192	151	581
Investments linked to investment securities	—	—	—	1 818	1 818
Subject to credit risk	23 157	102 893	153 380	784 614	1 064 044
Off-statement of financial position exposures					
Financial guarantee contracts	—	—	—	24	24
Guarantees	899	802	7 425	28 775	37 901
Irrevocable debt facilities	—	—	5 950	147 034	152 984
Letters of credit	2 117	2 212	1 567	1 570	7 466
Other	—	—	5 303	22	5 325
Subject to credit risk	3 016	3 014	20 245	177 425	203 700

Amounts presented in the above table are presented net of impairments, where relevant.

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 1.2.1.

The Group offsets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Group 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 Group 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 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 fixed charges over property.
- Cash collateral.
- Other forms including master netting agreements, put options, and highly liquid securities held under reverse repo agreements.

Note

[1] Included within the balance in respect of Europe are exposures facing Barclays PLC.

63. Risk management *(continued)*

63.2 *Credit risk* *(continued)*

	Group					
	2016					
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 Rm
Balances with other central banks	13 395	—	—	—	—	13 395
Balances with SARB	18 552	—	—	—	—	18 552
Money market	4 918	—	—	—	—	4 918
Cash, cash balances and balances with central banks (refer to note 2)	**36 865**	**—**	**—**	**—**	**—**	**36 865**
Loans and advances to banks (refer to note 4)	**49 789**	**—**	**—**	**—**	**20 555**	**29 234**
Government bonds	46 781	—	—	—	—	46 781
Other	29 088	—	—	—	—	29 088
Treasury bills	32 365	—	—	—	—	32 365
Investment securities (refer to note 3)	**108 234**	**—**	**—**	**—**	**—**	**108 234**
Debt instruments	23 753	—	—	—	979	22 774
Derivative assets	46 898	—	—	2 810	35 340	8 748
Money market assets	7 962	—	—	—	—	7 962
Trading and hedging portfolio assets (refer to note 5)	**78 613**	**—**	**—**	**2 810**	**36 319**	**39 484**
Accounts receivable	15 612	126	—	6	26	15 454
Settlement accounts	6 517	—	—	—	—	6 517
Other assets (refer to note 6)	**22 129**	**126**	**—**	**6**	**26**	**21 971**
RBB	501 457	581	347 788	1 040	5 804	146 244
Retail Banking South Africa	387 027	2	292 307	58	—	94 660
Credit cards	40 225	2	63	41	—	40 119
Instalment credit agreements	75 615	—	75 598	17	—	—
Loans to associates and joint ventures	18 933	—	—	—	—	18 933
Mortgages	226 984	—	216 646	—	—	10 338
Other loans and advances	510	—	—	—	—	510
Overdrafts	4 143	—	—	—	—	4 143
Personal and term loans	20 617	—	—	—	—	20 617
Business Banking South Africa	71 434	101	50 268	982	6	20 077
Mortgages (including CPF)	36 113	13	32 629	18	2	3 451
Overdrafts	19 213	71	8 319	756	3	10 064
Term loans	16 108	17	9 320	208	1	6 562
RBB Rest of Africa	42 996	478	5 213	—	5 798	31 507
CIB	232 214	3 427	14 423	168	52 928	161 268
WIMI	5 731	—	939	—	—	4 792
Head Office, Treasury and other operations	623	—	—	—	—	623
Loans and advances to customers (refer to note 8)	**740 025**	**4 008**	**363 150**	**1 208**	**58 732**	**312 927**

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

63. Risk management *(continued)*

63.2 Credit risk *(continued)*

	Group					
	2015					
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 Rm
Balances with other central banks	12 141	—	—	—	—	12 141
Balances with SARB	17 459	—	—	—	—	17 459
Money Market	3 405	—	—	—	—	3 405
Cash, cash balances and balances with central banks (refer to note 2)	33 005	—	—	—	—	33 005
Loans and advances to banks (refer to note 4)	85 951	—	—	87	21 177	64 687
Government bonds	45 578	—	—	—	—	45 578
Other	20 133	—	—	—	4 698	15 435
Treasury bills	30 649	—	—	—	—	30 649
Investment securities (refer to note 3)	96 360	—	—	—	4 698	91 662
Debt instruments	29 219	—	—	—	337	28 882
Derivative assets[1]	80 509	—	—	6 330	62 857	11 322
Money market assets	10 341	—	—	—	—	10 341
Trading and hedging portfolio assets (refer to note 5)[1]	120 069	—	—	6 330	63 194	50 545
Accounts receivable	14 695	307	—	—	531	13 857
Settlement accounts	8 206	9	—	—	2	8 195
Other assets (refer to note 6)	22 901	316	—	—	533	22 052
RBB	499 033	354	333 538	3 764	2 961	158 416
Retail Banking South Africa	385 673	2	285 186	45	—	100 440
Credit cards	41 404	2	59	34	—	41 309
Instalment credit agreements	74 028	—	67 165	11	—	6 852
Loans to associates and joint ventures	16 176	—	—	—	—	16 176
Mortgages	231 656	—	217 962	—	—	13 694
Other loans and advances	367	—	—	—	—	367
Overdrafts	2 953	—	—	—	—	2 953
Personal and term loans	19 089	—	—	—	—	19 089
Business Banking South Africa	65 358	161	38 800	1 096	3	25 298
Mortgages (including CPF)	31 636	25	24 219	20	—	7 372
Overdrafts[2]	18 249	100	7 262	878	2	10 007
Term loans[2]	15 473	36	7 319	198	1	7 919
RBB Rest of Africa	48 002	191	9 552	2 623	2 958	32 678
CIB	215 342	1 109	12 583	119	63 340	138 191
WIMI	5 415	—	974	—	—	4 441
Head Office, Treasury and other operations	669	—	—	—	—	669
Loans and advances to customers (refer to note 8)	720 459	1 463	347 095	3 883	66 301	301 717

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

Notes

[1] In the current reporting period, the Group included the effects of master netting arrangements within 'Other'. The Bank accordingly has realigned the comparative disclosures. In addition, the 'Other' collateral of R5 623m, and 'Guarantees, credit insurance, and credit derivatives collateral of R125m, have been reclassified to 'Cash' collateral to accordingly reflect the appropriate nature of collateral. The Group has also aggregated the hedging portfolio derivative asset balances and the comparatives have been restated accordingly.

[2] Some overdrafts were reallocated to term loans to align to the way the products are utilised by the customers, resulting in a restatement of the comparatives. The restatement was effected as follows: a decrease of R555m in the Overdrafts gross maximum exposures causing a decrease of R26m and R109m in the physical collateral and the cash collateral categories respectively; an increase of R555m in the Term loans gross maximum exposures causing an increase of R26m and R109m in the physical collateral and the cash collateral categories respectively.

63. Risk management *(continued)*

63.2 Credit risk (continued)

Enforcement of collateral

Residential properties

Carrying value of assets held by Group at the reporting date as a result of the enforcement of collateral is as follows:

	Group	
	2016 Rm	2015 Rm
Balance at the beginning of the reporting period	—	—
Acquisitions	**55**	25
Disposals	**(55)**	(25)
Provisions	—	—
Balance at the end of the reporting period	—	—

The Group has optimised the sales strategies of the stock of property in possession (PIP) to manage the inflow in order to minimise financial loss. This has resulted in the book remaining at **Rnil** (2015: Rnil).

The number of properties in possession reduced from 120 properties in the previous reporting period to 115 properties in the current reporting period. The gross PIPS portfolio increased from R37m in the previous reporting period to R62m in the current reporting period. Currently **41%** (2015: 48%) of the current inventory is sold pending registration.

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63. Risk management *(continued)*

63.2 *Credit risk (continued)*

Analysis of past due accounts

The following table demonstrates the maximum exposure to credit risk of financial assets considered past due and/or considered to be impaired:

	Group				
	2016				
		Past due not impaired Performing loans			
	Total past due and/or impaired 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
Loans and advances to banks	9	—	—	—	—
Accounts receivable	20	7	5	2	—
Settlement accounts	—	—	—	—	—
Other assets	20	7	5	2	—
RBB	55 160	1 930	270	83	96
Retail Banking South Africa	45 250	22	7	2	17
Credit cards	9 284	—	—	—	—
Instalment credit agreements	5 557	22	7	2	17
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	25 962	—	—	—	—
Other loans and advances	—	—	—	—	—
Overdrafts	454	—	—	—	—
Personal and term loans	3 993	—	—	—	—
Business Banking South Africa	6 092	1 789	219	52	79
Mortgages (including CPF)	2 174	372	88	17	—
Overdrafts	2 077	738	41	13	36
Term loans	1 841	679	90	22	43
RBB Rest of Africa	3 818	119	44	29	—
CIB	4 757	—	—	—	—
WIMI	122	1	—	—	—
Head Office, Treasury and other operations	—	—	—	—	—
Loans and advances to customers	60 039	1 931	270	83	96

Financial assets not disclosed in the table above did not have any past due accounts.

	Group								
	2016								
	Past due not impaired Non-performing loans					Past due and/or impaired			
Past due older than 4 months 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	Performing loans Rm	Non-performing loans Rm	Total non-performing loans Rm
9	—	—	—	—	—	—	—	—
6	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
6	—	—	—	—	—	—	—	—
105	331	61	55	64	719	26 085	25 361	26 591
—	35	3	—	18	8	25 036	20 102	20 166
—	—	—	—	—	—	3 861	5 423	5 423
—	35	3	—	18	8	3 424	2 021	2 085
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	15 933	10 029	10 029
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	234	220	220
—	—	—	—	—	—	1 584	2 409	2 409
47	255	45	49	5	340	619	2 593	3 287
23	129	23	5	—	75	108	1 334	1 566
18	17	—	10	1	144	302	757	929
6	109	22	34	4	121	209	502	792
58	41	13	6	41	371	430	2 666	3 138
199	9	3	1	33	1 214	168	3 130	4 390
2	1	—	—	—	25	3	90	116
—	—	—	—	—	—	—	—	—
306	341	64	56	97	1 958	26 256	28 581	31 097

63. Risk management *(continued)*

63.2 *Credit risk (continued)*

	Group				
	2015				
		Past due not impaired Performing loans			
	Total past due and/or impaired 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
Loans and advances to banks	14	10	—	4	—
Accounts receivable	191	9	4	—	—
Settlement accounts	—	—	—	—	—
Other assets	191	9	4	—	—
RBB	54 087	922	139	107	22
Retail Banking South Africa	43 439	14	3	6	3
Credit cards	9 320	—	—	—	—
Instalment credit agreements	4 848	14	3	6	3
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	25 364	—	—	—	—
Other loans and advances	—	—	—	—	—
Overdrafts	344	—	—	—	—
Personal and term loans	3 563	—	—	—	—
Business Banking South Africa	5 807	908	136	101	19
Mortgages (including CPF)	2 718	403	79	66	4
Overdrafts	1 497	134	20	7	6
Term loans	1 592	371	37	28	9
RBB Rest of Africa	4 841	—	—	—	—
CIB	5 102	—	—	—	—
WIMI	482	114	81	68	30
Head Office, Treasury and other operations	—	—	—	—	—
Loans and advances to customers	59 671	1 036	220	175	52

Financial assets not disclosed in the table above did not have any past due accounts.

Group

2015

	Past due not impaired Non-performing loans					Past due and/or impaired		
Past due older than 4 months 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	Performing loans Rm	Non-performing loans Rm	Total non-performing loans Rm
—	—	—	—	—	—	—	—	—
178	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
178	—	—	—	—	—	—	—	—
716	247	54	13	40	1 094	27 104	23 629	25 077
—	7	1	2	—	4	25 215	18 184	18 198
—	—	—	—	—	—	4 306	5 014	5 014
—	7	1	2	—	4	3 220	1 588	1 602
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	16 023	9 341	9 341
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	172	172	172
—	—	—	—	—	—	1 494	2 069	2 069
108	156	38	11	13	298	1 229	2 790	3 306
34	72	25	4	6	97	512	1 416	1 620
16	7	5	2	—	116	354	830	960
58	77	8	5	7	85	363	544	726
608	84	15	—	27	792	660	2 655	3 573
187	298	37	—	1	762	2 081	1 736	2 834
120	—	—	—	—	—	—	69	69
—	—	—	—	—	—	—	—	—
1 023	545	91	13	41	1 856	29 185	25 434	27 980

63. Risk management *(continued)*

63.2 *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 Group raised the following allowances for impairments on loans and advances to customers during the reporting period.

	Group 2016				
	Unidentified impairment	Identified individual impairment		Identified collective impairment	
	performing loans Rm	Performing loans Rm	Non-performing loans Rm	Performing loans Rm	Non-performing loans Rm
RBB	(1 877)	(774)	(2 083)	(2 285)	(9 840)
Retail Banking South Africa	(981)	(51)	(188)	(2 258)	(8 467)
Credit cards	(159)	—	—	(569)	(3 883)
Instalment credit agreements	(346)	(51)	(188)	(338)	(737)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(361)	—	—	(852)	(2 109)
Other loans and advances	—	—	—	—	—
Overdrafts	(12)	—	—	(42)	(142)
Personal and term loans	(103)	—	—	(457)	(1 596)
Business Banking South Africa	(645)	(122)	(1 034)	(27)	(127)
Mortgages (including CPF)	(163)	(11)	(506)	(5)	(29)
Overdrafts	(282)	(70)	(358)	(14)	(63)
Term loans	(200)	(41)	(170)	(8)	(35)
RBB Rest of Africa	(251)	(601)	(861)	—	(1 246)
CIB	(1 017)	—	(1 765)	—	—
WIMI	(12)	(2)	(57)	—	—
Head Office, Treasury and other operations	(4)	—	—	—	—
Loans and advances to customers (refer to note 9)	(2 910)	(776)	(3 905)	(2 285)	(9 840)

63. Risk management *(continued)*

63.2 *Credit risk (continued)*

	Group 2015				
	Unidentified impairment performing loans Rm	Identified individual impairment		Identified collective impairment	
		Performing loans Rm	Non-performing loans Rm	Performing loans Rm	Non-performing loans Rm
RBB	(1 637)	(244)	(1 985)	(2 303)	(9 109)
Retail Banking South Africa	(811)	(26)	(122)	(2 187)	(7 530)
Credit cards	(154)	—	—	(570)	(3 532)
Instalment credit agreements	(265)	(26)	(122)	(257)	(499)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(287)	—	—	(956)	(2 064)
Other loans and advances	—	—	—	—	—
Overdrafts	(17)	—	—	(17)	(99)
Personal and term loans	(88)	—	—	(387)	(1 336)
Business Banking South Africa	(538)	(99)	(1 051)	(24)	(101)
Mortgages (including CPF)	(150)	(33)	(562)	(7)	(24)
Overdrafts	(228)	(28)	(325)	(15)	(45)
Term loans	(160)	(38)	(164)	(2)	(32)
RBB Rest of Africa	(288)	(119)	(812)	(92)	(1 478)
CIB	(636)	(130)	(933)	—	(18)
WIMI	(32)	—	(33)	—	—
Head Office, Treasury and other operations	(40)	—	—	—	—
Loans and advances to customers (refer to note 9)	(2 345)	(374)	(2 951)	(2 303)	(9 127)

63. Risk management *(continued)*

63.3 Market risk

Market risk is the risk that the Group'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 Group 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 Group's earnings or capital being reduced due to the market risk exposure from banking book positions which may arise net of hedging activities.
- **Insurance risk:** the risk that future experiences relating to claims, expenses, policyholder behaviour and investment returns are different from the assumptions made when setting premiums or valuing policyholder liabilities.
- **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 from the banking book activities such as the provision of retail and wholesale banking products and services as well as treasury functions net of hedges.

The Group Market Risk Committee (GMRC) 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 Group'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;
- underwrite risks that are well diversified in terms of types of risk and the level of insured benefits; 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.

63. Risk management *(continued)*

63.3 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 Group 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 in South Africa. The approval covers general position risk across all interest rate, foreign exchange, commodity, equity and traded credit products. Issuer-specific risk is currently reported in accordance with the regulatory standardised approach across the Group. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach. General position risk in trading books in the rest of Africa is also capitalised under the regulatory standardised approach.

DVaR is an important market risk measurement and control tool that is used by the Group. 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 obtaining rate/price information.

Tail risk metrics, stress testing and other sensitivity measures are used to complement VaR.

Backtesting

The Group 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.

63. Risk management *(continued)*

63.3 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 Group's sVaR model and period selection methodology were 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 for South Africa 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 Group 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. 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.

General risk for the region is quantified using standardised rules, specifically for the interest rate and foreign exchange asset classes to which exposures in these entities are limited. In particular, the maturity method is used to quantify general interest rate risk for the rest of Africa.

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 Group. 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 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 MRC and other governance committees, as required.

63. Risk management *(continued)*

63.3 Market risk *(continued)*

Analysis of traded market risk exposure

The following table reflects the DVaR and expected shortfall statistics for trading book activities as measured by the internal models approach (IMA) for general trading position risk. Traded market risk exposure, as measured by average total DVaR, increased to **R25,12m** (2015: R23,20m) for the reporting period, which is an 8% increase on the prior year balance. This was principally due to increased volatility in interest rate risk during the period. The business model of CIB is orientated around client flow and the risk profile is maintained so that it is aligned with the near-term demands of clients. The model showed resilience in tough trading conditions. Trading revenues declined marginally compared to the previous reporting period, but a favourable risk-adjusted return was sustained for the reporting period.

	Group							
	2016				2015			
	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	23,26	37,46	15,83	23,80	20,41	33,61	13,36	23,95
Foreign exchange risk	7,97	23,30	1,70	6,51	6,54	24,26	1,83	5,86
Equity risk	5,79	20,25	1,91	3,21	6,23	14,46	1,97	4,92
Commodity risk	0,45	1,75	0,02	0,66	0,59	1,76	0,07	0,14
Inflation risk	10,97	32,59	4,06	8,12	9,49	24,75	3,14	15,81
Credit spread risk	7,89	16,47	5,85	6,02	10,94	15,79	7,27	15,77
Diversification effect	(31,22)	n/a	n/a	(25,53)	(31,00)	n/a	n/a	(36,75)
Total DVaR[2]	25,12	48,51	14,10	22,80	23,20	39,65	16,98	29,71
Expected shortfall[2]	39,34	83,52	21,23	33,70	35,52	61,85	24,58	50,30
Regulatory VaR[3]	45,55	98,46	23,91	44,56	39,61	81,15	26,14	47,76
Regulatory sVaR[3]	84,54	144,51	50,49	50,49	62,79	125,17	31,36	89,97

Interest rate risk in the banking book

Interest rate risk is the risk that the Group's financial position may be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, as well as from certain structural exposures within the statement of financial position, mainly due to repricing timing differences between assets, liabilities and equity. These risks impact both the earnings and the economic value of the Group.

Strategy

The Group's objective for managing interest rate risk in the banking book is to ensure a higher degree of interest rate margin stability and lower interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to the local treasury or Group Treasury, which in turn hedges material net exposures with the external market. As a result of mainly timing considerations, interest rate risk may arise when some of the net position remains with Treasury. A limit 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 Group'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 Group'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 Group's equity, and is managed by Group Treasury. Interest rate risk also arises in each of the Rest of Africa treasuries in the normal course of managing the statement of financial position and facilitating customer activity. The risk is managed by the local treasury functions, subject to modest risk limits and other controls.

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 Group 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.

Notes

[1] The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted.

[2] The analysis includes trading books for which internal models approval has been obtained.

[3] Regulatory VaR and sVaR are reported with a one-day holding period at a 99% confidence level. Consequently these figures are not directly comparable to the 95% risk metrics reported in the rest of the table. The sVaR period is subject to ongoing review for appropriateness.

63. Risk management *(continued)*

63.3 *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.

Annual earnings at risk (AEaR)/Net interest income (NII) 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 as appropriate for each business. AEaR is monitored against approved internal limits.

Daily value at risk (DVaR)

The Group uses a sensitivity-based approach to calculate DVaR at a 95% confidence level for measuring interest rate risk in the banking book. The DVaR is monitored against approved internal limits, and is used as a complementary tool to AEaR. The DVaR is supplemented by non-DVaR, stress and tail metrics.

Economic value of equity (EVE) sensitivity

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 is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. Stress testing is carried out by Market Risk to supplement the DVaR and AEaR metrics for South Africa. Stress testing for the Rest of Africa is carried out by Market Risk and the risk functions in each country and has been adopted as one of the primary risk metrics for the Rest of Africa and is monitored against formal internal limits.

Risk control

Market risk is controlled through the use of AEaR, DVaR and stress limits as appropriate and supported by non-DVaR metrics, as well as the monthly monitoring of the risk profiles and EVE sensitivity. Limits are set and monitored in accordance with the limit framework. Limits for AEaR, DVaR and stress are agreed by the GMRC. Compliance with limits is monitored by the respective Rest of Africa market risk team with oversight provided by Market Risk.

Risk reporting

DVaR and supporting metrics are reported daily for Group Treasury and the Rest of Africa businesses respectively, with the exception of two businesses, where reporting is performed on a monthly basis. The repricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for both Group Treasury and the Rest of Africa.

Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Group'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 Group's South Africa and Rest of Africa banking books shows that the consolidated banking book remains asset sensitive, 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.

63. Risk management *(continued)*

63.3 Market risk (continued)

	Group			
	2016			
Expected repricing profile	**On demand – 3 months Rm**	**4 – 6 months Rm**	**7 – 12 months Rm**	**Over 12 months Rm**
Domestic bank book[1]				
Interest rate sensitivity gap	**106 528**	**(10 769)**	**(30 274)**	**(31 712)**
Derivatives[2]	**(109 180)**	**13 817**	**21 169**	**74 194**
Net interest rate sensitivity gap	**(2 652)**	**3 048**	**(9 105)**	**42 482**
Cumulative interest rate gap	**(2 652)**	**396**	**(8 709)**	**33 773**
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	**(0,3)**	**0,0**	**(1,0)**	**3,7**
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	**23 228**	**4 391**	**6 487**	**22 054**
Derivatives[2]	**120**	**—**	**25**	**66**
Net interest rate sensitivity gap	**23 348**	**4 391**	**6 512**	**22 120**
Cumulative interest rate gap	**23 348**	**27 739**	**34 251**	**56 371**
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	**12,9**	**15,3**	**18,9**	**31,1**
Total				
Cumulative interest rate gap	**20 696**	**28 135**	**25 542**	**90 144**
Cumulative gap as a percentage of the Group's total assets (%)	**1,9**	**2,6**	**2,3**	**8,2**

	2015			
Expected repricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	96 057	(7 809)	(27 471)	(34 563)
Derivatives[2]	(93 518)	5 293	18 294	69 931
Net interest rate sensitivity gap	2 539	(2 516)	(9 177)	35 368
Cumulative interest rate gap	2 539	23	(9 154)	26 214
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	0,3	0,0	(1,0)	2,8
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	19 425	13 999	6 690	30 433
Derivatives[2]	705	0	(15)	159
Net interest rate sensitivity gap	20 130	13 999	6 675	30 592
Cumulative interest rate gap	20 130	34 129	40 804	71 396
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	9,7	16,4	19,6	34,3
Total				
Cumulative interest rate gap	22 669	34 152	31 650	97 610
Cumulative gap as a percentage of the Group's total assets (%)	2,0	3,0	2,8	8,5

Notes

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

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

63. Risk management *(continued)*

63.3 Market risk (continued)

Impact on earnings

The following table shows the impact on AEaR/NII for 100 and 200 bps up and down movements in market interest rates for the Group'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 **R2,38bn** (31 December 2015: R1,96bn). A similar increase would result in an increase in projected 12-month net interest income of **R2,22bn** (31 December 2015: R2,26bn). AEaR increased by 0,6% to 5,7% of the Group's net interest income.

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

	Group			
	2016			
	Change in market interest rates			
	200 bps decrease	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Domestic bank book (Rm)[1]	**(1 835)**	**(766)**	**840**	**1 681**
Foreign subsidiaries' bank books (Rm)[2]	**(541)**	**(270)**	**270**	**541**
Total (Rm)	**(2 376)**	**(1 036)**	**1 110**	**2 222**
Percentage of the Group's net interest income (%)	**(5,7)**	**(2,5)**	**2,6**	**5,3**
Percentage of the Group's equity (%)	**(2,3)**	**(1,0)**	**1,1**	**2,2**
	2015			
	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book (Rm)[1]	(1 376)	(701)	865	1 672
Foreign subsidiaries' bank books (Rm)[2]	(586)	(293)	293	586
Total (Rm)	(1 962)	(994)	1 158	2 258
Percentage of the Group's net interest income (%)	(5,1)	(2,6)	3,0	5,9
Percentage of the Group's equity (%)	(2,0)	(1,0)	1,2	2,3

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.

Notes

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

[2] African subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.

63. Risk management *(continued)*

63.3 Market risk (continued)

Sensitivity of reserves to market interest rate movements

	Group					
	2016			2015		
	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	**(427)**	**(469)**	**(421)**	(444)	(591)	(444)
Cash flow hedging reserve	**(2 348)**	**(2 354)**	**(1 893)**	(2 084)	(2 387)	(2 084)
	(2 776)	**(2 801)**	**(2 342)**	(2 528)	(2 922)	(2 527)
As a percentage of Group equity (%)	**(2,7)**	**(2,7)**	**(2,3)**	(2,6)	(3,0)	(2,6)
–100 bps parallel move in all yield curves						
Available-for-sale reserve	**427**	**469**	**421**	444	591	444
Cash flow hedging reserve	**2 348**	**2 354**	**1 893**	2 084	2 387	2 084
	2 776	**2 801**	**2 342**	2 528	2 922	2 527
As a percentage of Group equity (%)	**2,7**	**2,7**	**2,3**	2,6	3,0	2,6

Foreign exchange risk

The Group 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 Group's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Group'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.

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 as indicated in footnote 1 above.

63. Risk management *(continued)*

63.3 *Market risk (continued)*

Functional foreign currency

	Group			
	2016		2015	
	Foreign currency net investment Rm	**Impact on equity from 5% currency translation shock Rm**	Foreign currency net investment Rm	Impact on equity from 5% currency translation shock Rm
Botswana pula	**2 238**	**112**	2 269	113
Ghana cedi	**2 569**	**129**	2 437	122
Kenya shilling	**6 529**	**326**	6 966	348
Mauritian rupee	**720**	**36**	1 011	50
Mozambican metical	**965**	**48**	1 527	76
Namibian dollar	**96**	**5**	90	5
Nigerian naira	**6**	**0**	5	0
Seychelles rupee	**639**	**32**	618	31
Pound sterling	**168**	**8**	1 634	82
Tanzanian shilling	**2 243**	**112**	2 331	117
Uganda shilling	**1 350**	**68**	1 455	73
United States dollar	**3 659**	**183**	3 901	195
Zambia kwacha	**1 504**	**75**	1 454	73
	22 686	**1 134**	25 698	1 285

Other market risks

The Group 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 weaker funding position or shortfall. In these circumstances, the Group may choose to make additional contributions or be required to make good the shortfall of the plan.

Asset management income 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 the likely volatility in the annual earnings over the next year to reflect the sensitivity of earnings to shocks in financial markets. Group policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises mainly in the Wealth, Investment Management and Insurance (WIMI) segment.

Insurance risk management

Insurance risk is the risk that future claims, expenses, policyholder behaviour and investment returns may be adversely different to the allowances made in measuring policyholder liabilities and in product pricing. Within the broader Group, four categories of insurance risk are generally recognised, namely short-term insurance underwriting risk, life insurance underwriting risk and investment risks (life and short-term insurance). Mismatch risk may also exist between the profile of assets and liabilities. The various categories of insurance risk are managed within different entities of the Group.

Short-term insurance underwriting activities are undertaken by Absa Insurance Company Limited, Absa Insurance Risk Management Services Limited, Absa idirect Limited, Absa Manx Insurance Company Limited, First Assurance Kenya and First Assurance Tanzania. Life insurance underwriting activities are undertaken by Absa Life Limited, Barclays Life Botswana Limited, Barclays Life Zambia Limited, Barclays Life Assurance Kenya Limited, Woolworths Financial Services Proprietary Limited (through an Absa Life Limited cell captive) and Instant Life Proprietary Limited (through an Absa Life cell captive). Global Alliance Proprietary Limited underwrites both life and short-term insurance business.

Short-term insurance underwriting risk, life insurance underwriting risk and investment risks are core to the business of the insurance entities. The successful management of these risks ultimately determines the success of the entities. The same risk management frameworks and governance structures that enabled the effective management of risks for South African entities are implemented and embedded in any new entities established or acquired.

63. Risk management *(continued)*

63.3 Market risk (continued)

Strategy

The Group's insurance risk management objectives are to:

- pursue profitable growth opportunities within the financial volatility and solvency Risk Appetite approved by the Board;
- balance exposure between, and within, life and short-term insurance to allow for better diversification and optimal risk-adjusted returns; and
- leverage off the Barclays Africa presence and infrastructure across Africa.

Risk management

Short-term insurance underwriting risk

Management monitors loss ratios on a monthly basis and identifies portions of the business where claims experience is not in line with the underlying premium rate structure. In addition, reviews of policy conditions are carried out, when necessary, to determine if any changes are needed. Volumes of business and strike rates are monitored for increases in volumes out of line with expectations, indicating rates may be low compared to market rates. There are extensive measures in place to control claims, which include assessing claims, checking total potential claims against the sum insured and procurement management on service providers required for repair of damaged insured items.

The table that follows summarises risk management measures implemented per short-term insurance product line.

Homeowners' comprehensive insurance	Pooling large volumes of similar claims improve the predictability of the expected claim experience in normal circumstances. Scientific pricing using multiple risk factors enable risk selection and the ability to charge premiums matched to the underlying risk level. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase. Policyholder excess payments are implemented on claims to manage moral hazard.
Personal lines, accident and travel insurance	Scientific pricing using multiple risk factors enable risk selection and the ability to charge premiums matched to the underlying risk level. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase. Policyholder excess payments are implemented on claims to manage moral hazard.
Commercial insurance for small, medium and large companies	In underwriting these risks, significant focus is placed on the quality of fire protection and other risk measures. Assessment and adjustment of potential claims is undertaken. Catastrophe reinsurance is purchased to protect against natural catastrophes, in particular earthquakes and against large individual losses. In some cases large, specialised risks are reinsured fully where these do not fit within the approved risk appetite.
Specialist lines	Risks underwritten by underwriting management agencies are only underwritten with specialists in their respective areas with track records of underwriting and claims control. Reinsurance for relevant risks is included in the main or specific reinsurance treaties.

Short-term insurance underwriting risk is managed through underwriting authority mandates and through referral to an Underwriting Review forum, as and when required. Risk governance is monitored by the Control Review Committees, the Group Actuarial Committee and Key Risk Reporting. Risk Appetite utilisation is reported to the Board on a quarterly basis. Stress and scenario testing is used to measure the resilience of the business to unplanned events of different magnitude.

Reinsurance and reinsurance credit risk

The impact of large individual short-term insurance claims is limited through the purchase of reinsurance that limits the risk retained on each claim. The accumulation of net retained exposures due to multiple claims is limited through the purchase of catastrophe reinsurance cover. Catastrophe reinsurance, particularly related to earthquake risk, is purchased to cover losses of up to **R3,0bn** (2015: R3,0bn) for the South African business; the cover has been maintained from the previous year as exposure at the one in 250-year event level has been stable year-on-year.

The credit risk in respect of reinsurance partners is managed by ensuring the entities only transact with reinsurers with good credit ratings and within limits that are approved on an annual basis. The creditworthiness of reinsurers is regularly monitored. To qualify as a reinsurance partner, reinsurers must be assigned a minimum 'A' rating by the Standard and Poor's (or equivalent) rating agency. An agreement with a reinsurer with a lower credit rating can qualify provided sufficient reasoning and Wealth Investment Management and Insurance (WIMI) Financial Risk Committee (FRC) approval has been obtained.

63. Risk management *(continued)*

63.3 Market risk *(continued)*

	% of premium ceded (RSA entities only)	
	2016	2015
AA	**16**	37
A	**82**	52
BBB	**2**	12

Concentration risk

The main source of concentration risk is exposure to personal property, personal lines and commercial and industrial insurance business. Geographically, the main concentrations are in Pretoria, Johannesburg and the East Rand in South Africa. The proportionate sum insured for these three areas are as follows:

- Pretoria – **13,7%** as at the reporting period (2015: 11,5%);
- Johannesburg – **12,6%** as at the reporting period (2015: 9,4%); and
- East Rand – **10,0%** as at the reporting period (2015: 10,6%).

The maximum expected loss for a one in 250-year event is a loss of **R2,6bn** as at 31 December 2016 (31 December 2015: R2,5bn); the slight increase is as a result of improved data used in the catastrophe risk modelling. Catastrophe cover is purchased to cover losses up to **R3,0bn** as at 31 December 2016 (31 December 2015: R3,0bn).

Outstanding claims reserves and incurred but not reported claims reserves

Outstanding claims reserves are held for claims which have been notified, but which have not been fully settled. Individual estimates are sourced from claims assessors and are reviewed as and when new information regarding a claim becomes available. The claims provision includes the expected claim cost and any associated claim handling costs. Claims development patterns are regularly monitored to assess trends and to determine the appropriate level of reserving. The provision for the RSA entities at the reporting date amounted to **R393m** (2015: R415m). Reserves are calculated for the Rest of Africa entities based on the in-country regulatory requirements and are governed by the Group Actuarial Committee.

A stochastic reserving model is applied to calculate the IBNR claim provision for the majority of the exposures. Where detailed data is not available, the provision is based on interim measures proposed by the Financial Services Board. The IBNR provision at the reporting date amounted to **R99m** (2015: R111m); the decrease is as a result of the run-off of the 1com cell within the Absa Insurance Risk Management licence and the smaller book size compared to 2015.

The IBNR provision is determined by taking the following factors, per class of business underwritten, into account:

- actual and expected claims experience;
- actual and expected reporting patterns; and
- premium volumes.

These factors affect the sensitivity of the IBNR and are taken into account in setting the level of reserves required.

The IBNR and outstanding claims provisions take historical data, trends and recent experience in claims processing and loss ratios into account. These calculations, together with changes in the underlying risk profile of the business, impact the determination of the final balances.

Cash-back reserves

These reserves allow for the cash back bonus which Absa idirect policyholders receive after a specified number of claim-free months. The cash back percentages of total premiums collected are: 10% after 36 months, 15% after the following 12 months and 20% for every 12 months thereafter. The cash-back reserve provision at the reporting date amounted to **R25,0m** (2015: R20,8m).

63. Risk management *(continued)*

63.3 Market risk (continued)

Life insurance underwriting risk

The number of risks falling outside the ambit of standard underwriting mandates is reviewed on a regular basis to determine whether underwriting rules need to be tightened and/or risk parameters extended. The business relies on annual experience investigations, ongoing studies and analysis of surplus investigations to set pricing and valuation parameters. The non-economic pricing and reserving assumptions (i.e. mortality, morbidity, persistency and expense assumptions) are revised to determine changes in trends that are likely to continue in the future.

The table that follows summarises risk management measures implemented per life insurance product line:

Underwritten life business	The main risks are mortality and morbidity. Each life is individually underwritten. Premium rates differentiate by gender, age, smoker status, socio-economic class and occupation. Sub-standard risks generally receive additional premium loadings, specified exclusions or might be declined. Correct pricing and effective underwriting control the mortality and morbidity risks. Exposure in excess of a retention limit for each life is reinsured to reduce the variability of the claims experience and the exposure to a single life. Most benefits have premium guarantee terms, which can be up to 10 years. For products with an investment component, the overall premium rate is guaranteed; however, the investment portion is not guaranteed and could be reduced at the discretion of the Group. However, it is the Group's policy when products are priced to have no intention to increase premium rates over the policy term. Experience is monitored to confirm that actual experience is in line with pricing assumptions. Underwriting risks are monitored on a quarterly basis by the Underwriting Risk forum which reports into the WIMI Control and Review Committee.
Limited underwritten life business	This product family consists of a wide range of individual products. Underwriting varies from a limited number of underwriting questions to the application of waiting periods, pre-existing condition exclusions and the phasing in of sums insured. The main risks are mortality, morbidity and persistency. Aids mortality represents a medium risk in the target market. There are generally limited rating factors, with age being the most prevalent. The mortality and morbidity risks are therefore exacerbated since premium rates are generally consistent across lives. The risks are managed through annual experience investigations and the tracking of trends on a more regular basis. There is a contractual right to increase premiums if experience worsens. The intention is not to exercise this right, but the Group does have the option to do so. Reinsurance is utilised to manage the pricing risk, accept more risks and to gain exposure to the technical expertise of reinsurance companies.
Funeral business	The main risk is mortality increased by high Aids rates experienced in the target market. The risk is exacerbated by premium rates that are the same, irrespective of the age and gender of policyholders, since significant changes in the age and gender profile of customers could impact on experience. Limitation of cover for certain pre-existing conditions for defined time periods (generally two years) applies. There are also usually waiting periods during which no claim event is covered. Strict experience monitoring limits the risk, combined with the contractual right to increase premiums with a three-month notice period. The intention is not to exercise this right, but the Group does have the option to do so. Reinsurance is not utilised as sums assured per individual life is minor.
Credit life business	The main risks are retrenchment and mortality. Treaty reassurance arrangements are in place for some products whereby risk is shared with external business partners. The Group retains the right to change premiums within a 30-day notice period. Premiums generally do not differ by gender, age or smoker status and demographic shifts might introduce additional insurance risk. Economic conditions also influence retrenchment risk.
Group life business	The main risks are mortality and morbidity. Treaty reinsurance arrangements are in place whereby risk is shared with external business partners. Contracts and premium rates are reviewed annually. Additional catastrophe reinsurance cover will be implemented for an accumulation of losses that may occur due to the geographical concentration of a group.

Life insurance underwriting risk is monitored on a quarterly basis by the Underwriting Risk forum to ensure the risk taken is in line with the risk priced and reserved for. Risk governance is monitored by the entity Control and Review Committees and Group Actuarial Committee. Risk Appetite utilisation is reported to the Board on a quarterly basis. Stress and scenario testing is used to measure the resilience of the business to unplanned events of different magnitude.

Reinsurance and reinsurer credit risk

The reinsurance policy under the Insurance Key Risk Control Framework governs reinsurance across the Group. Reinsurance is used in respect of large individual risks and in respect of risks where the life insurance entity needs to build knowledge and experience as well as obtain technical assistance from the reinsurers. Catastrophe reinsurance is used as a protection against a large number of simultaneous losses.

Reinsurer credit risk is managed by transacting solely with approved reinsurers and within mandated levels as defined in the credit risk mandates. Mandates are governed and approved by the WIMI Financial Risk Committee. In existing reinsurance agreements, reinsurer credit risk is managed by monitoring counterparty exposures to take corrective actions should the creditworthiness of the counterparty deteriorate materially. Reinsurer credit risk is also managed by holding capital in line with or in excess of regulatory requirements.

63. Risk management *(continued)*

63.3 Market risk (continued)

Credit rating of reinsurance assets (RSA entities only)

	Standard and Poor's rating	Description	Parental guarantee
Treaty and Facultative reinsurer, **32,4%** (2015: 23,1%) of business ceded	AA+	Very strong	Yes
Treaty and Facultative reinsurer, **35,6%** (2015: 38,8%) of business ceded	AA–	Strong	No
Treaty and Facultative reinsurer, **31,2%** (2015: 36,1%) of business ceded	A	Strong	No
Treaty and Facultative reinsurer, **0,1%** (2015: 0,2%) of business ceded	BBB+	Strong	No

The individual ratings of the various reinsurers, knowledge of disputes and collection experience are used to determine whether the reinsurance assets should be impaired. The reinsurance assets were unimpaired at the reporting date as none of the reinsurance amounts receivable were past due (2015: none past due).

Concentration risk

The risk of several claims arising simultaneously (concentration risk) on individual lives is small. The size of individual policies is low and reinsurance is used to cover larger individual exposures.

	2016				2015			
	Gross of reinsurance		**Net of reinsurance**		Gross of reinsurance		Net of reinsurance	
Benefit band per life assured (RSA entities only) (R'000)	**Total benefits assured Rm**	**%**	**Total benefits assured Rm**	**%**	Total benefits assured Rm	%	Total benefits assured Rm	%
0 – 250	**83 821**	**54**	**78 439**	**61**	82 018	55	76 139	62
250 – 500	**21 306**	**14**	**17 383**	**14**	22 433	15	17 961	14
500+	**49 697**	**32**	**32 051**	**25**	44 617	30	29 572	24
	154 824	**100**	**127 873**	**100**	149 068	100	123 672	100

In the case of the Group's Life business, geographic concentration of risk exists. For Absa Life Limited, the largest concentration risk is in Johannesburg introduced by the Absa Staff Group Life Scheme. In addition to comprehensive quota share reinsurance, the Company also uses catastrophe reinsurance to provide further protection against an accumulation of losses in respect of risk retained.

Mortality and morbidity risks

The Group uses experienced underwriters to review risk cover applications in excess of specified limits and evaluated them against established standards. Where an applicant requires cover in excess of specified monetary or impairment limits, the excess is reinsured. Mortality and morbidity risks are managed per product line based on underwriting criteria, pricing, reinsurance and experience.

Effective claims management processes ensure that all valid claims are honoured, in line with policy documentation and allowances made in setting premiums or valuing liabilities. Proactive fraud detection capabilities continue to be developed and improved to minimise fraudulent claim payouts.

Human immunodeficiency virus and Aids risk

The Group's Life insurance business is exposed to human immunodeficiency virus (HIV) and Aids risk where an insufficient allowance has been made in the pricing and valuation bases. To manage risk for the business that is medically underwritten, HIV tests are performed as part of the normal underwriting process. Cover is not provided in instances where the mortality risk is uncertain or is deemed to be too high. For other lines of business, such as funeral and credit life, general pre-existing condition clauses are included in the contract to protect against anti-selection by policyholders. In such an event, a claim will not be paid if it occurs as a result of a condition existing at the inception of the policy or within a certain period (generally 12 months) from inception.

Aids mortality investigations are performed. The results of these investigations assist in setting the premium and mortality basis for life policies. Additional allowances are included in the valuation basis to allow for a worse than expected Aids risk experience.

Lapse risk

Lapse risk is the risk of not recouping expenses such as commission and/or underwriting costs generally incurred at the inception of the policy. In such instances, a loss is incurred if the policy lapses before the costs have been recouped. This risk is managed by entering into clawback arrangements with financial advisers, whereby the commission or underwriting cost is recouped. Annual investigations of lapse experience are done to ensure pricing and valuation assumptions are appropriate, relevant and in line with experience.

63. Risk management *(continued)*

63.3 Market risk *(continued)*

Expense risk

An allowance for future maintenance and claim expenses, inflated at the assumed expense inflation rate, is included in liability calculations based on the current level of maintenance and claim expenses per policy. The risk of understating and pricing insufficiently for this risk is managed by:

- conducting annual expense investigations based on the most recent operating expenditure incurred;
- monitoring costs monthly to ensure they remain within anticipated levels and identifying trends at an early stage; and
- basing the assumed future inflation rate on observable economic indicators and experience.

Model risk

Model risk is the risk of determining expected future cash flows and liabilities from existing policies using modelling techniques or methodologies that may be incorrect or inappropriate for certain classes of business. This risk is managed by placing the models through rigorous checking procedures and processes. The modelling methodologies used are in line with guidance issued by the ASSA or, in the absence of such guidance, generally accepted actuarial methods. Models are governed by the WIMI Models Committee and the BAGL Models Risk policy.

Data risk

Data risk is the risk that the policy data used in the models is not accurate or incomplete, leading to incorrect premiums being set or insufficient reserves being held. This risk is managed by conducting reasonability checks on data and by reconciling the data with the previous valuation data (i.e. a movement analysis) and the financial statements.

Assumption risk

Assumption risk is the risk that the change and effect of the assumptions used in the most recent valuation are not considered. Best estimate assumptions are derived from annual investigations into the demographic experience of the business and economic assumptions are based on observable, actual, consistent economic indicators. Margins are added to best estimate assumptions to allow for variability in the assumptions. These margins include compulsory margins where considered necessary by the Standard of Actuarial Practice 104 (SAP 104) issued by the Actuarial Society of South Africa (ASSA).

The risk discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from assumptions. The government bond curve is used to determine the risk-free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk-free rate curve. The economic assumptions used, including certain representative points on the risk-free curve, are as follows (gross of tax where applicable):

Economic assumptions (RSA entities only)

	2016 %	2015 %
Risk-free rate of return		
1-year term	**7,96**	8,19
5-year term	**8,58**	9,67
10-year term	**9,29**	10,06
20-year term	**10,22**	10,83
Equity return differential	**3,36**	3,36
Cash return differential	**(2,00)**	(2,00)
Overall investment return differential	**(0,44)**	(0,44)
Risk discount rate differential	**3,15**	3,15

The expense inflation assumption is a company-specific inflation rate assumption of 3,5% for the first three years and the general inflation rate is implied by the difference between the nominal and real yield curves from the seventh year. The curve is blended between the third and the sixth years.

Additional allowances are incorporated into the liabilities to mitigate assumption risk. The compulsory margins prescribed in the SAP 104 note have been applied in the valuation of liabilities.

63. Risk management *(continued)*

63.3 Market risk *(continued)*

Compulsory margins as per SAP 104	2016 %	2015 %
Mortality	+7,5	+7,5
Morbidity	10	10
Lapse	±25	±25
Surrenders	±10	±10
Expenses	10	10
Expense inflation	10	10
Charge against investment return	±25 bps	±25 bps

The results of the sensitivities disclosed in the following table indicate that assumptions regarding future mortality and morbidity experience have a significant impact on the quantum of the actuarial liability. Future developments in mortality and morbidity experience, whether positive or negative, will impact on profits in future years, particularly in areas influenced by the Aids infection rates. A further factor to take into consideration is the impact of investment returns. Although a significant portion of the book, such as credit life, is short term, the mortgage protection business increases the duration of the overall business and therefore future investment returns. The business is not sensitive to changes in other assumptions.

Sensitivity analysis (RSA entities only)

	Group	
	2016	2015
	Potential effect recorded in (profit) or loss Rm	Potential effect recorded in (profit) or loss Rm
Mortality and morbidity +10%	117	94
Lapse rate +10%	(43)	(32)
Renewal and termination expenses +10%	23	31
Expense inflation +1%	32	27
Investment return -1%	39	38

Data risk

Data risk is the risk that the policy data used in the models is not accurate or incomplete, leading to incorrect premiums being set or insufficient reserves being held. This risk is managed by conducting reasonability checks on data and by reconciling the data with the previous valuation data (i.e. a movement analysis) and the financial statements.

Life insurance mismatch risk

A mismatch arises if the assets backing non-linked products do not grow sufficiently or materialise timeously to match specified amounts guaranteed on death, disability, critical illness or retrenchments, or on survival to the end of the policy. Mismatch risk is managed through setting asset allocations which appropriately match assets to underlying liabilities. Guaranteed life event benefits and guaranteed maturity benefits are each managed in terms of separate investment strategies.

Life insurance mismatch risk is monitored on a quarterly basis by the WIMI Financial Risk Committee. The asset-liability matching exercises carried out are reviewed by the WIMI Financial Risk Committee and the Statutory Actuary, and approved by the Group Actuarial Committee.

Through the use of asset-liability modelling, appropriate investment strategies for the assets backing policyholder liabilities are determined to mitigate mismatch risk as far as possible. These investment strategies are reviewed biennially and the asset manager mandates amended accordingly. For guaranteed mortality, morbidity and retrenchment benefits as well as projected expenses, an asset allocation comprising cash and bonds of various terms to maturity is used. For guaranteed maturity benefits, cash and long-dated bonds are used and for policies close to maturity, the appropriate hedging strategies are implemented. Quarterly meetings are held with the asset manager to monitor these asset durations and targeted levels.

Life and short-term investment risks

Investment risk relates to the variability in the value of life and short-term shareholder assets and of assets backing policyholder liabilities. Interest rate/Equity risk relates to the change in investment value of assets due to a change in market interest rates/equity performance. Foreign exchange risk is the risk that a change in the exchange rate could affect the financial results of the insurance entity. Investment risk is mitigated through diversified asset allocations and investment mandates.

Life and short-term insurance investment risk is monitored by WIMI Financial Risk Committee on a quarterly basis.

63. Risk management *(continued)*

63.3 *Market risk (continued)*

A single investment strategy is maintained for short-term insurance shareholder assets and for assets backing short-term insurance policy holder liabilities. Assets are invested in short-dated interest-earning assets. The duration of interest-earning assets is monitored against a maximum effective duration.

The Life insurance shareholders' funds in South Africa are invested in a balanced portfolio to provide secure and stable growth over the long term. For entities outside of South Africa, the shareholder funds are invested in money market type instruments, with the exception of Barclays Life Assurance Kenya where the shareholder assets are invested in government bonds.

The following table indicates the asset allocations as at the reporting date:

Life shareholder funds – actual asset allocation (%)

	Group	
	2016 %	2015 %
Offshore equities	**5**	7
Offshore bonds	**—**	—
Offshore alternatives and cash	**3**	4
Domestic equities	**22**	26
Domestic bonds	**20**	12
Domestic cash	**50**	51
	100	100

Domestic assets have a limit on active equity exposures or tracking error taken on by the asset manager versus the underlying equity benchmark. Counterparty credit risk in respect of investments is managed by investing with a spread of issuers as required by the Insurance Investment Management policy under the Insurance Key Risk Control Framework. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Liquidity risk is managed in the short-term insurance businesses by investing in short-dated interest-earning assets, with limits on investments in less liquid assets such as preference shares and corporate bonds. The life insurance businesses are less exposed to liquidity risks due to the low risk of large cumulative claims. Liquidity risk is managed through close management of potential cash outflow in discussion with the asset managers, as well as the use of a liquidity fund consisting of cash and money market investments – set aside to meet large outflows.

63.4 *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 Group's equity investment risk objective is to balance the portfolio composition in line with the Group's risk appetite, with selective exits as appropriate.

Approach

The Group'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 Group's equity investments are held in CIB and RBB – Business Banking. Equity and other investments held by insurance entities are addressed in the insurance risk management section of this report.

The CPF Equities portfolio decreased during the current reporting period due to fair value revaluations and planned sell-downs in line with the Group's equity investment strategy.

63. Risk management *(continued)*

63.4 *Equity investment risk (continued)*

Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and Economic Capital (EC) requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Group has adopted the market-based simple risk-weighted approach to calculate Risk Weighted Assets (RWAs) and Regulatory Capital (RC) for equity risk in the banking book. According to this approach, the Group applies a 300% risk weighting 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 Group's shareholding in those investments and also in relation to the Group's capital. For those financial investments constituting a significant minority investment (i.e. 20% to 50%) with no other significant shareholder, the Group applies a capital deduction.

The Solvency Assessment Management (SAM) regime is equivalent to Solvency II in the UK and is now due to go live in 2017. This means that Absa Financial Services entities' liabilities, capital and solvency positions will continue to be reported under parallel processes.

Economic capital for equity investment risk in the banking book is based on investment type and portfolio risk modelling and varies from 35,2% to 100%.

Analysis of equity investment risk in the banking book

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.

	Group									
	2016					2015				
	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
Insurance activities' listed and unlisted equity investments[1,2]	(127)	—	2 551	127	—	(122)	—	2 443	122	—
Listed equity investments	(122)	—	2 450	122	—	(117)	—	2 342	117	—
Unlisted equity investments	(5)	—	101	5	—	(5)	—	101	5	—
Group listed and unlisted equity investments, excluding insurance activities' investments	(144)	(32)	3 531	144	32	(97)	(11)	2 162	97	11
Listed equity investments	(31)	(3)	694	31	3	(32)	(3)	692	32	3
Unlisted equity investments	(113)	(29)	2 837	113	29	(65)	(8)	1 470	65	8
Total on Group equity investments	(271)	(32)	6 082	271	32	(219)	(11)	4 605	219	11

Notes

[1] The above sensitivities were only calculated on shareholder and non-linked policyholder assets (for unit linked policyholder liabilities there is no impact on the sensitivity analysis due to the fact that the asset and liability is 100% matched) and exclude all assets linked to investment and unit linked contracts due to the fact that the asset and liability is 100% matched.

[2] The figures exclude all associates and joint ventures, which account for the differences in fair value compared to that shown in the table titled equity investments in the banking book.

63. Risk management *(continued)*

63.5 Liquidity risk

Liquidity risk is the risk that the Group 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 group-specific and market-wide events.

Liquidity risk is monitored at a group level under a single group 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 Group's liquidity risk management objectives are:

- manage the funding position in line with Board-approved liquidity risk appetite framework and liquidity coverage ratio requirements;
- build and maintain adequate liquidity buffers to ensure the bank remains continuously compliant with the liquidity coverage ratio
- 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 Group. 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 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.

The Barclays Africa Group 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 Group has established the Liquidity Risk Appetite (LRA), which is the level of liquidity risk the Group 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 Barclays Africa Group 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 Group'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 Group-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 Group 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 Group CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Group'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 Group continues to work with the Regulator on recovery and resolution planning.

63. Risk management *(continued)*

63.5 *Liquidity risk* *(continued)*

Analysis of contractual mismatch

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

	Group				
	2016				
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	47 380	2 258	368	—	50 006
Investment securities	10 531	44 805	17 705	41 274	114 315
Loans and advances to banks	20 388	25 785	2 869	746	49 788
Trading portfolio assets	94 751	—	—	—	94 751
Derivative assets	45 153	—	—	—	45 153
Non-derivative assets	49 598	—	—	—	49 598
Hedging portfolio assets	—	61	622	1 062	1 745
Other financial assets	9 023	12 386	166	554	22 129
Loans and advances to customers	85 164	150 629	255 531	228 986	720 310
Reinsurance assets	—	785	—	200	985
Investments linked to investment contracts	705	2 771	6 304	9 036	18 816
Financial assets	267 942	239 480	283 565	281 858	1 072 845
Non-financial assets					28 178
Total assets					1 101 023
Liabilities					
Deposits from banks	16 589	30 278	6 154	171	53 192
Trading portfolio liabilities	47 429	—	—	—	47 429
Derivative liabilities	40 920	—	—	—	40 920
Non-derivative liabilities	6 509	—	—	—	6 509
Hedging portfolio liabilities	—	398	568	1 098	2 064
Other financial liabilities	17 476	5 918	6	245	23 645
Deposits due to customers	469 882	170 992	28 368	5 623	674 865
Debt securities in issue	646	75 886	52 154	11 028	139 714
Liabilities under investment contracts	5 013	2 630	12 173	9 382	29 198
Policyholder liabilities under insurance contracts	196	921	—	3 352	4 469
Borrowed funds	530	2 863	10 173	2 107	15 673
Financial liabilities	557 761	289 886	109 596	33 006	990 249
Non-financial liabilities					8 494
Total liabilities					998 743
Equity					102 280
Total liabilities and equity					1 101 023
Net liquidity position of financial instruments	(289 819)	(50 406)	173 969	248 852	82 596

63. Risk management *(continued)*

63.5 *Liquidity risk* *(continued)*

	Group				
	2015				
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	44 921	865	118	—	45 904
Investment securities	10 099	31 318	21 012	38 536	100 965
Loans and advances to banks	35 475	37 944	9 125	3 407	85 951
Trading portfolio assets	135 158	—	—	—	135 158
Derivative assets	78 277	—	—	—	78 277
Non-derivative assets	56 881	—	—	—	56 881
Hedging portfolio assets	—	112	360	1 760	2 232
Other financial assets	9 548	12 580	10	764	22 902
Loans and advances to customers	82 904	122 274	257 806	240 375	703 359
Reinsurance assets	—	512	—	69	581
Investments linked to investment contracts	831	3 507	6 134	9 045	19 517
Financial assets	318 936	209 112	294 565	293 956	1 116 569
Non-financial assets					28 035
Total assets					1 144 604
Liabilities					
Deposits from banks	21 537	37 757	2 791	895	62 980
Trading portfolio liabilities	90 408	—	—	—	90 408
Derivative liabilities	86 696	—	—	—	86 696
Non-derivative liabilities	3 712	—	—	—	3 712
Hedging portfolio liabilities	—	240	2 580	1 711	4 531
Other financial liabilities	13 765	7 196	4	445	21 410
Deposits due to customers	460 791	165 600	27 288	34 740	688 419
Debt securities in issue	327	62 250	52 929	13 177	128 683
Liabilities under investment contracts	4 174	1 522	8 545	9 968	24 209
Policyholder liabilities under insurance contracts	153	620	42	3 525	4 340
Borrowed funds	314	230	9 786	2 822	13 152
Financial liabilities	591 469	275 415	103 965	67 283	1 038 132
Non-financial liabilities					7 827
Total liabilities					1 045 959
Equity					98 645
Total liabilities and equity					1 144 604
Net liquidity position of financial instruments	(272 533)	(66 303)	190 600	226 673	78 437

63. Risk management *(continued)*

63.5 *Liquidity risk (continued)*

Liquidity risk measurement – undiscounted (statement of financial position value with impact of future interest)	Group 2016 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	16 589	30 642	9 236	381	(3 656)	53 192
Trading portfolio liabilities	47 429	—	—	—	—	47 429
Derivative liabilities	40 920	—	—	—	—	40 920
Non-derivative liabilities	6 509	—	—	—	—	6 509
Hedging portfolio liabilities	—	422	814	2 437	(1 609)	2 064
Other financial liabilities	17 476	5 980	7	546	(364)	23 645
Deposits due to customers	469 882	177 193	38 838	12 491	(23 539)	674 865
Debt securities in issue	646	76 395	57 051	15 032	(9 410)	139 714
Liabilities under investment contracts	5 013	2 740	18 613	20 898	(18 066)	29 198
Policyholder liabilities under insurance contracts	196	948	—	8 933	(5 608)	4 469
Borrowed funds	530	3 086	15 607	4 513	(8 064)	15 672
Financial liabilities	557 761	297 406	140 166	65 231	(70 316)	990 248
Non-financial liabilities						8 495
Total liabilities						998 743
Off-statement of financial position						
Financial guarantee contracts	10	—	—	—	—	10
Loan commitments	143 576	39 281	—	—	—	182 857

Undiscounted maturity (statement of financial position value with impact of future interest)	2015 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	21 537	38 045	3 601	1 480	(1 683)	62 980
Trading portfolio liabilities	90 407	—	—	—	—	90 407
Derivative liabilities	86 695	—	—	—	—	86 695
Non-derivative liabilities	3 712	—	—	—	—	3 712
Hedging portfolio liabilities	—	246	3 179	3 040	(1 934)	4 531
Other financial liabilities	13 765	7 301	5	1 038	(699)	21 410
Deposits due to customers	460 791	169 212	32 576	53 982	(28 142)	688 419
Debt securities in issue	327	63 721	65 318	23 410	(24 093)	128 683
Liabilities under investment contracts	4 174	1 568	10 957	17 709	(10 199)	24 209
Policyholder liabilities under insurance contracts	153	620	53	6 263	(2 749)	4 340
Borrowed funds	314	248	12 065	5 012	(4 488)	13 151
Financial liabilities	591 468	280 961	127 754	111 934	(73 987)	1 038 130
Non-financial liabilities						7 827
Total liabilities						1 045 957
Off-statement of financial position						
Financial guarantee contracts	24	—	—	—	—	24
Loan commitments	112 773	47 677	—	—	—	160 450

63. Risk management *(continued)*

63.6 *Capital management*

Capital risk is the risk that the Group 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 Group'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 Group 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 Group 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 both regulatory capital and economic capital requirements;
- maximise shareholder value by optimising the level and mix of capital resources and the utilisation of those resources; and
- increasing business and legal entity accountability for the use of capital and, where relevant, the use of capital per client or portfolio.

The Board sets Group and Bank target capital ranges. The Group and its regulated entities (including insurance entities) remain adequately capitalised above minimum capital requirements as at the reporting date. Target capital ratios of the Group for the current reporting period were set by considering the following:

- capital risk appetite;
- the preference of rating agencies for loss absorbing capital;
- stress scenarios;
- current and future Basel III requirements including capital conservation buffer and domestic-systemically important bank buffer; and
- peer analysis.

Capital adequacy ratios (unaudited)

Group	2016	2015	2016 Board target ranges %	2016 Minimum regulatory capital requirements %	2015 Board target ranges %	2015 Minimum regulatory capital requirements %
Capital adequacy ratios (%)						
Common Equity Tier 1	**12,1**	11,9	**9,5 — 11,5**	**6,9**	9,5 – 11,5	6,5
Tier 1	**12,6**	12,6	**10,5 — 12,5**	**8,1**	10,5 – 12,5	8,0
Total	**14,8**	14,5	**13,0 — 15,0**	**10,4**	12,5 – 14,5	10,0
Capital supply and demand for the reporting period (Rm)						
Net generated equity	**1 398**	1 261				
Qualifying capital	**104 486**	101 628				
Total RWA	**703 785**	702 663				

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 Group complied in full with all externally imposed capital requirements (2015: the same).

64. Going concern

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

65. Events after the reporting period

The directors are not aware of any other events after the reporting date of 31 December 2016 and the date of authorisation of these financial statements (as defined per IAS 10).

66. Directors' and prescribed officers' remuneration

The Barclays Africa Group Remuneration Committee's (Remco) mandate is to ensure that reward practices are aligned with shareholder interests, both in the performance of our employees and the values they uphold. The Group strives to promote reward practices that foster sustainable high performance and accordingly, the Group rewards both short and longer term performance. All elements of pay are benchmarked against the market, as well as local and international best practice.

The Remco evaluates prescribed officer and executive pay against the Balanced Scorecard, which ensures rigorous concentration on business imperatives including, importantly, financial performance. Risk management is carefully considered.

Remuneration of risk and compliance employees is determined independently within the function, rather than by the business the function supports, and within the parameters of the pool allocated to the function by the Remco.

The Barclays Africa remuneration approach is fully compliant with the regulatory and statutory provisions relating to reward governance, in all the countries where the Group operates and in accordance with relevant requirements in Africa, the United Kingdom and European Union.

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66. Directors' and prescribed officers' remuneration *(continued)*

Combined tables for 2016 total remuneration

	Group 2016			
	Maria Ramos		David Hodnett	
Executive directors	**2016 R**	2015 R	**2016 R**	2015 R
Salary	**7 622 073**	7 282 552	**6 388 552**	5 913 471
Role based pay	**6 500 000**	6 500 000	**4 250 000**	3 500 000
Medical aid	**97 680**	89 208	**125 664**	114 768
Pension	**244 599**	592 593	**226 599**	484 593
Other employee benefits	**44 960**	44 960	**39 498**	38 480
Total fixed remuneration	**14 509 312**	14 509 313	**11 030 313**	10 051 312
Non-deferred cash award	**3 000 000**	2 740 000	**2 900 000**	2 600 000
Non-deferred share award	**3 000 000**	2 740 000	**2 900 000**	2 600 000
Deferred cash award[1]	**4 500 000**	4 110 000	**4 350 000**	3 900 000
Deferred share award[1]	**4 500 000**	4 110 000	**4 350 000**	3 900 000
Total variable remuneration	**15 000 000**	13 700 000	**14 500 000**	13 000 000
Total remuneration	**29 509 312**	28 209 313	**25 530 313**	23 051 312

	Craig Bond		Stephen van Coller[2]	
Prescribed officers	**2016 R**	2015 R	**2016 R**	2015 R
Salary	**5 668 964**	5 452 730	**2 730 389**	3 558 286
Role based pay	**5 000 000**	5 000 000	**5 250 000**	7 000 000
Medical aid	**125 664**	114 768	**104 742**	127 548
Pension	**220 426**	447 556	**151 466**	296 296
Other employee benefits	**36 258**	36 258	**515 824**	27 182
Total fixed remuneration	**11 051 312**	11 051 312	**8 752 421**	11 009 312
Non-deferred cash award	**1 840 000**	2 720 000	—	2 500 000
Non-deferred share award	**1 840 000**	2 720 000	—	2 500 000
Deferred cash award	**2 760 000**	4 080 000	—	3 750 000
Deferred share award	**2 760 000**	4 080 000	—	3 750 000
Total variable remuneration	**9 200 000**	13 600 000	—	12 500 000
Total remuneration	**20 251 312**	24 651 312	**8 752 421**	23 509 312

Board appointment dates and contract terms

Maria Ramos and David Hodnett were appointed to the Board on 1 May 2009 and 1 March 2010 respectively. Peter Matlare and Jason Quinn were appointed to the Board on 1 August 2016 and 1 September 2016 respectively. All executive directors and prescribed officers have a notice period of six months with their potential compensation for loss of office at six months fixed remuneration.

Notes

1 Note that the election between deferred cash award and deferred share award will be made once restrictions are lifted.

2 Resigned effective 30 September 2016. Stephen van Coller's other benefits include leave payouts following his resignation. No amounts were paid as compensation for loss of office.

3 Appointed 1 October 2015, prior to this date Nomkhita Nqweni represented key management personnel and as a result the total remuneration represents remuneration earned from 1 January 2015.

4 Resigned effective 30 September 2015.

5 Excludes Jason Quinn for 2015. Jason Quinn was appointed as Financial Director on 1 September 2016, however total remuneration has been calculated from 1 January 2016. His fixed remuneration received as an Executive Director was R1 769 771.

Group 2016

Jason Quinn		Peter Matlare		Total	
2016	2015	**2016**	2015	**2016**	2015
R	R	**R**	R	**R**	R
3 459 337	n/a	**2 439 812**	n/a	**19 909 774**	13 196 023
333 333	n/a	**1 458 333**	n/a	**12 541 666**	10 000 000
84 012	n/a	**55 828**	n/a	**363 184**	203 976
284 843	n/a	**200 617**	n/a	**956 658**	1 077 186
26 495	n/a	**15 180**	n/a	**126 133**	83 440
4 188 020	n/a	**4 169 770**	n/a	**33 897 415**	24 560 625
1 000 000	n/a	**800 000**	n/a	**7 700 000**	5 340 000
1 000 000	n/a	**800 000**	n/a	**7 700 000**	5 340 000
1 500 000	n/a	**1 200 000**	n/a	**11 550 000**	8 010 000
1 500 000	n/a	**1 200 000**	n/a	**11 550 000**	8 010 000
5 000 000	n/a	**4 000 000**	n/a	**38 500 000**	26 700 000
9 188 020	n/a	**8 169 770**	n/a	**72 397 415**	51 260 625

Nomkhita Nqweni[3]		Willie Lategan[4]		Total	
2016	2015	**2016**	2015	**2016**	2015[4]
R	R	**R**	R	**R**	R
4 049 835	3 246 561	**n/a**	2 679 186	**12 449 188**	14 936 763
2 500 000	1 166 667	**n/a**	1 125 000	**12 750 000**	14 291 667
50 412	46 464	**n/a**	58 077	**280 818**	346 857
195 216	271 605	**n/a**	224 556	**567 108**	1 240 013
47 182	111 349	**n/a**	990 782	**599 264**	1 165 571
6 842 645	4 842 646	**n/a**	5 077 601	**26 646 378**	31 980 871
1 300 000	1 060 000	**n/a**	760 000	**3 140 000**	7 040 000
1 300 000	1 060 000	**n/a**	760 000	**3 140 000**	7 040 000
1 950 000	1 590 000	**n/a**	1 140 000	**4 710 000**	10 560 000
1 950 000	1 590 000	**n/a**	1 140 000	**4 710 000**	10 560 000
6 500 000	5 300 000	**n/a**	3 800 000	**15 700 000**	35 200 000
13 342 645	10 142 646	**n/a**	8 877 601	**42 346 378**	67 180 871

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives

The table below outlines share-based and long-term incentive awards (awarded in respect of performance in a prior period) and role based pay delivered as phantom shares in the year.

	Group 2016			
	Number of shares under award at 1 January 2016	Number of shares awarded during 2016	Share price on award R	Number of shares released during 2016
Executive directors				
Maria Ramos				
Absa Long-term incentive Plan 2012 – 2014	4 746	—	151	4 746
Barclays Africa Long-term incentive Plan 2013 – 2015	216 029	—	139	59 408
Share Value Plan 2014 – 2016	34 108	—	129	17 054
Share Value Plan 2015 – 2017	45 678	—	189	15 226
Share Value Plan 2016 – 2018	—	56 312	146	—
Role based pay March 2014	10 055	—	129	2 513
Role based pay June 2014	8 368	—	155	2 092
Role based pay October 2014	7 730	—	168	1 932
Role based pay December 2014	7 431	—	175	1 857
Role based pay March 2015	8 591	—	189	1 718
Role based pay June 2015	8 893	—	183	1 778
Role based pay September 2015	9 105	—	178	1 821
Role based pay December 2015	10 160	—	160	2 032
Role based pay March 2016	—	5 566	146	—
Role based pay June 2016	—	5 593	145	—
Role based pay September 2016	—	5 578	146	—
Role based pay December 2016	—	5 117	159	—
Non-deferred share award 2016	—	18 770	146	18 770
Total	370 894	96 936		130 947
David Hodnett				
Absa Long-term incentive Plan 2012 – 2014	2 966	—	151	2 966
Barclays Africa Long-term incentive Plan 2013 – 2015	108 014	—	139	29 704
Share Value Plan 2013 – 2015	7 262	—	166	7 262
Share Value Plan 2014 – 2016	26 513	—	129	13 256
Share Value Plan 2015 – 2017	42 824	—	189	14 276
Share Value Plan 2016 – 2018	—	53 434	146	—
Non-deferred share award 2016	—	17 811	146	17 811
Total	187 579	71 245		85 275
Jason Quinn[1]				
Absa Long-term incentive Plan 2012 – 2014	2 373	—	151	2 373
Share Value Plan 2013 – 2015	2 663	—	166	2 663
Share Value Plan 2014 – 2016	3 820	—	129	1 910
Share Value Plan 2015 – 2017	4 758	—	189	1 586
Share Value Plan 2016 – 2018	—	5 480	146	—
Retention award 2014	19 494	—	129	—
Non-deferred share award 2016	—	5 480	146	5 480
Total	33 108	10 960		14 012

Note

[1] Jason Quinn's outstanding share-based long-term incentives include awards received prior to being appointed as an Executive Director in 2016.

Group						
Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2016	Number of shares under award at 31 December 2016	End of performance period	Last scheduled vesting date
145	687 695	99 740	—	—	2014/12/31	2015/06/14
151	8 970 608	6 376 428	**97 213**	**59 408**	2015/12/31	2016/10/01
149	2 539 341	495 539	—	**17 054**	2016/12/31	2017/09/01
149	2 267 151	228 115	—	**30 452**	2017/12/31	2018/09/01
—	—	—	—	**56 312**	2018/12/31	2019/09/01
142	356 871	41 041	—	**7 542**	2019/03/01	2019/03/01
146	305 327	31 791	—	**6 276**	2019/06/01	2019/06/01
149	287 675	37 970	—	**5 798**	2019/09/01	2019/09/01
157	292 125	38 541	—	**5 574**	2019/12/01	2019/12/01
142	243 973	13 491	—	**6 873**	2020/03/01	2020/03/01
146	259 499	26 805	—	**7 115**	2020/06/01	2020/06/01
149	271 147	27 249	—	**7 284**	2020/09/01	2020/09/01
157	319 654	23 125	—	**8 128**	2020/12/01	2020/12/01
—	—	—	—	**5 566**	2020/12/31	2021/12/01
—	—	—	—	**5 593**	2020/12/31	2021/12/01
—	—	—	—	**5 578**	2020/12/31	2021/12/01
—	—	—	—	**5 117**	2020/12/31	2021/12/01
149	2 794 853	202 206	—	—	2016/03/01	2016/09/01
	19 595 919	7 642 041	**97 213**	**239 670**		
145	429 773	62 374	—	—	2014/12/31	2015/06/14
151	4 485 304	3 188 214	**48 606**	**29 704**	2015/12/31	2016/10/01
149	1 081 312	347 384	—	—	2015/12/31	2016/03/01
149	1 973 818	385 204	—	**13 257**	2016/12/31	2017/09/01
149	2 125 696	214 118	—	**28 548**	2017/12/31	2018/09/01
—	—	—	—	**53 434**	2018/12/31	2019/09/01
149	2 652 058	191 932	—	—	2016/03/01	2016/09/01
	12 747 961	4 389 226	**48 606**	**124 943**		
145	343 848	49 870	—	—	2014/12/31	2016/06/14
142	378 173	87 762	—	—	2015/12/31	2016/03/01
149	284 399	32 609	—	**1 910**	2016/12/31	2017/09/01
149	236 155	23 824	—	**3 172**	2017/12/31	2018/09/01
—	—	—	—	**5 480**	2018/12/31	2019/09/01
—	—	—	—	**19 494**	2016/12/31	2017/03/01
149	815 972	58 964	—	—	2016/03/01	2016/09/01
	2 058 547	253 029	—	**30 056**		

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives (continued)

	Group 2016			
	Number of shares under award at 1 January 2016	Number of shares awarded during 2016	Share price on award R	Number of shares released during 2016
Prescribed officers				
Craig Bond				
Barclays Africa Long-term incentive Plan 2013 – 2015	129 617	—	139	35 645
Share Value Plan 2014 – 2016	32 750	—	129	16 375
Share Value Plan 2015 – 2017	25 377	—	189	8 459
Share Value Plan 2016 – 2018	—	27 950	146	—
Joiners Share Value Plan	48 910	—	156	46 206
Non-deferred share award 2016	—	18 633	146	18 633
Total	236 654	46 583		125 318
Stephen van Coller				
Absa Long-term incentive Plan 2012–2014	2 966	—	151	2 966
Barclays Africa Long-term incentive Plan 2013 – 2015	108 014	—	139	29 704
Share Value Plan 2013 – 2015	16 340	—	166	16 340
Share Value Plan 2014 – 2016	33 530	—	129	16 765
Share Value Plan 2015 – 2017	45 996	—	189	15 332
Share Value Plan 2016 – 2018	—	51 380	146	—
Non-deferred share award 2016	—	17 126	146	17 126
Total	206 846	68 506		98 233
Nomkhita Nqweni				
Absa Long -term incentive Plan 2012–2014	1 186	—	151	1 186
Barclays Africa Long-term incentive Plan 2013 – 2015	43 205	—	139	11 881
Share Value Plan 2013 – 2015	3 019	—	166	3 019
Share Value Plan 2014 – 2016	9 281	—	129	4 640
Share Value Plan 2015 – 2017	7 613	—	189	2 537
Share Value Plan 2016 – 2018	—	21 784	146	—
Non-deferred share award 2016	—	7 261	146	7 261
Total	64 304	29 045		30 524

			Group 2016			
Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2016	Number of shares under award at 31 December 2016	End of performance period	Last scheduled vesting date
151	5 382 395	3 825 887	**58 327**	**35 645**	2015/12/31	2016/10/01
149	2 438 238	475 736	**—**	**16 375**	2016/12/31	2017/09/01
149	1 259 545	126 863	**—**	**16 918**	2017/12/31	2018/09/01
—	—	—	**—**	**27 950**	2018/12/31	2019/09/01
146	6 737 297	1 564 687	**—**	**2 704**	2016/12/31	2017/03/31
149	2 774 454	200 568	**—**	**—**	2016/03/01	2016/09/01
	18 591 929	6 193 741	**58 327**	**99 592**		
145	429 773	62 374	**—**	**—**	2014/12/31	2015/06/14
151	4 485 304	3 188 214	**48 606**	**29 704**	2015/12/31	2016/10/01
149	2 433 026	781 576	**—**	**—**	2015/12/31	2016/03/01
149	2 496 309	487 201	**—**	**16 765**	2016/12/31	2017/09/01
149	2 282 935	229 902	**—**	**30 664**	2017/12/31	2018/09/01
—	—	—	**—**	**51 380**	2018/12/31	2019/09/01
149	2 550 061	184 338	**—**	**—**	2016/03/01	2016/09/01
	14 677 408	4 933 605	**48 606**	**128 513**		
145	171 851	25 007	**—**	**—**	2014/12/31	2015/06/14
151	1 794 031	1 275 346	**19 443**	**11 881**	2015/12/31	2016/10/01
142	428 728	99 833	**—**	**—**	2015/12/31	2016/03/01
149	690 896	79 364	**—**	**4 641**	2016/12/31	2017/09/01
149	377 759	37 970	**—**	**5 076**	2017/12/31	2018/09/01
—	—	—	**—**	**21 784**	2018/12/31	2019/09/01
149	1 081 163	78 321	**—**	**—**	2016/03/01	2016/09/01
	4 544 428	1 595 841	**19 443**	**43 382**		

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives (continued)

	Group 2015			
	Number of shares under award at 1 January 2015	Number of shares awarded during 2015	Share price on award R	Number of shares released during 2015
Executive directors				
Maria Ramos				
Deferred Award Plan 2012 – 2014	31 405	—	—	31 405
Absa Long-term incentive Plan 2012 – 2014	79 464	—	151	4 746
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	216 029	—	139	—
Share Value Plan 2014 – 2016	51 044	78	129	17 014
Share Value Plan 2015 – 2017	—	45 678	189	—
Role based pay March 2014	12 568	—	129	2 513
Role based pay June 2014	10 460	—	155	2 092
Role based pay October 2014	9 662	—	168	1 932
Role based pay December 2014	9 288	—	175	1 857
Role based pay March 2015	—	8 591	189	—
Role based pay June 2015	—	8 893	183	—
Role based pay September 2015	—	9 105	178	—
Role based pay December 2015	—	10 160	160	—
Non-deferred share award 2015	—	15 226	189	15 226
Total	419 920	97 731		76 785
David Hodnett				
Deferred Award Plan 2012 – 2014	12 114	—	—	12 114
Absa Long-term incentive Plan 2012 – 2014	49 665	—	151	2 966
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	108 014	—	139	—
Share Value Plan 2013 – 2015	14 490	17	166	7 245
Share Value Plan 2014 – 2016	39 676	62	129	13 225
Share Value Plan 2015 – 2017	—	42 824	189	—
Non-deferred share award 2015	—	14 274	189	14 274
Total	223 959	57 177		49 824

Note

[1] The Barclays Africa Long-term incentive plan 2013 – 2015 was expected to vest at 55% of the maximum based on performance achieved against the metrics.

Group 2015						
Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2015	Number of shares under award at 31 December 2015	End of performance period	Last scheduled vesting date
191	5 996 157	943 405	—	—	2014/12/31	2015/02/20
180	852 477	—	69 972	4 746	2014/12/31	2015/06/14
—	—	—	—	216 029	2015/12/31	2016/10/01
172	2 932 363	258 021	—	34 108	2016/12/31	2017/09/01
—	—	—	—	45 678	2017/12/31	2018/09/01
189	475 334	27 570	—	10 055	2019/03/01	2019/03/01
183	382 250	20 181	—	8 368	2019/06/01	2019/06/01
172	332 980	9 438	—	7 730	2019/09/01	2019/09/01
159	295 059	16 375	—	7 431	2019/12/01	2019/12/01
—	—	—	—	8 591	2020/03/01	2020/03/01
—	—	—	—	8 893	2020/06/01	2020/06/01
—	—	—	—	9 105	2020/09/01	2020/09/01
—	—	—	—	10 160	2020/12/01	2020/12/01
172	2 624 201	74 382	—	—	2015/09/01	2015/09/01
	13 890 821	1 349 372	69 972	370 894		
191	2 312 926	363 904	—	—	2014/12/31	2015/02/20
180	532 753	—	43 733	2 966	2014/12/31	2015/06/14
—	—	—	—	108 014	2015/12/31	2016/10/01
172	1 248 676	248 928	—	7 262	2015/12/31	2016/03/01
172	2 279 329	200 557	—	26 513	2016/12/31	2017/09/01
—	—	—	—	42 824	2017/12/31	2018/09/01
172	2 460 124	69 731	—	—	2015/09/01	2015/09/01
	8 833 808	883 120	43 733	187 579		

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives (continued)

	Group 2015			
	Number of shares under award at 1 January 2015	Number of shares awarded during 2015	Share price on award R	Number of shares released during 2015
Prescribed officers				
Craig Bond				
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	129 617	—	139	—
Share Value Plan 2014 – 2016	49 011	76	129	16 337
Share Value Plan 2015 – 2017	—	25 377	189	—
Joiners Share Value Plan	94 467	112	156	45 669
Non-deferred share award (2015)	—	16 918	189	16 918
Total	273 095	42 483		78 924
Stephen van Coller				
Deferred Award Plan 2012 – 2014	20 190	—	—	20 190
Absa Long-term incentive Plan 2012 – 2014	49 665	—	151	2 966
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	108 014	—	139	—
Share Value Plan 2013 – 2015	32 603	38	166	16 301
Share Value Plan 2014 – 2016	50 178	78	129	16 726
Share Value Plan 2015 – 2017	—	45 996	189	—
Non-deferred share award 2015	—	15 332	189	15 332
Total	260 650	61 444		71 515
Nomkhita Nqweni				
Deferred Award Plan 2012 – 2014	3 365	—	—	3 365
Absa Long-term incentive Plan 2012 – 2014	19 866	—	151	1 186
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	43 205	—	139	—
Share Value Plan 2013 – 2015	6 038	—	166	3 019
Share Value Plan 2015 – 2017	13 921	—	129	4 640
Share Value Plan 2014 – 2016	—	7 613	189	—
Non-deferred share award 2015	—	5 075	189	5 075
Total	86 395	12 688		17 285
Willie Lategan				
Deferred Award Plan 2012 – 2014	7 404	—	—	7 404
Absa Long-term incentive Plan 2012 – 2014	29 799	—	—	1 780
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	54 007	—	—	—
Share Value Plan 2013 – 2015	10 506	12	166	5 253
Share Value Plan 2015 – 2017	19 838	32	129	6 612
Share Value Plan 2014 – 2016	—	9 278	189	—
Non-deferred share award 2015	—	6 186	189	6 186
Total	121 554	15 508		27 235

Note
[1] The Barclays Africa Long-term incentive plan 2013 – 2015 was expected to vest at 55% of the maximum based on performance achieved against the metrics.

Group 2015						
Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2015	Number of shares under award at 31 December 2015	End of performance period	Last scheduled vesting date
—	—	—	—	129 617	2015/12/31	2016/10/01
172	2 815 682	247 754	—	32 750	2016/12/31	2017/09/01
—	—	—	—	25 377	2017/12/31	2018/09/01
181	8 280 246	1 049 017	—	48 910	2016/12/31	2017/03/31
172	2 915 817	82 648	—	—	2015/09/01	2015/09/01
	14 011 745	1 379 419	—	236 654		
191	3 854 877	606 507	—	—	2014/12/31	2015/02/20
180	532 753	—	43 733	2 966	2014/12/31	2015/06/14
—	—	—	—	108 014	2015/12/31	2016/10/01
172	2 809 477	560 080	—	16 340	2015/12/31	2016/03/01
172	2 882 726	253 654	—	33 530	2016/12/31	2017/09/01
—	—	—	—	45 996	2017/12/31	2018/09/01
172	2 642 470	74 900	—	—	2015/09/01	2015/09/01
	12 722 303	1 495 141	43 733	206 846		
191	642 479	101 085	—	—	2014/12/31	2015/02/20
180	213 029	—	17 494	1 186	2014/12/31	2015/06/14
—	—	—	—	43 205	2015/12/31	2016/10/01
189	571 044	91 928	—	3 019	2015/12/31	2016/03/01
189	877 656	80 906	—	9 281	2016/12/31	2017/09/01
—	—	—	—	7 613	2017/12/31	2018/09/01
172	874 676	24 792	—	—	2015/09/01	2015/09/01
	3 178 884	298 711	17 494	64 304		
191	1 413 646	222 415	—	—	2014/12/31	2015/02/20
180	319 724	—	26 239	1 780	2014/12/31	2015/06/14
—	—	—	—	54 007	2015/12/31	2016/10/01
172	905 355	180 485	—	5 265	2015/12/31	2016/03/01
172	1 139 578	100 272	—	13 258	2016/12/31	2017/09/01
—	—	—	—	9 278	2017/12/31	2018/09/01
172	1 066 157	30 219	—	—	2015/09/01	2015/09/01
	4 844 460	533 391	26 239	83 588		

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding cash-based long-term awards

	Group 2016			
	Value under award at 1 January 2016 R	Maximum potential value at 1 January 2016 R	Value awarded in the year R	Value released in the year R
Executive directors				
Maria Ramos				
Cash value plan 2014 – 2016	4 400 000	5 060 000	—	2 200 000
One Africa Long-term incentive Plan 2012 – 2014[3]	2 285 714	2 285 714	—	2 285 714
Restricted award 2016[1]	—	—	8 000 000	—
Total	6 685 714	7 345 714	8 000 000	4 485 714
David Hodnett				
Cash value plan 2014 – 2016	3 400 000	3 910 000	—	1 700 000
One Africa Long-term incentive Plan 2012 – 2014[3]	1 428 571	1 428 571	—	1 428 571
Restricted award 2016[1]	—	—	7 000 000	—
Total	4 828 571	5 338 571	7 000 000	3 128 571
Jason Quinn[2]				
Cash value plan 2014 – 2016	492 800	566 720	—	246 400
Cash value plan 2015 – 2017	900 000	990 000	—	300 000
Cash value plan 2016 – 2018	—	—	800 000	—
Restricted award 2016[1]	—	—	3 000 000	—
Total	1 392 800	1 556 720	3 800 000	546 400
Prescribed officers				
Craig Bond				
Cash value plan 2014 – 2016	4 200 000	4 830 000	—	2 100 000
Cash value plan 2015 – 2017	4 800 000	5 280 000	—	1 600 000
Cash value plan 2016 – 2018	—	—	4 080 000	—
Restricted award 2016[1]	—	—	3 000 000	—
Total	9 000 000	10 110 000	7 080 000	3 700 000
Stephen van Coller				
Cash value plan 2014 – 2016	4 300 000	4 945 000	—	2 150 000
One Africa Long-term incentive Plan 2012 – 2014[3]	1 428 571	1 428 571	—	1 428 571
Total	5 728 571	6 373 571	—	3 578 571
Nomkhita Nqweni				
Cash value plan 2014 – 2016	1 200 000	1 380 000	—	600 000
Cash value plan 2015 – 2017	1 440 000	1 584 000	—	480 000
Restricted award 2016[1]	—	—	3 000 000	—
Total	2 640 000	2 964 000	3 000 000	1 080 000

Notes
1 Due to JSE listing restrictions, the 2016 Restricted Award has been made in cash but to be settled as equity (subject to relevant regulatory and JSE listing approvals).
2 Jason Quinn's outstanding cash-based long-term awards include awards received prior to being appointed as an Executive Director in 2016.
3 The remaining value of the One Africa Long-term incentive plan 2012 – 2014 was released in June 2016 as shares.

		Group 2016			
Value forfeited in the year R	Grant credit R	Value under award at 31 December 2016 R	Maximum potential value at 31 December 2016 R	End of performance period	Last scheduled vesting date
—	—	2 200 000	2 860 000	2016/12/31	2017/03/01
—	—	—	—	2014/12/31	2016/06/14
—	—	8 000 000	8 000 000	2017/12/31	2018/09/30
—	—	10 200 000	10 860 000		
—	—	1 700 000	2 210 000	2016/12/31	2017/03/01
—	—	—	—	2014/12/31	2016/06/14
—	—	7 000 000	7 000 000	2017/12/31	2018/09/30
—	—	8 700 000	9 210 000		
—	—	246 400	320 320	2016/12/31	2017/03/01
—	—	600 000	690 000	2017/12/31	2018/03/01
—	80 000	800 000	880 000	2018/12/31	2019/03/01
—	—	3 000 000	3 000 000	2017/12/31	2018/09/30
—	80 000	4 646 400	4 890 320		
—	—	2 100 000	2 730 000	2016/12/31	2017/03/01
—	—	3 200 000	3 680 000	2017/12/31	2018/03/01
—	408 000	4 080 000	4 488 000	2018/12/31	2019/03/01
—	—	3 000 000	3 000 000	2017/12/31	2018/09/30
—	408 000	12 380 000	13 898 000		
—	—	2 150 000	2 795 000	2016/12/31	2017/03/01
—	—	—	—	2014/12/31	2016/06/14
—	—	2 150 000	2 795 000		
—	—	600 000	780 000	2016/12/31	2017/03/01
—	—	960 000	1 104 000	2017/12/31	2018/03/01
—	—	3 000 000	3 000 000	2017/12/31	2018/09/30
—	—	4 560 000	4 884 000		

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding cash-based long-term awards

	Group 2015		
	Value under award at 1 January 2015 R	Maximum potential value at 1 January 2015 R	Value awarded in the year R
Executive directors			
Maria Ramos			
Cash Value Plan 2014 – 2016	6 600 000	7 260 000	—
One Africa Long-term incentive Plan 2012 – 2014[1]	4 000 000	20 000 000	—
Total	10 600 000	27 260 000	—
David Hodnett			
Cash Value Plan 2014 – 2016	5 100 000	5 610 000	—
One Africa Long-term incentive Plan 2012 – 2014[1]	2 500 000	12 500 000	—
Total	7 600 000	18 110 000	—
Prescribed officers			
Craig Bond			
Cash Value Plan 2014 – 2016	6 300 000	6 930 000	—
Cash Value Plan 2015 – 2017	—	—	4 800 000
Total	6 300 000	6 930 000	4 800 000
Stephen van Coller			
Cash Value Plan 2014 – 2016	6 450 000	7 095 000	—
One Africa Long-term incentive Plan 2012 – 2014[1]	2 500 000	12 500 000	—
Total	8 950 000	19 595 000	—
Nomkhita Nqweni			
Cash Value Plan 2014 – 2016	1 800 000	1 980 000	—
Cash Value Plan 2015 – 2017	—	—	1 440 000
Total	1 800 000	1 980 000	1 440 000
Willie Lategan			
Cash Value Plan 2014 – 2016	2 550 000	2 805 000	—
Cash Value Plan 2015 – 2017	—	—	1 755 000
One Africa Long-term incentive Plan 2012 – 2014[1]	1 500 000	7 500 000	—
Total	4 050 000	10 305 000	1 755 000

Note

1 The remaining value of the One Africa Long-term incentive plan 2012 – 2014 was released in June 2016 as shares.

Notes to the consolidated financial statements

for the reporting period ended 31 December

		Group 2015			
Value released in the year R	Value forfeited in the year R	Value under award at 31 December 2015 R	Maximum potential value at 31 December 2015 R	End of performance period	Last scheduled vesting date
2 200 000	—	4 400 000	5 060 000	2016/12/31	2017/03/01
2 285 714	15 428 572	2 285 714	2 285 714	2014/12/31	2015/06/14
4 485 714	15 428 572	6 685 714	7 345 714		
1 700 000	—	3 400 000	3 910 000	2016/12/31	2017/03/01
1 428 571	9 642 858	1 428 571	1 428 571	2014/12/31	2015/06/14
3 128 571	9 642 858	4 828 571	5 338 571		
2 100 000	—	4 200 000	4 830 000	2016/12/31	2017/03/01
—	—	4 800 000	5 280 000	2017/12/31	2018/03/01
2 100 000	—	9 000 000	10 110 000		
2 150 000	—	4 300 000	4 945 000	2016/12/31	2017/03/01
1 428 571	9 642 858	1 428 571	1 428 571	2014/12/31	2015/06/14
3 578 571	9 642 858	5 728 571	6 373 571		
600 000	—	1 200 000	1 380 000	2016/12/31	2017/03/01
—	—	1 440 000	1 584 000	2017/12/31	2018/03/01
600 000	—	2 640 000	2 964 000		
850 000	—	1 700 000	1 955 000	2016/12/31	2017/03/01
—	—	1 755 000	1 930 500	2017/12/31	2018/03/01
857 143	5 785 714	857 143	857 143	2014/12/31	2015/06/14
1 707 143	5 785 714	4 312 143	4 742 643		

66. Directors' and prescribed officers' remuneration *(continued)*

Group Chairman and non-executive directors' fees

	Group					
	2016					
			Subsidiary boards and committees			
	Group Board R	Group Board committees and sub-committees[5] R	Absa Bank R	Absa Financial Services R	Other R	**2016 Total R**
Alex Darko[1]	518 520	561 110	—	—	16 113	**1 095 743**
Ashok Vaswani[3]	486 497	377 370	—	—	—	**863 867**
Colin Beggs[2,6]	518 520	1 710 624	161 187	209 612	140 302	**2 740 245**
Dhanasagree (Daisy) Naidoo	341 729	258 391	—	—	—	**600 120**
Francis Okomo-Okello	518 520	109 485	—	—	—	**628 005**
Mark Merson[3]	486 497	389 866	—	—	—	**876 363**
Mohamed Husain[6]	518 520	1 376 010	161 187	—	—	**2 055 717**
Patrick Clackson[3,6]	486 497	365 717	—	—	—	**852 214**
Paul O'Flaherty[6]	479 662	915 411	148 313	—	—	**1 543 386**
Peter Matlare[5]	279 581	87 945	—	—	—	**367 526**
Trevor Munday[6]	518 520	1 551 760	161 187	—	—	**2 231 467**
Wendy Lucas-Bull (Chairman)[4]	5 275 300	—	—	—	—	**5 275 300**
Yolanda Cuba[6]	518 520	467 814	78 921	—	—	**1 065 255**
Total	10 946 883	8 171 503	710 795	209 612	156 415	**20 195 208**

	Group					
	2015					
			Subsidiary Boards, committees and trusts			
	Group Board R	Group Board committees and sub-committees R	Absa Bank R	Absa Financial Services R	Other R	2015 Total R
Alex Darko[1]	457 496	426 339	—	—	16 112	899 947
Ashok Vaswani[2]	457 496	342 200	—	—	—	799 696
Colin Beggs[3]	457 496	1 382 877	151 580	66 133	152 575	2 210 661
Francis Okomo-Okello	457 496	34 980	—	—	—	492 476
Mark Merson[2]	457 496	345 980	—	—	—	803 476
Mohamed Husain	457 496	1 129 707	151 580	—	—	1 738 783
Patrick Clackson[2]	457 496	313 600	—	—	—	771 096
Peter Matlare	457 496	—	—	—	—	457 496
Trevor Munday[5]	457 496	1 585 545	151 580	—	—	2 194 621
Wendy Lucas-Bull (Group Chairman)[4]	4 960 800	—	—	—	—	4 960 800
Yolanda Cuba[6]	457 496	354 344	151 580	—	—	963 420
Total	9 535 760	5 915 572	606 320	66 133	168 687	16 292 472

Notes

1 Member of the Share Incentive Trust (reported under 'Other').
2 Member of the Group Actuarial Review Committee and AFS Audit Risk and Compliance Committee (under 'Absa Financial Services'); and a Trustee of the Absa Group Pension Fund (reported under 'Other').
3 Fees are paid to Barclays PLC and not to the individual.
4 Fee applicable to the Group Chairman, which covers chairmanship and membership of all Board committees and sub-committees. A decision was taken by the Directors' Affairs Committee in early 2017, to provide the Chairman with compensation, on an equivalent basis to the other members, for ad hoc committee meetings in 2016 relating to the Barclays PLC sell-down. This will be implemented in 2017.
5 Status changed to Executive Director during 2016.
6 Chairmen of sub-committees receive additional fees.

Annexure A: Embedded value report for Life Insurance entities (unaudited)

Scope of the embedded value report

This report deals with the embedded value of the life insurance entities (including Absa Life Limited, Barclays Life Botswana Proprietary Limited, Barclays Life Zambia Limited, Global Alliance Seguros S.A., Barclays Life Assurance Kenya, Woolworths Financial Services and Instant Life), including the value of new business written during the current reporting period in respect of these entities.

The embedded value as at 31 December 2016 has been calculated in accordance with the principles contained in the Actuarial Society of South Africa's guidance note APN 107: Embedded value reporting.

Embedded value

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

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

Value of new business

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

Embedded value and value of new business

	Group	
	2016 Rm	2015 Rm
Free surplus[1]	**507**	681
Required capital	**862**	721
Covered business adjusted net worth (ANW)	**1 369**	1 402
Present value of in-force business (PVIF)	**3 763**	3 158
Cost of required capital (CoC)	**(282)**	(218)
Total embedded value (EV)	**4 850**	4 342
Value of new business (before CoC)	**579**	470
CoC	**(32)**	(18)
Value of new business (VNB)	**547**	452
Present value of future premiums (gross of reinsurance premiums)	**10 890**	7 699
Value of new business as a percentage of the present value of future premiums[2]		
All business (%)	**5,0**	5,9
Excluding investment business (%)	**17,6**	18,1

Notes

1 A full year dividend of **R779m** (2015: R823m) was proposed for the reporting period ended 31 December 2016.

2 Reported gross of reinsurance premiums.

Annexure A: Embedded value report for Life Insurance entities (unaudited)

Assumptions

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

For Absa Life Limited, the government bond curve is used to determine the risk free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk free rate curve. The economic assumptions used including certain representative points on the risk-free curve are as follows (gross of tax where applicable):

	2016 Absa Life Limited Rm	2015 Absa Life Limited Rm
Risk-free rate of return:		
1-year term	**7,97**	8,19
5-year term	**8,6**	9,67
10-year term	**9,3**	10,06
20-year term	**10,22**	10,83
Equity return differential	**3,36**	3,36
Cash return differential	**(2,00)**	(2,00)
Overall investment return differential	**(0,44)**	(0,44)
Risk discount rate differential	**3,15**	3,15

For the non-South-African life licences, all values are discounted using an assumed country-specific risk discount rate. Each risk discount rate was set equal to the country-specific risk-free rate of return plus the fixed beta percentage of 90% multiplied by the assumed equity risk premium of 3,5%, plus a further company risk specific margin of 0,25%. The economic assumptions used including the country-specific risk free rates for the non-South-African life insurance entities are as follows (gross of tax where applicable):

	2016				2015		
	Barclays Life Botswana Proprietary Limited Rm	**Barclays Life Zambia Limited Rm**	**Global Alliance Seguros S.A. Rm**	**Barclays Life Kenya Limited Rm**	Barclays Life Botswana Proprietary Limited Rm	Barclays Life Zambia Limited Rm	Global Alliance Seguros S.A. Rm
Risk-free rate of return	**4,5**	**26,5**	**10,0**	**12,5**	4,75	22,75	10,0
Equity return – unhedged	**n/a**	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a
Cash return	**4,5**	**24,0**	**8,0**	**0,0**	4,75	19,25	8,0
Overall investment return	**2,5**	**24,0**	**10,0**	**12,5**	2,75	14,5	8,0
Risk discount rate	**7,9**	**27,4**	**13,4**	**15,9**	8,15	26,15	13,4
Expense inflation	**3,0**	**7,5**	**7,0**	**9,5**	3,25	14,25	7,0

Sensitivities

The following table summarises the sensitivity of the embedded value and value of new business calculation of Absa Life Limited (South Africa) to changes in the underlying assumptions. In each of the scenarios, no offsetting management actions were assumed to occur.

	Group							
	2016							
Percentage change	**Risk discount rate +1%**	**Interest rates –1%**	**Equity capital values x 0,9**	**Equity returns +1%**	**Mortality/ morbidity x 0,9**	**Mainte-nance expenses x 0,9**	**Lapse/ surrender x 0,9**	**Initial expenses x 0,9**
ANW	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**n/a**
PVIF	**(4,7)**	**3,0**	**(1,8)**	**0,3**	**3,7**	**2,2**	**4,6**	**n/a**
CoC	**10,3**	**12,9**	**0,0**	**(5,2)**	**3,2**	**0,0**	**11,6**	**n/a**
EV	**(4,2)**	**1,5**	**(1,4)**	**0,5**	**2,7**	**1,7**	**3,0**	**n/a**
VNB	**(4,4)**	**3,5**	**0,3**	**0,1**	**3,0**	**2,1**	**9,1**	**2,3**

Annexure A: Embedded value report for Life Insurance entities (unaudited)

Sensitivities *(continued)*

Percentage change	2015							
	Risk discount rate +1%	Interest rates –1%	Equity capital values x 0,9	Equity returns +1%	Mortality/ morbidity x 0,9	Mainte-nance expenses x 0,9	Lapse/ surrender x 0,9	Initial expenses x 0,9
ANW	0,0	0,0	0,0	0,0	0,0	0,0	0,0	n/a
PVIF	(4,6)	2,9	(0,6)	0,4	3,5	2,3	4,6	n/a
CoC	11,0	14,4	0,0	(5,6)	0,2	0,0	8,8	n/a
EV	(3,9)	1,4	(0,5)	0,6	2,6	1,7	2,9	n/a
VNB	(3,7)	3,9	(0,4)	0,2	3,1	2,2	10,2	2,3

The development of the embedded value of Absa Life Limited (South Africa) can be analysed as follows:

	Group	
	2016 Rm	2015 Rm
Embedded value at the end of the reporting period	**4 279**	3 936
Dividends accrued or paid	**829**	704
Embedded value at the beginning of the reporting period	**(3 936)**	(3 818)
Embedded value earnings	**1 172**	822
Components of embedded value earnings:		
Value of new business at point of sale	**517**	398
Expected return on covered business (unwinding)	**332**	290
Operating experience variances	**161**	48
Operating assumption and model changes	**12**	(4)
Credit Life reprice	**—**	95
Modelling net of tax	**4**	
Release of gross-up reserve	**2**	(1)
Expected return on ANW	**102**	87
Embedded value operating return	**1 130**	913
Investment return variances on in-force covered business	**4**	(32)
Investment return variances on ANW	**(27)**	(10)
Effect of economic assumption changes	**65**	(49)
Embedded value earnings	**1 172**	822
Return on embedded value (%)	**30**	22

Review by the independent actuaries

The embedded value and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, Deloitte and Touche.

Company statement of financial position

as at 31 December

	Note	Company 2016 Rm	2015 Rm
Assets			
Loans and advances to banks	2	**620**	3 485
Investment securities	3	**360**	242
Other assets	4	**290**	259
Investments in associates and joint ventures	5	**—**	16
Deferred tax assets	10	**70**	25
Subsidiaries	6	**59 536**	53 212
Total assets		**60 876**	57 239
Liabilities			
Other liabilities	7	**299**	509
Borrowed funds	8	**10 557**	6 793
Debt securities in issue	9	**200**	212
Current tax liabilities		**25**	23
Total liabilities		**11 081**	7 537
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Ordinary share capital	11	**1 696**	1 696
Ordinary share premium	11	**23 786**	23 786
Retained earnings		**24 313**	24 220
Total equity		**49 795**	49 702
Total equity and liabilities		**60 876**	57 239

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2016 Rm	Company 2015 Rm
Net interest income			
Interest and similar income	13	**159**	108
Non-interest income			
Gains and losses from investment activities	14	**9 172**	14 634
Total income		**9 331**	14 742
Operating expenses		**(547)**	(315)
Operating expenses	15	**(410)**	(35)
Other impairments	16	**(63)**	(280)
Indirect taxation	17	**(74)**	—
Operating profit before income tax		**8 784**	14 427
Taxation expense	18	**(130)**	(136)
Profit for the reporting period		**8 654**	14 291
Earnings per share			
Basic earnings per share	19	**1 020,8**	1 685,7
Diluted earnings per share	19	**1 020,8**	1 685,7

	Note	Company 2016 Rm	Company 2015 Rm
Profit for the reporting period		**8 654**	14 291
Other comprehensive income			
Total items that are or may be reclassified to profit or loss			
Movement in cash flow hedging reserve		**—**	—
Fair value (losses)/gains arising during the reporting period		**8**	—
Amount removed from other comprehensive income and recognised in profit or loss		**(8)**	—
Deferred tax		**—**	—
Total comprehensive income		**8 654**	14 291

Company statement of changes in equity

for the reporting period ended 31 December

	Company 2016					
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at the beginning of the reporting period	**847 750**	**1 696**	**23 786**	**24 220**	**—**	**49 702**
Profit and total comprehensive income for the reporting period	—	—	—	8 654	—	8 654
Dividends paid during the reporting period	—	—	—	(8 562)	—	(8 562)
Movement in share-based payment reserve	—	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—	—
Value of employee services	—	—	—	—	—	—
Balance at the end of the reporting period	**847 750**	**1 696**	**23 786**	**24 312**	**—**	**49 794**
Notes	11	11	11		12	

	2015					
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at the beginning of the reporting period	847 750	1 696	23 783	18 195	3	43 677
Profit and total comprehensive income for the reporting period	—	—	—	14 291	—	14 291
Dividends paid during the reporting period	—	—	—	(8 266)	—	(8 266)
Movement in share-based payment reserve	—	—	3	—	(3)	—
Transfer from share-based payment reserve	—	—	3	—	(3)	—
Value of employee services	—	—	—	—	—	—
Balance at the end of the reporting period	847 750	1 696	23 786	24 220	—	49 702
Notes	11	11	11		12	

All movements are reflected net of taxation.

Company statement of cash flows

for the reporting period ended 31 December

	Note	Company 2016 Rm	2015 Rm
Cash flow from operating activities			
Interest and similar income		**226**	424
Cash payments to employees and suppliers		**(484)**	(94)
Dividends received from investment activities		**9 141**	14 608
Income taxes paid		**(173)**	(150)
Cash flow from operating activities before changes in operating assets and liabilities		**8 710**	14 788
Decrease in investment securities		**(117)**	67
Increase in debt securities in issue		**(12)**	212
Increase in other liabilities		**(210)**	402
Net cash generated from operating activities		**8 371**	15 469
Cash flow from investing activities			
Increase in investment in subsidiaries		**(6 371)**	(10 469)
Purchase of investments in associate		**—**	(5)
Net cash utilised in investing activities		**(6 371)**	(10 474)
Cash flow from financing activities			
Dividends paid		**(8 562)**	(8 266)
Proceeds from borrowed funds		**3 697**	5 944
Net cash utilised in financing activities		**(4 865)**	(2 322)
Net increase in cash and cash equivalents		**(2 865)**	2 673
Cash and cash equivalents at the beginning of the reporting period		**3 485**	812
Cash and cash equivalents at the end of the reporting period	2	**620**	3 485

Notes to the Company financial statements

for the reporting period ended 31 December

1. Accounting policies

The financial statements of the Company are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Group. For detailed accounting policies, refer to the Group's financial statements.

2. Loans and advances to banks

	Company 2016 Rm	Company 2015 Rm
Subsidiary companies	**620**	3 485

All the aforementioned loans are at variable rates.

3. Investment securities

	Company 2016 Rm	Company 2015 Rm
Debt instruments	**360**	242

4. Other assets

	Company 2016 Rm	Company 2015 Rm
Accrued dividends	**219**	193
Other	**71**	66
	290	259

5. Investments in associates and joint ventures

	Company 2016 Rm	Company 2015 Rm
Unlisted investments	**—**	16

During the current reporting period, the Company disposed of its entire 49% shareholding in Rainfin (Pty) Ltd.

6. Subsidiaries

	Company 2016 Rm	Company 2015 Rm
Equity investments	**50 598**	47 098
Impairment allowance of equity investments	**(820)**	(773)
	49 778	46 325
Debt instruments	**9 758**	6 887
	59 536	53 212

The increase in debt instruments is related to borrowed funds issued by the Company's Subsidiaries as qualifying Tier 2 capital.

During the current year, the investment in subsidiaries increased mainly as a result of the Company acquiring additional 'A' ordinary shares in Absa Bank Limited for **R3,5bn** (2015: R5bn).

7. Other liabilities

	Company 2016 Rm	Company 2015 Rm
Unclaimed dividends	**210**	273
Other	**89**	236
	299	509

8. Borrowed funds

Subordinated callable notes issued by Barclays Africa Group Limited

The following subordinated debt instruments qualify as Tier 2 capital in terms of the Basel III.

Interest rate	Final maturity date	Note	Company 2016 Rm	Company 2015 Rm
10,05%	5 February 2025	i	**807**	807
10,835%	19 November 2024	ii	**130**	130
11,365%	4 September 2025	iii	**508**	508
11,40%	29 September 2025	iv	**288**	288
11,74%	20 August 2026	v	**140**	—
11,81%	3 September 2027	vi	**737**	737
12,43%	5 May 2026	vii	**200**	—
Three-month Johannesburg Interbank Agreed rate (JIBAR)				
Three-month JIBAR + 3,30%	19 November 2024	viii	**370**	370
Three-month JIBAR + 3,50%	5 February 2025	ix	**1 693**	1 693
Three-month JIBAR + 3,50%	4 September 2025	x	**437**	437
Three-month JIBAR + 3,60%	3 September 2027	xi	**30**	30
Three-month JIBAR + 4,00%	5 May 2026	xii	**31**	—
Three-month JIBAR + 4,00%	20 August 2026	xiii	**1 510**	—
Three-month JIBAR + 4,00%	3 November 2026	xiv	**500**	—
Accrued interest			**166**	125
			7 547	5 125

Non-subordinated debt extended by Barclays Africa Group Limited

Interest rate	Final maturity date	Note	Company 2016 Rm	Company 2015 Rm
Three-month JIBAR + 1,31%	11 June 2020	xv	**58**	58
Three-month JIBAR + 1,40%	15 January 2021	xvi	**114**	—
Three-month JIBAR + 0,90%	30 November 2017	xvii	**211**	—
Three-month JIBAR + 1,265%	30 January 2020	xviii	**301**	301
Three-month JIBAR + 1,20%	29 July 2019	xix	**516**	516
Three-month JIBAR + 1,12%	29 January 2019	xx	**179**	179
Three-month JIBAR + 0,55%	8 March 2017	xxi	**350**	—
Three-month LIBOR + 0,87%	26 March 2020	xxii	**596**	596
Three-month LIBOR + 0,92%	30 March 2021	xxiii	**149**	—
Three-month LIBOR + 0,89%	27 January 2021	xxiv	**492**	—
Accrued interest			**44**	18
			3 010	1 668
			10 557	6 793

i The 10,05% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 February 2020. Interest is paid semi-annually in arrears on 5 February and 5 August. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 5 February 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

ii. The 10,835% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 19 November 2019. Interest is paid semi-annually in arrears on 19 May and 19 November. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 19 November 2019. There is no step-up in the coupon rate if Barclays Africa Group Limited does not exercise the redemption option.

iii. The 11,365% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 4 September 2020. Interest is paid semi-annually in arrears on 4 March and 4 September. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

iv. The 11,40% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 29 September 2020. Interest is paid semi-annually in arrears on 29 March and 29 September. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 29 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

8. Borrowed funds *(continued)*

v The 11,74% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 20 August 2021. Interest is paid semi-annually in arrears on 20 August and 20 February. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 20 August 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

vi. The 11,81% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 September 2022. Interest is paid semi-annually in arrears on 3 March and 3 September. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

vii. The 12,43% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

viii. The three month JIBAR plus 3,30% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 19 November 2019. Interest is paid quarterly in arrears on 19 February, 19 May, 19 August and 19 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 19 November 2019. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

ix. The three month JIBAR plus 3,50% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 February 2020. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 February 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

x. The three month JIBAR plus 3,50% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 4 September 2020. Interest is paid quarterly in arrears on 4 March, 4 June, 4 September and 4 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xi. The three month JIBAR plus 3,60% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xii. The three month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xiii. The three month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 20 August 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xiv. The three month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 November 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xv. The three month JIBAR plus 1,31% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 11 June 2020. Interest is paid quarterly in arrears on 11 March, 11 June, 11 September and 11 December. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xvi. The three month JIBAR plus 1,40% floating rate notes are to be redeemed in full at the option of Barclays Africa Group Limited on 15 January 2021. Interest is paid first on 31 May 2016 and after that annually 31 May. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xvii. The three month JIBAR plus 0,90% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 30 November 2017. Interest is paid quarterly in arrears on 28 February, 30 May, 30 August and 30 November. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xviii. The three month JIBAR plus 1,265% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 30 January 2020. Interest is paid semi-annually in arrears on 30 January and 31 July. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

8. Borrowed funds *(continued)*

xix. The three month JIBAR plus 1,20% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 29 July 2019. Interest is paid semi-annually in arrears on 29 January and 29 July. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xx. The three month JIBAR plus 1,12% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 29 January 2019. Interest is paid semi-annually in arrears on 29 January and 29 July. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxi. The three month JIBAR plus 0,55% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 8 March 2017. Interest is paid quarterly in arrears on 8 June, 8 September, 8 December and 8 March. Barclays Africa Group Limited may, if it gives Absa Bank Limited not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxii. The three month LIBOR plus 0,87% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 26 March 2020. Interest is paid quarterly in arrears on 26 March, 26 June, 26 September and 26 December. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD10m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxiii. The three month LIBOR plus 0,92% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 30 March 2021. Interest is paid quarterly in arrears on 30 June, 30 September, 30 December and 30 March. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD10m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxiv. The three month LIBOR plus 0,89% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 27 January 2021. Interest is paid quarterly in arrears on 27 April, 27 July, 27 October and 27 January. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD10m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

Notes i to xiv are listed on the Bond Exchange of South Africa (BESA).

In accordance with its MOI, the borrowing powers of Barclays Africa Group Limited are unlimited.

	Company	
	2016 Rm	2015 Rm
9. Debt securities in issue		
Senior notes	**200**	212

	Company	
	2016 Rm	2015 Rm
10. Deferred tax		
Reconciliation of net deferred tax asset		
Balance at the beginning of the reporting period	**25**	—
Charge to profit or loss (refer to note 18)	**45**	25
Balance at the end of the year	**70**	25
Deferred tax asset/(liability)		
Tax effects of temporary differences between tax and book value for:		
Other	**112**	42
Exchange differences – unrealised	**(42)**	(17)
Net deferred tax asset	**70**	25

	Company 2016 Rm	Company 2015 Rm
11. Share capital and premium		
Ordinary share capital		
Authorised		
(880 467 500 (2015: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
847 750 679 (2015: 847 750 679) ordinary shares of R2,00 each	**1 696**	1 696
Total issued capital		
Share capital	**1 696**	1 696
Share premium	**23 786**	23 786
	25 482	25 482

Authorised shares

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

Unissued shares

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

Shares issued during the year under review

There were no shares issued during the current reporting period.

Shares issued during the prior year

There were no shares issued during the previous reporting period.

12. Other reserves

Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. The standard requires that the expense be charged to profit and 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.

	Company 2016 Rm	Company 2015 Rm
13. Interest and similar income		
Interest and similar income is earned from:		
Investment securities	**33**	27
Loans and advances to banks	**31**	28
Other	**95**	53
	159	108

	Company 2016 Rm	Company 2015 Rm
14. Gains and losses from investment activities		
Dividends received from subsidiaries	**9 172**	14 634

	Company 2016 Rm	Company 2015 Rm
15. Operating expenses		
Administrative and other expenses	**410**	35

	Company 2016 Rm	Company 2015 Rm
16. Other impairments		
Investments in associates and joint ventures (refer to note 5)	**16**	—
Equity investment in subsidiaries	**47**	280
	63	280

In the current financial reporting period Blue Age Properties Proprietary Limited declared a dividend of R64m resulting in an impairment of the original investment.

In the prior financial reporting period Absa Manx Holdings Limited declared a dividend of R440m resulting in an impairment of the original investment.

	Company 2016 Rm	Company 2015 Rm
17. Indirect taxation		
VAT net of input credits	**74**	—

	Company 2016 Rm	Company 2015 Rm
18. Taxation expense		
Current		
Current tax	**26**	72
Current tax – previous reporting period	**18**	—
Foreign tax	**131**	89
	175	161
Deferred	**(45)**	(25)
Other	**(70)**	(42)
Exchange difference	**25**	17
	130	136
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	**8 784**	14 427
Tax calculated at a tax rate of 28%	**2 460**	4 040
Expenses not deductible for tax purposes	**92**	100
Income not subject to tax	**(2 571)**	(4 093)
South African current taxation prior year	**18**	—
Foreign tax	**131**	89
	130	136

	Company 2016 Rm	Company 2015 Rm
19. Earnings per share		
Basic and diluted earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the year.		
Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares, of which there are none.		
Basic and diluted earnings attributable to ordinary equity holders of the Company	**8 654**	14 291
Weighted average number of ordinary shares in issue (millions)	**847,8**	847,8
Issued shares at the beginning and end of the reporting period	**847,8**	847,8
Shares issued during the reporting period	**—**	—
Basic earnings per ordinary share/diluted earnings per ordinary share (cents)	**1 020,8**	1 685,7

	Company 2016 Gross Rm	Company 2016 Net Rm	Company 2015 Gross Rm	Company 2015 Net Rm
20. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Company		**8 654**		14 291
Total headline earnings adjustment:		**63**		259
IAS 36 – Impairment of investments in associates and joint ventures (refer to note 16)	**16**	**16**	—	—
IAS 27 – Profit on partial disposal of interest in subsidiary	**—**	**—**	(22)	(21)
IAS 36 – Impairment of investment in subsidiary (refer to note 16)	**47**	**47**	280	280
Headline earnings/diluted headline earnings		**8 717**		14 550
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		**1 028,3**		1 716,2

The net amount is reflected after tax.

	Company 2016 Rm	Company 2015 Rm
21. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend **(29 July 2016: 460 cents)** (29 July 2015: 450 cents)	**3 900**	3 815
Final dividend **(23 February 2017: 570 cents)** (1 March 2016: 550 cents)[1]	**4 832**	4 662
	8 732	8 477
Dividends paid to ordinary equity holders		
Final dividend **(1 March 2016: 550 cents)** (3 March 2015: 525 cents)	**4 662**	4 451
Interim dividend **(29 July 2016: 460 cents)** (29 July 2015: 450 cents)	**3 900**	3 815
	8 562	8 266

Note

[1] The total final dividend declared to ordinary equity holders on 1 March 2016 was corrected from R4 578m, as previously disclosed, to R4 662m.

	Company 2016 Rm	Company 2015 Rm
22. Related parties		
Refer to note 49 of the Group'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 the Company.		
22.1 Balances and transactions with subsidiaries		
Debit amounts are shown as positive, credit amounts are shown as negative.		
Balances		
Loans and advances to banks	**620**	3 485
Investment securities	**360**	242
Loans to subsidiaries	**10 132**	6 887
Other assets	**290**	260
Other liabilities[1]	**89**	236
Borrowed funds[2]	**(3 010)**	(1 668)
Transactions		
Interest and similar income	**(843)**	(57)
Interest expense and similar charges	**29**	372
Operating expenses	**112**	49
Dividends received	**(9 172)**	(14 634)

During the current reporting period, Barclays Africa Limited declared a dividend in specie to the Company, consisting of shares in the following subsidiary: Barclays Bank of Zambia PLC.

During the prior reporting period, Barclays Africa Limited declared a dividend in specie to the Company, consisting of shares in the following subsidiaries: Barclays Africa Botswana Limited, Barclays Bank Tanzania Limited, Barclays Bank of Uganda Limited, Barclays Bank of Mauritius Limited and Barclays Bank Seychelles Limited.

Notes

[1] During the current reporting period the Company reassessed the composition of internal accounts and this has resulted in the recognition of a related party balance relating to other liabilities in the prior period.

[2] During the current reporting period the Company reassessed the composition of related party balances relating to borrowed funds. Prior year numbers have been restated resulting in a decrease to borrowed funds by R5 125m.

23. Risk management

In order to gain an understanding of the risk management framework applied by the Company please refer to note 63 of the Group's financial statements.

Credit risk	Company 2016 Gross maximum exposure – neither past due nor impaired Rm	Company 2015 Gross maximum exposure – neither past due nor impaired Rm
Maximum exposure to credit risk		
Loans and advances to banks	620	3 485
Investment securities	360	242
Other assets[1]	290	259
Subsidiaries	9 758	6 887
	11 028	10 873

Liquidity risk

Analysis of liquidity risk:

Discounted maturity	Company 2016 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Investment securities	—	—	—	360	360
Loans and advances to banks	620	—	—	—	620
Other financial assets	290	—	—	—	290
Subsidiaries	—	—	8 991	767	9 758
Financial assets	910	—	8 991	1 127	11 028
Non-financial assets					49 848
Total assets					60 876
Liabilities					
Other financial liabilities	299	—	—	—	299
Debt securities in issue	—	200	—	—	200
Borrowed funds	—	771	9 019	767	10 557
Financial liabilities	299	971	9 019	767	11 056
Non-financial liabilities					25
Total liabilities					11 081
Equity					49 795
Total equity and liabilities					60 876
Net liquidity position of financial instruments	611	(971)	(28)	360	(28)

Note

[1] The Company has provided credit risk disclosure in respect of 'Other assets', on the basis that the amounts constitute qualifying financial assets. Comparatives have been restated.

23. Risk management *(continued)*

Liquidity risk *(continued)*

Discounted maturity	Company 2015 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Investment securities	—	—	—	242	242
Loans and advances to banks	3 485	—	—	—	3 485
Other financial assets	67	—	—	—	67
Subsidiaries			6 092	795	6 887
Financial assets	3 552	—	6 092	1 037	10 681
Non-financial assets					46 576
Total assets					57 257
Liabilities					
Other financial liabilities	348	—	—	—	348
Debt securities in issue	—	212	—	—	212
Borrowed funds	—	—	5 998	795	6 793
Financial liabilities	348	212	5 998	795	7 353
Non-financial liabilities					201
Total liabilities					7 554
Equity					49 703
Total equity and liabilities					57 257
Net liquidity position of financial instruments	3 204	(212)	94	242	3 328

Undiscounted maturity (statement of financial position value with impact of future interest)	**Company 2016 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						
Other financial liabilities	**299**	**—**	**—**	**—**	**—**	**299**
Debt securities in issue	**—**	**214**	**—**	**—**	**(14)**	**200**
Borrowed funds	**—**	**590**	**14 182**	**1 709**	**(5 924)**	**10 557**
Financial liabilities	**299**	**804**	**14 182**	**1 709**	**(5 938)**	**11 056**
Non-financial liabilities						**25**
Total liabilities						**11 081**

23. Risk management *(continued)*

Undiscounted maturity (statement of financial position value with impact of future interest)	2015 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						
Other financial liabilities	348	—	—	—	—	348
Debt securities in issue	—	215	—	—	(3)	212
Borrowed funds	—	—	8 330	1 412	(2 949)	6 793
Financial liabilities	348	215	8 330	1 412	(2 952)	7 353
Non-financial liabilities						201
Total liabilities						7 554

Market risk
Interest rate risk in the banking book
Impact on earnings

	2016 Change in market risk **200 bps decrease**	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Change in projected net interest income (Rm)	**(6)**	**(3)**	**3**	**6**
Percentage of the Company's net interest income (%)	**(4)**	**(2)**	**2**	**4**
With respect to investment securities balance	**354**	**357**	**363**	**366**

Interest rate risk in the banking book
Impact on earnings

	2015 Change in market risk 200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(6)	(3)	3	6
Percentage of the Company's net interest income (%)	(5)	(3)	3	5
With respect to investment securities balance	236	239	245	248

24. Fair value disclosures

24.1 *Assets and liabilities not held at fair value*

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

	Carrying value Rm	Fair value Rm	Company 2016 Carrying Level 1 Rm	Carrying Level 2 Rm	Carrying Level 3 Rm
Financial assets					
Loans and advances to banks	**620**	**620**	—	**620**	—
Subsidiaries	**9 758**	**9 758**	—	**9 758**	—
Total financial assets	**10 378**	**10 378**	—	**10 378**	—
Financial liabilities					
Debt securities in issue	**200**	**200**	—	**200**	—
Borrowed funds	**10 557**	**10 557**	—	**10 557**	—
Total financial liabilities	**10 757**	**10 757**	—	**10 757**	—

	Carrying value Rm	Fair value Rm	Company 2015 Carrying Level 1 Rm	Carrying Level 2 Rm	Carrying Level 3 Rm
Financial assets					
Loans and advances to banks	3 485	3 485	2 005	1 480	—
Subsidiaries	6 887	6 887	—	6 887	—
Total financial assets	10 372	10 372	2 005	8 367	—
Financial liabilities					
Debt securities in issue	212	212	—	212	—
Borrowed funds	6 793	6 793	—	6 793	—
Total financial liabilities	7 005	7 005	—	7 005	—

24.2 *Assets and liabilities held at fair value*

The Company holds investments in debt instruments which are measured at fair value.

The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

	Company 2016 Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
Investment securities	—	**360**	—	**360**

	Company 2015 Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
Investment securities	—	242	—	242

Refer to note 1.2 of the Group's financial statements for valuation methodology and valuation techniques of fair value and non-fair value items

25. Derivatives

Derivatives designated as cash flow hedging instruments to protect against foreign currency risk

Forward exchange contracts are designated by the Company as cash flow hedges in mitigating potential cash flow variability that results from the Company's exposure to foreign currency dividends. Net gains of **R8m** (2015: Rnil) were recycled from other comprehensive income to profit or loss, and are presented within operating expenses.

26. Going concern

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

27. Commitments

Refer to note 53 of the Group financial statements for detailed disclosure on the ABIL commitment, which was disclosed in the previous reporting period.

28. Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2016 and the date of authorisation of these financial statements (as defined per IAS 10).