Barclays Africa Group Limited

Annual consolidated and separate financial statements

for the reporting period ended 31 December 2013

Contents

Annual financial statements

Group Audit and Compliance Committee report	1
Directors' approval	5
Company Secretary's certificate to the shareholders of Barclays Africa Group Limited	6
Independent auditors' report to the shareholders of Barclays Africa Group Limited	6
Directors' report	7
Consolidated statement of financial position	13
Consolidated statement of comprehensive income	14
Consolidated statement of changes in equity	16
Consolidated statement of cash flows	20
Accounting policies	21
Notes to the consolidated financial statements	49
Annexure A: Embedded value report of the Life Insurance entities (unaudited)	199
Company statement of financial position	202
Company statement of comprehensive income	203
Company statement of changes in equity	204
Company statement of cash flows	205
Notes to the Company financial statements	206

Barclays Africa Group Limited
(1986/003934/06)
Annual consolidated and separate financial statements for the reporting period ended 31 December 2013.

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

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

Group Audit and Compliance Committee report

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

The GACC serves as the audit committee for Barclays Africa Group Limited and its subsidiaries ("the Group"). Although certain material subsidiaries, including the eight subsidiary banks recently acquired[1], 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 Chairmen of the audit committees of the material subsidiaries, the control environment of such material subsidiaries.

Information on the membership and composition of the GACC, its terms of reference and its procedures are set out in the corporate governance statement available on the Group's website[2].

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 PwC and EY as joint external auditors for the 2014 reporting period;
- ensured the appointment of the external auditors complied with the Companies Act and all other applicable legal and regulatory requirements;
- reviewed and approved the external audit plan, the budgeted fee for the reporting period and the terms of engagement of the external auditors;
- reviewed and assessed the quality of the external audit process, including receiving confirmation that there was no restriction on scope or access, and concluded that the process had been satisfactory;
- reviewed the external auditors' reports and obtained assurances from the external auditors that adequate accounting records were maintained at all times;
- reviewed and approved the Group's policy on non-audit services to be provided by the external auditors during the reporting period;
- approved proposed contracts with the external auditors for the provision of non-audit services falling within the scope of the policy concerning non-audit services;
- reviewed and approved the fees charged by the external auditors relating to the provision of non-audit services;
- considered whether any reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act, No. 26 of 2005, and determined that there were no such reportable irregularities; and
- reviewed the findings and recommendations of the external auditors and confirmed that no unresolved issues of concern exist between the Group and the external auditors in relation to the Group or any of its business units and subsidiaries.

In respect of the financial statements and accounting practices:

- confirmed the use of the going-concern basis as appropriate for the preparation of the interim financial results and annual financial statements;
- reviewed the interim financial results and annual financial statements, prior to submission to and approval by the board, satisfied itself that they fairly present the consolidated financial position of the Group and comply, in all material respects, with the relevant provisions of the Companies Act, International Financial Reporting Standards ("IFRS") and Interpretations of IFRS standards, and the South African Institute of Chartered Accountants ("SAICA") Reporting Guides;
- reviewed and recommended for approval by the board, the two reporting changes restatement documents issued on the Johannesburg Stock Exchange News Service ("SENS") on 18 July 2013 and 2 December 2013. The first announcement dealt with the impact of the implementation of new IFRS standards, specifically IFRS 10 Consolidated Financial Statements ("IFRS 10") and IAS 19(R) Employee Benefits ("IAS 19R"), a change in the Group's internal accounting policy for the classification of collection costs and inter-segmental operational changes. The second announcement in December 2013 was issued as a result of the acquisition of Barclays Africa subsidiaries, changes to certain internal accounting policies relating to accounting for association costs and rental income from investment properties and business portfolio changes. These changes affected the comparatives for the 2011 and 2012 reporting periods and the interim results at 30 June 2013. The GACC satisfied itself that the changes disclosed in the restatement documents result in fair presentation of the consolidated financial position of the Group as presented in the annual consolidated financial statements of the Group and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS standards and interpretations of IFRS standards, and the South African Institute of Chartered Accountants SAICA Reporting Guides;

Notes

[1]The eight subsidiary banks acquired are: Barclays Bank (Seychelles) Limited, Barclays Bank Mauritius Limited, Barclays Bank of Botswana Limited, Barclays Bank of Ghana Limited, Barclays Bank of Kenya Limited, Barclays Bank of Uganda Limited, Barclays Bank Tanzania Limited and Barclays Bank Zambia PLC.

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

Activities of the GACC *(continued)*

- reviewed the interim, final and special dividend proposals for approval by the board;
- reviewed the solvency and liquidity tests undertaken for specific transactions and dividend declarations;
- reviewed significant accounting and reporting issues, including complex or unusual transactions, sustainability of the control environment, significant judgemental areas, and recent professional and regulatory pronouncements, and ascertained their impact on the financial statements;
- considered the accounting policies, practices and internal controls of the Group and the GACC is satisfied that they are appropriate and comply in all material respects with the relevant provisions of the Companies Act, IFRS and the Interpretations of IFRS standards; and
- considered the technical accounting matters which arose as part of the strategic combination of the Barclays' African operations with Absa Group Limited.

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

- approved updates to the internal audit charter;
- reviewed the current reporting period internal audit plan, including the adequacy of internal audit skills, resources and budget;
- reviewed the scope, nature and effectiveness of the work of Internal Audit ("IA") and the performance of IA against its objectives and the internal audit charter, including receiving confirmation that there was no restriction on scope or access, and noted the completion of the current reporting period internal audit plan;
- reviewed reports from IA on trends in audit assessments, issues identified and emerging risks in the control environment;
- regularly reviewed management's actions in remedying control deficiencies reported by IA;
- considered a review by the external auditors, which concluded that there are adequate bases for external audit to place reliance on the work of IA;
- considered the independent performance review in respect of the IA function in Africa, measured against international standards and conducted by KPMG, which confirmed a satisfactory level of conformance;
- considered a special report on the control and risk environment within the acquired African subsidiaries including IA control assessments to enable the GACC to obtain an understanding of the operations in country; and
- considered "deep-dive" assessments of the individual African countries presented to the GACC by the local Audit Committee members and management. Key issues dealt with include financial accounting systems, controls, risks and resources.

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

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

- reviewed and approved the Group compliance monitoring plan, the Group compliance coverage plan and the Group compliance charter;
- reviewed compliance practices and procedures for enabling the directors of the Group to discharge their regulatory responsibilities;
- considered whether the Group's systems and processes appropriately reflect the current legal and regulatory environment, and how changes in laws and regulations are monitored and operationalised in this context;
- recommended the Banks Act, No. 94 of 1990 ("the Banks Act"), section 64B(2)(e) statement to the Directors Affairs committee for review and to the board for approval;
- considered compliance with Regulation 40(4) of the Banks Act, including the annual review of material malfunction, and recommended this to the board for approval;
- reviewed and approved the regulatory compliance risk control framework and applicable compliance policies, which include the requirements for the Group to comply with applicable laws, rules, codes and standards;

Activities of the GACC *(continued)*

- 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;
- ensured procedures are in place for receiving and treating complaints in terms of the Companies Act and other applicable acts regarding accounting practices, the internal audit of the Group, the content or auditing of the Group's financial statements, the internal financial controls of the Group or any related matters (including internal, anonymous complaints from employees or any other person);
- 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 securities law, fiduciary duties, other similar violations and claims against the Group;
- reviewed and monitored the Group's approach to, and compliance with, section 404 of the Sarbanes-Oxley Act ("SOX"), within the context of the materiality limits applicable to Barclays. The GACC also reviewed and monitored the Group's approach to and compliance with Turnbull attestations;
- reviewed, on a regular basis, the SOX control environment and monitored its alignment with the risk and control assessments; and
- reviewed the Africa Compliance Plan and Resourcing Report, as well as the Africa Compliance Monitoring Plans.

In respect of risk management:

- reviewed the reports identifying significant control issues that required, or are subject to, remedial attention and which summarised the actions being taken to resolve these issues;
- reviewed the Chief Risk Officer's report, including the key risk and combined assurance assessments, as well as the risk and control assessments;
- monitored the status and results of the Barclays Africa key risks self-assessments, including the combined assurance assessments and the risk and control assessments;
- reviewed the risk management report for the interim and annual reporting periods;
- reviewed the new combined assurance framework and monitored governance around this, including the status and progress of the combined assurance model launch;
- reviewed reports issued in terms of the combined assurance framework for the Group. The GACC determined that the process coordinating all assurance activities is appropriate to address the significant risks facing the Group for each principal risk and business area. The framework is owned and managed by Group Risk with IA being an integral part of the process; and
- reviewed the Group's business continuity management plans and processes.

In respect of integrated reporting:

- reviewed feedback on the Group's 2012 integrated annual report;
- considered and approved the GACC report relating to the annual financial statements in compliance with the Companies Act; and
- considered and approved the governance framework for the integrated annual report to ensure that all components undergo due process, consideration and approval before release.

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

Group Audit and Compliance Committee report

Regulatory and corporate governance requirements

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

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

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

Independence of the external auditors

The GACC is satisfied that PwC and 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;
- 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; and
- the auditors' independence was not prejudiced as a result of any previous appointment as auditor.

Conclusion

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

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

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

The DC reviewed the Group's integrated report and approved the report for release on 20 March 2014.

On behalf of the GACC

C Beggs
Chairman of the GACC

Johannesburg
20 March 2014.

Directors' approval

Statement of directors' responsibilities in relation to financial statements

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

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

To enable the directors to meet the following responsibilities:

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

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

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

The directors' report on pages 7 to 12, the annual financial statements of the Group and the Company as well as the remuneration review were approved by the board of directors and are signed on their behalf by:

W E Lucas-Bull
Group Chairman

M Ramos
Chief Executive Officer (CEO)

Johannesburg
10 February 2014

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

In accordance with the provisions of the Companies Act, I certify that, in respect of the year ended 31 December 2013, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

N R Drutman
Company Secretary

Johannesburg
10 February 2014

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

We have audited the consolidated and separate financial statements of Barclays Africa Group Limited, set out on pages 13 to 212, which comprise the statements of financial position as at 31 December 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information and those sections marked as "audited" in the remuneration review, but excludes the sections marked as "unaudited" in notes 52, 59 and 64.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Barclays Group Africa Limited as at 31 December 2013, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2013, we have read the Directors' Report, the Group Audit and Compliance Committee report and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.

Director: J P Bennett
Registered Auditor

2 Eglin Road, Sunninghill

Johannesburg
10 February 2014

Ernst & Young Inc.

Director: E L Pera
Registered Auditor

102 Rivonia Road
Sandton

Directors' report

General information and nature of activities

The Group, which has a primary listing on the JSE, is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, financial services and wealth management products and services. The Group operates in 10 African countries and employs 42 356 people. The address of the registered office of the Group is 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 South Africa and Africa.

The Group has majority stakes in banks in Botswana, Ghana, Kenya, Mauritius, Mozambique, Seychelles, Tanzania (Barclays Bank Tanzania and National Bank of Commerce), Uganda and Zambia. There are also representative offices in Namibia and Nigeria as well as bancassurance operations in Botswana, 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 10 February 2014.

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

Group Audit and Compliance Committee report

Refer to page 1.

Group results

Main business and operations

The Group recorded an increase of 14% in headline earnings to **R11 843 million** (2012: R10 419 million) for the reporting period. Headline earnings per share ("HEPS") increased by 14% to **1397,7 cents** (2012: 1229,9 cents) and diluted HEPS by 14% to **1396,6 cents** (2012: 1227,6 cents).

The reported results and comparative information contained throughout this set of annual financial statements has been restated. Refer to note 1.22 of the accounting policies for further details.

Headline earnings was derived from the following activities:

	Group 2013 Rm	Group 2012 Rm
Banking operations		
Retail and Business Banking ("RBB")	**7 999**	5 668
Retail Banking South Africa	**4 941**	3 626
Home Loans	**876**	(992)
Vehicle and Asset Finance	**1 127**	847
Card	**1 980**	1 888
Personal Loans	**385**	587
Retail Bank	**573**	1 296
Business Banking South Africa	**1 710**	1 042
Rest of Africa	**1 348**	1 000
Corporate, Investment Bank and Wealth ("CIBW")	**3 017**	3 146
CIBW South Africa	**2 561**	2 682
CIBW Rest of Africa	**456**	464
Head office, inter-segment eliminations and other	**(543)**	340
Total Banking	**10 473**	9 154
Financial Services	**1 370**	1 265
Headline earnings (refer to note 44)	**11 843**	10 419

Directors

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

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

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"). Currently, no director is required to retire in terms of this requirement.

In terms of the Company's Memorandum of Incorporation ("MOI"), one-third of the directors are required to retire at each AGM and may offer themselves for re-election.

Notes

[1]Independent director.

[2]Executive director.

[3]British.

[4]Singaporean.

[5]Mozambican.

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

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

Directors' interests in the Company ordinary shares

The directors' interests in the issued ordinary shares of the Company as at the reporting date are disclosed in the table that follows.

	Direct number of shares Beneficial		Indirect number of shares Beneficial		Total direct and indirect number of shares Beneficial	
	2013	2012	**2013**	2012	**2013**	2012
Present directors						
C Beggs	**2 000**	2 000	**—**	—	**2 000**	2 000
Y Z Cuba	**1 000**	1 000	**—**	—	**1 000**	1 000
M J Husain	**1 000**	1 000	**—**	—	**1 000**	1 000
R Le Blanc	**1 000**	1 000	**—**	—	**1 000**	1 000
W E Lucas-Bull	**1 000**	—	**4 625**	—	**5 625**	—
T S Munday	**1 000**	1 000	**2 000**	2 000	**3 000**	3 000
S G Pretorius	**1 000**	1 000	**—**	—	**1 000**	1 000
Past directors						
S A Fakie	**—**	1 000	**—**	—	**—**	1 000
G Griffin	**—**	—	**—**	8 000	**—**	8 000
A P Jenkins	**—**	1 000	**—**	—	**—**	1 000
T M Mokgosi-Mwantembe	**—**	1 000	**—**	—	**—**	1 000
E C Mondlane, Jr	**—**	1 000	**—**	—	**—**	1 000
L L von Zeuner	**—**	308 176	**—**	—	**—**	308 176
B J Willemse	**—**	—	**—**	1 000	**—**	1 000
	8 000	319 176	**6 625**	11 000	**14 625**	330 176

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

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

Directors' interests in Absa Bank Limited preference shares

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

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

Directors' and officers' personal financial interests in contracts

Transactions with directors are entered into in the normal course of business under terms that are no more favourable than those arranged with third parties.

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

Directors' and prescribed officers' emoluments

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

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

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 50 to the consolidated financial statements.

Acquisitions and disposals

Refer to notes 8, 13, 50 and 58 for additional information on the acquisitions and disposals of businesses and other significant assets.

Acquisitions during the current reporting period

In 2012, Absa Group Limited announced its intention to conclude the strategic combination of Barclays' Africa operations with the existing Absa Group operations.

Through the transaction, Absa Group Limited acquired 100% of the issued ordinary share capital of Barclays Africa Limited, which was settled by the issuance of 129 540 636 Absa Group Limited ordinary shares. This increased Barclays Bank PLC's shareholding in the Group from 55,5% to 62,3%. This transaction concluded on 31 July 2013 and was accompanied by the name change of Absa Group Limited to Barclays Africa Group Limited.

The transaction is a business combination of entities under common control as defined in International Financial Reporting Standard 3: Business Combinations ("IFRS 3"). The Group elected, in accordance with IFRS 3 guidance and the Group's and Barclays Group's accounting policies, to account for the transaction in terms of predecessor accounting principles.

Accordingly, the Group's comparative financial results have been restated as if Barclays Africa Limited was always part of the Group's structure.

Refer to note 58.1 for further detail regarding this transaction.

Disposals during the current reporting period

Barclays Africa Group, through a wholly-owned subsidiary Absa Trading and Investment Solutions Proprietary Limited ("ATIS"), disposed of its 73,37% limited partnership interest in Absa Capital Private Equity Fund I ("ACPE Fund I") to a syndicate led by HarbourVest Partners L.P ("HarbourVest"), comprising funds managed by HarbourVest and Coller Capital Limited.

ACPE Fund I is a fully invested South African private equity fund established in 2008. The fund has exposure to the general industrials sector in sub-Saharan Africa. As a consequence of the sale, two materially insignificant wholly-owned subsidiaries of Barclays Africa Group, and the Investment Adviser, to the General Partner of ACPE Fund I, have been spun off to become a new independent South African private equity fund manager, Rockwood Private Equity. As of 31 December 2012, the reported carrying value of BAGL's interest in ACPE Fund I was R2,3 billion.

During the current reporting period, the Group disposed of 100% of its investment in its wholly-owned subsidiary, CMB Nominees Proprietary Limited effective 2 December 2013. This occurred as part of the disposal of the Custody and Trustee business, a division of Corporate, Investment Bank and Wealth. The total cash consideration received on disposal of the business was R300 million.

Other similar transaction: additional interest in a subsidiary

During March 2013, the Group acquired additional shares in National Bank of Commerce (Tanzania) (NBC) for a purchase consideration of R368 million, after a rights issue by NBC, whereby the non-controlling interest did not take up any shares in terms of the rights issue. This increased the Group's effective shareholding in NBC. The Group now holds 65,89% of the share equity in NBC. A clawback option for the period of 12 months was granted to the non-controlling shareholders who were unable to subscribe for the shares at the date of the rights issue. The option grants the non-controlling shareholders the right to purchase their pro-rata portion of the shares from the Group at the original issue price plus interest at a market related rate.

Dividends

- On 12 February 2013, a final dividend of 369 cents per ordinary share was announced to ordinary shareholders registered on 5 April 2013.
- On 30 July 2013, an interim dividend of 350 cents and a special dividend of 708 cents per ordinary share were announced to ordinary shareholders registered on 13 September 2013 and 22 November 2013 respectively.
- On 10 February 2014, a final dividend of 470 cents per ordinary share was approved. The dividend was announced on 11 February 2014 to ordinary shareholders registered on 4 April 2014. This dividend is payable on 7 April 2014.

Special resolutions

The following special resolutions were passed by the Group's ordinary shareholders at the AGM held on 2 May 2013, in accordance with the Companies Act:

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

  Resolved to approve the proposed remuneration to be payable to non-executive directors of the Company for the period 1 May 2013 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 Memorandum of Incorporation and 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 annual general meeting 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 prior to the AGM.
- **Special resolution number 3 – Financial assistance to any person as envisaged in section 44 of the Companies Act**

  Resolved to enable the Company, in terms of a general authority contemplated in section 44(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 by way of a loan, guarantee, the provision of security or otherwise as defined in section 44(2) of the Companies Act.
- **Special resolution number 4 – Financial assistance to a related or inter-related company/corporation**

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

Company Secretary

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

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Email: groupsec@barclaysafrica.com

Directors' report

Auditors

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

Authorised and issued share capital

Authorised

The authorised share capital of the Company of **R1 760 935 000** (2012: R1 760 935 000) consists of **880 467 500** (2012: 880 467 500) ordinary shares of R2,00 each.

Issued

On 31 July 2013, Absa Group acquired the entire issued share capital of Barclays Africa Limited and issued 129 540 636 consideration shares to Barclays Africa Group Holdings Limited, in order to effect the strategic combination of the Barclays' African operations with Absa Group.

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

847 750 679 (2012: 718 210 043) ordinary shares of R2,00 each.

No preference shares are currently in issue by the Company.

Consolidated statement of financial position

as at 31 December

	Note	Group 2013 Rm	2012[1] Rm	2011[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**50 130**	44 770	44 779
Statutory liquid asset portfolio	3	**62 055**	63 020	57 473
Loans and advances to banks	4	**79 971**	62 511	75 782
Trading portfolio assets	5	**87 034**	87 324	84 742
Hedging portfolio assets	5	**3 357**	5 456	4 313
Other assets	6	**15 829**	17 579	18 124
Current tax assets	7	**529**	376	344
Non-current assets held for sale	8	**4 814**	4 052	35
Loans and advances to customers	9, 10	**605 337**	566 262	542 127
Reinsurance assets	11	**870**	1 003	1 009
Investment securities	12	**33 083**	30 913	28 082
Investments in associates and joint ventures	13	**694**	569	420
Investment properties	14	**1 089**	1 220	2 839
Property and equipment	15	**10 679**	9 624	9 642
Goodwill and intangible assets	16	**3 141**	3 048	2 282
Deferred tax assets	17	**987**	644	669
Total assets		**959 599**	898 371	872 662
Liabilities				
Deposits from banks	18	**69 064**	41 424	44 636
Trading portfolio liabilities	19	**51 477**	51 734	55 997
Hedging portfolio liabilities	19	**2 391**	3 855	2 456
Other liabilities	20	**19 775**	20 410	17 298
Provisions	21	**2 460**	2 280	2 258
Current tax liabilities	7	**173**	29	301
Non-current liabilities held for sale	8	**1 651**	1 480	—
Deposits due to customers	22	**588 011**	543 101	503 408
Debt securities in issue	23	**97 829**	106 804	128 883
Liabilities under investment contracts	24	**19 773**	18 768	19 922
Policyholder liabilities under insurance contracts	25	**3 958**	3 550	3 183
Borrowed funds	26	**16 525**	18 777	14 999
Deferred tax liabilities	17	**1 311**	1 714	1 283
Total liabilities		**874 398**	813 926	794 624
Equity				
Capital and reserves				
Attributable to ordinary equity holders:				
Share capital	27	**1 695**	1 694	1 693
Share premium	27	**4 474**	5 336	5 151
Retained earnings		**64 701**	64 898	60 244
Other reserves	28	**6 447**	5 168	3 486
		77 317	77 096	70 574
Non-controlling interest – ordinary shares		**3 240**	2 705	2 820
Non-controlling interest – preference shares	29	**4 644**	4 644	4 644
Total equity		**85 201**	84 445	78 038
Total liabilities and equity		**959 599**	898 371	872 662

Note

[1]Restated, refer to note 1.22 for reporting changes.

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Group 2013 Rm	2012[1] Rm
Net interest income		**32 351**	29 302
Interest and similar income	30	**60 232**	57 297
Interest expense and similar charges	31	**(27 881)**	(27 995)
Impairment losses on loans and advances	10.1	**(6 987)**	(8 855)
Net interest income after impairment losses on loans and advances		**25 364**	20 447
Non-interest income		**27 055**	25 674
Net fee and commission income		**18 554**	17 383
Fee and commission income	32	**21 348**	20 096
Fee and commission expense	32	**(2 794)**	(2 713)
Net insurance premium income	33	**5 686**	5 618
Net insurance claims and benefits paid	34	**(2 819)**	(2 719)
Changes in investment and insurance contract liabilities	35	**(2 457)**	(1 707)
Gains and losses from banking and trading activities	36	**4 361**	4 535
Gains and losses from investment activities	37	**2 831**	1 735
Other operating income	38	**899**	829
Operating income before operating expenditure		**52 419**	46 121
Operating expenditure		**(34 453)**	(31 185)
Operating expenses	39	**(33 420)**	(30 329)
Other impairments	40	**(33)**	(132)
Indirect taxation	41	**(1 000)**	(724)
Share of post-tax results of associates and joint ventures	13.1	**130**	249
Operating profit before income tax		**18 096**	15 185
Taxation expense	42	**(5 222)**	(4 439)
Profit for the reporting period		**12 874**	10 746
Profit attributable to:			
Ordinary equity holders		**11 981**	9 999
Non-controlling interest – ordinary shares		**599**	452
Non-controlling interest – preference shares		**294**	295
		12 874	10 746
Earnings per share:			
Basic earnings per share (cents per share)	43.1	**1 414,0**	1 180,4
Diluted earnings per share (cents per share)	43.2	**1 412,9**	1 178,2

Note

[1] Restated, refer to note 1.22 for reporting changes.

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Group 2013 Rm	Group 2012[1] Rm
Profit for the reporting period		**12 874**	10 746
Other comprehensive income			
Items that will not be reclassified to the profit or loss component of the statement of comprehensive income			
Movement in retirement benefit fund assets and liabilities		**(324)**	(88)
Decrease in retirement benefit surplus	45	**(92)**	(71)
Increase in retirement benefit deficit	45	**(229)**	(59)
Deferred tax	17	**(3)**	42
Total items that will not be reclassified to the profit or loss component of the statement of comprehensive income		**(324)**	(88)
Items that are or may be subsequently reclassified to the profit or loss component of the statement of comprehensive income			
Foreign exchange differences on translation of foreign operations		**2 986**	338
Movement in cash flow hedging reserve		**(1 822)**	405
Fair value (losses)/gains arising during the reporting period		**(903)**	2 650
Amount removed from other comprehensive income and recognised in the profit or loss component of the statement of comprehensive income		**(1 629)**	(2 088)
Deferred tax	17	**710**	(157)
Movement in available-for-sale reserve		**107**	1 318
Fair value gains arising during the reporting period		**131**	1 739
Amortisation of government bonds – release to the profit or loss component of the statement of comprehensive income	36	**10**	10
Deferred tax	17	**(34)**	(431)
Total items that are or may be subsequently reclassified to the profit or loss component of the statement of comprehensive income		**1 271**	2 061
Total comprehensive income for the reporting period		**13 821**	12 719
Total comprehensive income attributable to:			
Ordinary equity holders		**12 610**	11 848
Non-controlling interest – ordinary shares		**917**	576
Non-controlling interest – preference shares		**294**	295
		13 821	12 719

Note

[1]Restated, refer to note 1.22 for reporting changes.

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm	Available-for-sale reserve Rm
Balance at the beginning of the reporting period	847 203	1 694	5 336	64 898	5 168	220	872
Total comprehensive income for the reporting period	—	—	—	11 657	953	—	107
Profit for the reporting period	—	—	—	11 981	—	—	—
Other comprehensive income	—	—	—	(324)	953	—	107
Dividends paid during the reporting period	—	—	—	(11 602)	—	—	—
Accounting adjustments related to business combinations under common control[1]	—	—	(443)	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment schemes	—	—	(76)	—	—	—	—
Elimination of the movement in treasury shares held by Group entities	110	1	(280)	—	—	—	—
Movement in share-based payment reserve	—	0	38	—	(27)	—	—
Transfer from share-based payment reserve	—	0	38	—	(38)	—	—
Value of employee services	—	—	—	—	11	—	—
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(3)	3	—	—
Movement in general credit risk reserve	—	—	—	(220)	220	220	—
Share of post-tax results of associates and joint ventures	—	—	—	(130)	130	—	—
Acquisition of non-controlling interest and related transaction costs	—	—	—	101	—	—	—
Transaction costs related to shares issued on the acquisition of Barclays Africa Limited	—	—	(101)	—	—	—	—
Balance at the end of the reporting period	847 313	1 695	4 474	64 701	6 447	440	979
Note	27	27	27			28	28

Notes

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

[1]The excess of the purchase price over BAGL's share of the net assets of Barclays Africa Limited, acquired on 31 July 2013, is accounted for as a deduction against share premium. The purchase price was applied retrospectively, resulting in the deemed excess of the purchase price over the historical carrying values of the underlying net assets of Barclays Africa Limited being similarly included within share premium. This application results in a net movement recognised in share premium for each retrospective reporting period to date of acquisition.

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2013

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
2 426	1 029	13	72	536	77 096	2 705	4 644	84 445
(1 822)	2 668	—	—	—	12 610	917	294	13 821
—	—	—	—	—	11 981	599	294	12 874
(1 822)	2 668	—	—	—	629	318	—	947
—	—	—	—	—	(11 602)	(346)	(294)	(12 242)
—	—	—	—	—	(443)	—	—	(443)
—	—	—	—	—	(76)	—	—	(76)
—	—	—	—	—	(279)	—	—	(279)
—	—	—	(27)	—	11	—	—	11
—	—	—	(38)	—	—	—	—	—
—	—	—	11	—	11	—	—	11
—	—	3	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	130	—	—	—	—
—	—	—	—	—	101	(36)	—	65
—	—	—	—	—	(101)	—	—	(101)
604	3 697	16	45	666	77 317	3 240	4 644	85 201
28	28	28	28	28			29	

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm
Balance at the beginning of the reporting period as previously reported	717 014	1 434	4 676	53 813	2 385	15
Restatements[1]	129 541	259	475	6 431	1 101	301
Restated balance balance at the beginning of the reporting period	846 555	1 693	5 151	60 244	3 486	316
Total comprehensive income for the reporting period	—	—	—	9 911	1 937	—
Profit for the reporting period	—	—	—	9 999	—	—
Other comprehensive income	—	—	—	(88)	1 937	—
Dividends paid during the reporting period	—	—	—	(5 069)	—	—
Accounting adjustments related to business combinations under common control[3]	—	—	257	(346)	—	—
Purchase of Group shares in respect of equity-settled share-based payment schemes	—	—	(211)	—	—	—
Elimination of the movement in treasury shares held by Group entities	648	1	29	—	—	—
Movement in share-based payment reserve	—	0	110	—	(97)	—
Transfer from share-based payment reserve	—	0	110	—	(110)	—
Value of employee services	—	—	—	—	13	—
Zambia regulatory requirements transfer	—	—	—	150	(150)	(150)
Movement in general credit risk reserve	—	—	—	(54)	54	54
Movement in insurance contingency reserve	—	—	—	324	(324)	—
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(13)	13	—
Share of post-tax results of associates and joint ventures	—	—	—	(249)	249	—
Increase in the interest of non-controlling equity holders	—	—	—	—	—	—
Disposal of interest in subsidiary without loss of control	—	—	—	—	—	—
Restated balance at the end of the reporting period	847 203	1 694	5 336	64 898	5 168	220
Note	27	27	27			28

Notes

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

[1]Restated, refer to note 1.22 for reporting changes.

[2]This reserve is no longer required due to a change in the Financial Services Board regulations.

[3]The excess of the purchase price over BAGL's share of the net assets of Barclays Africa Limited, acquired on 31 July 2013, is accounted for as a deduction against share premium. The purchase price was applied retrospectively, resulting in the deemed excess of the purchase price over the historical carrying values of the underlying net assets of Barclays Africa Limited being similarly included within share premium. This application results in a net movement recognised in share premium for each retrospective reporting period to date of acquisition.

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2012[1]

Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Insurance[2] contin-gency 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
(213)	2 021	(218)	324	—	169	287	62 308	1 453	4 644	68 405
(233)	—	1 033	—	—	—	—	8 266	1 367	—	9 633
(446)	2 021	815	324	—	169	287	70 574	2 820	4 644	78 038
1 318	405	214	—	—	—	—	11 848	576	295	12 719
—	—	—	—	—	—	—	9 999	452	295	10 746
1 318	405	214	—	—	—	—	1 849	124	—	1 973
—	—	—	—	—	—	—	(5 069)	(597)	(295)	(5 961)
—	—	—	—	—	—	—	(89)	—	—	(89)
—	—	—	—	—	—	—	(211)	—	—	(211)
—	—	—	—	—	—	—	30	—	—	30
—	—	—	—	—	(97)	—	13	—	—	13
—	—	—	—	—	(110)	—	—	—	—	—
—	—	—	—	—	13	—	13	—	—	13
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	(324)	—	—	—	—	—	—	—
—	—	—	—	13	—	—	—	—	—	—
—	—	—	—	—	—	249	—	—	—	—
—	—	—	—	—	—	—	—	35	—	35
—	—	—	—	—	—	—	—	(129)	—	(129)
872	2 426	1 029	—	13	72	536	77 096	2 705	4 644	84 445
28	28	28	28	28	28	28			29	

Consolidated statement of cash flows

for the reporting period ended 31 December

	Note	Group 2013 Rm	2012[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**81 587**	77 648
Interest, fee and commission expense		**(29 672)**	(30 373)
Insurance premiums and claims		**421**	1 215
Net trading and other (expense)/income		**(945)**	63
Cash payments to employees and suppliers		**(30 667)**	(27 223)
Dividends received from banking and trading activities		**100**	118
Income taxes paid		**(5 222)**	(4 704)
Cash flow from operating activities before changes in operating assets and liabilities		**15 602**	16 744
Net decrease in trading and hedging portfolio assets		**7 003**	944
Net increase in loans and advances to customers		**(41 467)**	(34 869)
Net (increase)/decrease in other assets		**(18 807)**	12 124
Net decrease in insurance and investment contracts		**1 467**	27
Net decrease in trading and hedging portfolio liabilities		**(1 786)**	(2 723)
Net increase in amounts due to customers and banks		**67 127**	31 582
Net decrease in other liabilities		**(11 104)**	(18 630)
Net cash generated from operating activities		**18 035**	5 199
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale	8	**70**	35
Net decrease in investment securities		**672**	839
Dividends received from investment activities		**221**	217
Disposal/Acquisition of associates and joint ventures, net of cash	13.7	**3**	(1)
Net decrease in loans to associates and joint ventures	13.1	**—**	2
Dividends received from associates and joint ventures		**—**	78
Purchase of investment properties	14	**(9)**	(202)
Proceeds from disposal of investment properties	14	**6**	43
Purchase of property and equipment	15	**(3 357)**	(2 735)
Proceeds from disposal of property and equipment		**662**	1 263
Purchase of intangible assets	16	**(624)**	(1 448)
Proceeds from disposal of intangible assets		**215**	250
Acquisition and disposal of businesses and other similar transactions, net of cash	58	**300**	(13)
Net cash utilised in investing activities		**(1 841)**	(1 672)
Cash flow from financing activities			
Elimination of treasury shares		**(279)**	30
Purchase of Group shares in respect of equity-settled share-based payment schemes		**(76)**	(211)
Proceeds from borrowed funds		**—**	5 000
Proceeds from ordinary share options exercised by non-controlling shareholders		**65**	—
Transaction costs related to shares issued on the acquisition of Barclays Africa Limited		**(101)**	—
Repayment of borrowed funds		**(1 886)**	(1 500)
Dividends paid[2]		**(12 339)**	(5 364)
Net cash utilised in financing activities		**(14 616)**	(2 045)
Net increase in cash and cash equivalents		**1 578**	1 482
Cash and cash equivalents at the beginning of the reporting period		**13 985**	12 163
Effect of foreign exchange rate movements on cash and cash equivalents		**291**	340
Cash and cash equivalents at the end of the reporting period	56	**15 854**	13 985

Notes

[1]Restated, refer to note 1.22 for reporting changes.

[2]The current reporting period includes dividends paid pre the acquisition date of the Barclays Africa Limited subsidiaries.

1. Summary of significant accounting policies

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

Refer to note 1.23 for new standards and interpretations not yet adopted.

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

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

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

The amendments have resulted in additional disclosure being presented in the Group's consolidated financial statements. Refer to note 49.

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

This standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements ("IAS 27") and SIC 12 Consolidation – Special Purpose Entities ("SIC 12"). The standard sets out how to apply the control principle inter alia to voting rights, circumstances involving agency relationships and circumstances when the investor has control over specified assets of the investee. The consolidation principles have remained unchanged and are now incorporated as part of IFRS 10.

Refer to notes 1.22, 50 and 51.

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

The new standard replaces IAS 31 Interests in Joint Ventures ("IAS 31") and SIC Interpretation 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers ("SIC 13") and requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then accounting for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations (rights to assets and obligations) or joint ventures (rights to net assets). The proportionate consolidation method for accounting for joint ventures has now been eliminated and all joint ventures will be equity accounted.

The Group already applies the equity method for investments in joint ventures and as a result IFRS 11 had no impact on the consolidated financial statements.

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

This standard requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates, jointly controlled entities and unconsolidated structured entities. Disclosures should enable a user to evaluate the nature of the risks associated with the interest in these entities and are intended to assist users to understand the effects of an entity's interests in other entities on its financial position, financial performance and cash flows.

This standard has resulted in additional disclosure, refer to notes 50 and 51.

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

This standard replaces guidance on fair value measurement in existing IFRS accounting standards by providing a single source of guidance to prescribe how fair value should be measured. The standard requires (with some exceptions) entities to classify fair value measurements into a "fair value hierarchy" based on the nature of the inputs. The standard also requires entities to make various disclosures depending on the nature and level of the fair value measurement.

The adoption of IFRS 13 has resulted in additional disclosures. Refer to notes 62 and 63.

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

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

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

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

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

Presentation of comparative information (amendments to IAS 1):

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

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

Employee benefits (amendments to IAS 19):

The amendments revise the requirements for pensions and other post-retirement benefits, termination benefits and other changes. The key amendments include eliminating the "corridor approach" as permitted by the previous version of IAS 19, introducing more enhanced disclosures relating to defined benefit plans, modifying accounting for termination benefits and clarifying the classification of employee benefits, current estimates of mortality rates and other miscellaneous issues.

Refer to notes 1.22 and 45.

Separate financial statements (amendments to IAS 27):

The revised IAS 27 now only deals with the requirements for separate financial statements; the requirements for consolidated financial statements are now contained in IFRS 10. The standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments ("IFRS 9") (or IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), as applicable). The standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

The revised IAS 27 had no impact on the consolidated financial statements of the Group or on the separate financial statements of Barclays Africa Group Limited.

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

This standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Group already applies the equity method for investments in joint ventures in accordance with the amendments in IAS 28 and as a result the amendment had no impact on the consolidated financial statements of the Group.

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

The amendment requires that total assets for a particular reportable segment needs to be disclosed only when the amounts are regularly provided to the chief operating decision maker ("CODM") and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

The amendment had no impact on the consolidated financial statements of the Group as the total assets for reportable segments are already disclosed.

Headline earnings circular 2/2013:

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

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

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

1.1 Basis of presentation

The consolidated and standalone financial statements of the Barclays Africa Group Limited have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee, as published by the International Accounting Standards Board ("IASB"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act and JSE Listings Requirements. The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out below. These policies have been consistently applied. Refer to note 1.22 for details of accounting policy changes during the reporting period. The consolidated and separate financial statements have been prepared under the historical cost convention modified to include the fair valuation of investment property and particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies. They are stated in millions of rand ("Rm"), the presentation currency of the Group.

1.2 Use of estimates, assumptions and judgements

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

1.2.1 Impairment of loans and advances

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

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

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

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

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

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

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

This key area of judgement is subject to uncertainty and is highly sensitive to factors such as loan portfolio growth, product mix, unemployment rates, bankruptcy trends, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, account management policies and practices, changes in laws and regulations, and other factors that can affect customer patterns. These judgement areas are included in models which are used to calculate impairments. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example, roll-rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they are appropriate.

Refer to note 10.1.

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

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

1.2.2 Goodwill impairment

The Group's accounting policy for goodwill is described in note 1.12.1.

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

- The future cash flows of the cash-generating units ("CGUs") are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects at the time of the assessment.
- The discount rate used to discount the future expected cash flows is based on the 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.

Note 16 includes details of the CGUs with significant balances of goodwill and states the key assumptions used to assess goodwill in each of those CGUs for impairment.

1.2.3 Valuation of financial instruments

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Refer to notes 62 and 63.

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 12.1.

1.2.5 Consolidation of 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 below:

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.

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

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

1.2.5 Consolidation of entities *(continued)*

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.

Refer to notes 50 and 51.

1.2.6 Post-retirement benefits

The valuations of and contributions towards defined benefit pension plans are determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Refer to note 45 for the assumptions used and carrying amounts.

1.2.7 Provisions

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

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

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.

Further information is included in notes 17, 42 and 55 around estimated tax positions where a high degree of judgement has been applied.

1.2.9 Share-based payments

Where the fair value of share awards relating to share-based payments is not based on the Group's share price with a zero strike price, it is determined using option pricing models. The inputs to the option pricing models are derived from observable market data, where possible but where observable market data is not available, judgement is required to establish fair values. The valuation of share awards is described in more detail in note 57. Refer to note 20 for the carrying amount of liabilities arising from cash-settled schemes.

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

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

- uncertainty as to whether an event has occurred which would give rise to an insured loss;
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of 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.

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

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

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

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 25.

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 are sometimes subject to a significant degree of interpretation. In these instances, legal advice is obtained to ensure that the application of the common law principles is correctly applied within the ambit of the law. Using the legal advice obtained, management assesses whether there is a legal right to offset accounts.
- When determining whether there is an intention to settle a financial asset and a financial liability, management evaluates the underlying terms of the contract to identify whether there is a legal right to offset which could also indicate the 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 49.

1.3 Consolidation

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

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 initial consolidation analysis is revisited at a later date if:

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

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.

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

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

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

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

1.3 Consolidation *(continued)*

1.3.2 Investments in associates and joint ventures

The Group applies IAS 28 and IFRS 11 in accounting for 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 ventures 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 standalone financial statements of Barclays Africa Group Limited.

1.3.3 Structured entities and sponsored entities

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

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

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 retained earnings. No new goodwill will be recognised as a result of the common control transaction.

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

1.4 Segment reporting

The 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 CODM. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office and inter-segment eliminations. Income and expenses directly associated with each segment are included in determining business segment performance.

1.5 Foreign currencies

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

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 the profit or loss component of the statement of comprehensive income for the reporting period.

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

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.

1.7.1 Financial instruments at fair value through profit or loss

Financial instruments classified as held for trading

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

Financial instruments designated at fair value through profit or loss

In accordance with IAS 39, financial assets and financial liabilities may be designated at fair value, with gains and losses taken to the statement of comprehensive income in “gains and losses from banking and trading activities” and “gains and losses from investment activities” depending on the nature of the instrument. The Group has the ability to make the fair value designation when holding the instruments at fair value reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by the 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 are recognised in “net interest income” in the profit or loss component of the statement of comprehensive income.

1.7.2 Available-for-sale financial assets

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

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

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

If impairment is assessed to have occurred, the cumulative gain or loss that has previously been recognised directly in OCI is reclassified from OCI and is recognised in the profit or loss component of other comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as all other financial assets. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss component of the statement of comprehensive income, the impairment loss shall be reversed, with the amount of the reversal recognised in the profit or loss component of the statement of comprehensive income. Reversals of impairment of equity instruments are not recognised in the profit or loss component of the statement of comprehensive income. Increases in the fair value of equity instruments after impairment are recognised directly in other comprehensive income.

1.7.3 Loans and advances to customers

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

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

1.7 Financial instruments *(continued)*

1.7.4 Embedded derivatives

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

1.7.5 Financial liabilities

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

1.7.6 Impairment of financial assets

Financial assets held at amortised cost

In accordance with IAS 39, the 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 the profit or loss component of the statement of comprehensive income.

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

- becoming aware of significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the 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 the profit or loss component of the statement of comprehensive income.

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

Identified impairment

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

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

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

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

Unidentified impairment

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

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

1.7 Financial instruments *(continued)*

1.7.6 Impairment of financial assets *(continued)*

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.

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

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

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

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

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

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

Available-for-sale debt instruments

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

Available-for-sale equity instruments

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

1.7.7 Subordinated debt

Subordinated debt is measured at amortised cost using the effective interest 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 the profit or loss component of the statement of comprehensive income.

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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

1.7 Financial instruments *(continued)*

1.7.11 Fair value

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

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

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

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

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

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

1.7.12 Hedge accounting

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

Fair value hedge accounting

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

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

Cash flow hedge accounting

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

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

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

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

1.7 Financial instruments *(continued)*

1.7.13 Repurchase and reverse repurchase agreements

Reverse repurchase agreements (and stock borrowing or similar transactions) are a form of secured lending whereby the 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.

1.7.14 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 the profit or loss component of the statement of comprehensive income, any fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the reporting date.

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

1.8 Share capital

1.8.1 Ordinary share capital

Proceeds are included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when paid or declared by the members at the annual general meeting and treated as a deduction from equity.

1.8.2 Preference share capital

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

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

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

1.9 Revenue recognition

1.9.1 Net interest income

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

The effective interest method requires the 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 the profit or loss component of the statement of comprehensive income, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

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

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

Gains or losses on assets or liabilities reported in the trading portfolio are included in the profit or loss component of the statement of comprehensive income under "gains and losses from banking and trading activities" together with interest and dividends arising from long and short positions and funding costs relating to trading activities. Gains and losses on derivatives linked to investment contracts are recognised in "gains and losses from investment activities".

1.9.3 Net fee and commission income

The Group applies IAS 18. 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 the profit or loss component of the statement of comprehensive income over the terms of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

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

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

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 the profit and loss component of the statement of comprehensive income in order that revenue is recognised over the period of the risk.

Claims and loss adjustment

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

Liability adequacy test

At each reporting date, the Group reviewed 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 the profit and loss component of the statement of comprehensive income by setting up a provision in the statement of financial position. Refer to note 64.

Life insurance contracts

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. Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liabilities are valued at each reporting date using the financial soundness valuation ("FSV") basis described in Practice Guidance Note 104 ("PGN 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.

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 PGN 110 issued by the ASSA. In terms if 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 PGN 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.

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

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

1.10.1 Insurance contracts *(continued)*

Liability adequacy test

Liabilities are calculated in terms of the FSV basis as described in PGN 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. Refer to the Insurance Risk section in the Risk Report for more detail.

Deferred policy acquisition costs

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

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

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 account estimate.

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

Deferred reinsurance acquisition revenue

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

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

Reinsurance contracts held

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

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

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-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 the profit or loss component of the statement of comprehensive income. For historic amounts, the impairment is calculated as the total amount due from reinsurers for which there is a significant probability that the amounts due would not be recoverable less any offsetting amounts. Liabilities are revalued assuming that no reinsurance is ceded.

Receivables and payables related to insurance and investment contracts

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

Salvage and subrogation reimbursements

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

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

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

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

1.10.1 Insurance contracts *(continued)*

Philosophy on release of profits on the valuation basis

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

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

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 the profit and loss component of the statement of comprehensive income.

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 the profit or loss component of the statement of comprehensive income over the term of the contract.

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

Valuation techniques are used to establish the fair value at inception and at each reporting date. The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value if a unit-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 the profit or loss component of the statement of comprehensive income.

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

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.

1.12 Intangible assets

1.12.1 Goodwill

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

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

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

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

1.12.2 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 the profit or loss component of the statement of comprehensive income 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 acquisition date fair value) less amortisation and provision for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, as set out in the table below.

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

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

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

1.13 Property and equipment

1.13.1 Property and equipment not subject to lease agreements

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

During the reporting period, there was a reassessment of the useful lives of computer equipment – refer to note 1.21.

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

1.13.2 Property and equipment subject to lease agreements

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

Finance leases

A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. Where the 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.

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 or equipment.

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

1.13.3 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 remeasurement are included in the profit or loss component of the statement of comprehensive income.

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 writedown, is also recognised in "other impairments".

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

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

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 the profit or loss component of the statement of comprehensive income. Gains are not recognised in excess of any cumulative impairment loss until finally sold.

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

1.16 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

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

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated. Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists; for example, when the 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.

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 applies IAS 19 in accounting for defined benefit schemes.

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

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

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

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

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

1.18 Employee benefits *(continued)*

1.18.1 Post-retirement benefits *(continued)*

Post-employment benefits

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

Staff costs

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

Short-term employee benefits, including salaries, accrued performance costs, salary deductions and taxes are recognised over the reporting period in which the employees provide the services to which the payments relate. Performance costs are recognised to the extent that the 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.

1.18.2 Share-based payments

The Group applies IFRS 2 Share-based Payments ("IFRS 2").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 the profit or loss component of the statement of comprehensive income over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

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

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

Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff cost in the profit or loss component of the statement of comprehensive income. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

1.19 Tax

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

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

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

1.19 Tax *(continued)*

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

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

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

1.20 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 Change in accounting estimate

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

1.22 Reporting changes

During the current reporting period, the Group was formed through combining Absa Group Limited (now renamed Barclays Africa Group Limited) and Barclays Africa operations. This transaction has been accounted for as a business combination between entities under common control and therefore in accordance with the accounting policy in 1.3.4, the statement of financial position, statement of comprehensive income and notes have been restated. In addition, restatements have been made as a result of the standards, amendments to standards and circulars mandatory for the first time in the current reporting period.

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

- The implementation of new International Financial Reporting Standards, specifically IFRS 10 and IAS 19R. All other amendments to IFRS effective for the current reporting period had no significant impact on the Group's reported results, however, disclosures have been updated to reflect the impact of the amendments.
- Certain changes in internal accounting policies.
- The acquisition of 100% of the issued ordinary share capital of Barclays Africa Limited, previously a fellow subsidiary of BAGL, with a shared parent company Barclays Bank PLC. The Group accounted for this transaction in accordance with the Group's and Barclays Group's accounting policy in respect of business combinations under common control, which resulted in the restatement of the financial performance of comparative reporting periods.
- Business portfolio changes between operating segments including the allocation of elements of the Head office segment to business segments.

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

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

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

1.22 Reporting changes *(continued)*

1.22.1 Accounting policy changes due to new IFRS

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

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

IAS 19R amends the requirements of IAS 19 Employee Benefits. The standard introduces a number of changes relating to defined benefit plans. For the Group, the main impacts of implementing IAS 19R were the removal of the recognition of expected returns on plan assets within profit or loss in favour of interest income on plan assets being recognised in profit or loss at the rate used to discount the pension fund obligation and the recognition of interest cost on reserves owing to members in profit or loss. In addition, some benefits previously classified as short-term benefits are reclassified as long-term benefits.

1.22.2 Internal accounting policy changes

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

- The Group elected to change its accounting policy in terms of best practice and to better align with Barclays' internal accounting policies in terms of:
  - "Collection costs" – costs incurred in the follow up and collection of outstanding and overdue balances, previously recognised as part of "operating expenses" and fee expenses, within "net fee and commission income", have been reclassified to recoveries within the "impairment losses on loans and advances" line in the statement of comprehensive income.
  - "Association costs" – defined as costs incurred through the Group's association with leading interchange agents resulting in a reclassification of certain costs from "operating expenses" to "net fee and commission income".
- The Group elected to amend its disclosure of rental income received from investment properties. These properties are held in one of the Group's wholly-owned subsidiaries. This change resulted in a grossing up of income recognised in "other operating income" and an equal movement in "operating expenses".

1.22.3 Acquisition of Barclays Africa Limited

In 2012, Absa Group Limited announced its intention to conclude the strategic combination of Barclays' Africa operations with the existing Absa Group operations.

Through the transaction, Absa Group Limited acquired 100% of the issued ordinary share capital of Barclays Africa Limited, which was settled by the issuance of 129 540 636 Absa Group Limited ordinary shares. This increased Barclays Bank PLC's shareholding in the Group from 55,5% to 62,3%. This transaction concluded on 31 July 2013 and was accompanied by the name change of Absa Group Limited to Barclays Africa Group Limited.

The transaction is a business combination of entities under common control as defined in International Financial Reporting Standard 3: Business Combinations ("IFRS 3"). The Group elected, in accordance with IFRS 3 guidance and the Group's and Barclays Group's accounting policies, to account for the transaction in terms of predecessor accounting principles.

Accordingly, the Group's comparative financial results have been restated as if Barclays Africa Limited was always part of the Group's structure.

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

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

1.22 Reporting changes *(continued)*

1.22.4 Impact of reporting changes on the Group's results

Consolidated statement of financial position as at 31 December 2012

	Group					
	As previously reported[1] Rm	IFRS accounting policy changes[2] Rm	Barclays Africa Limited Rm	Acquisition accounting entries Rm	BAGL consolidation adjustments Rm	BAGL restated Rm
Assets						
Cash, cash balances and balances with central banks	26 221	326	18 223	—	—	44 770
Statutory liquid asset portfolio	63 020	—	—	—	—	63 020
Loans and advances to banks	44 649	2	17 942	—	(82)	62 511
Trading portfolio assets	87 203	114	29	—	(22)	87 324
Hedging portfolio assets	5 439	—	17	—	—	5 456
Other assets	14 189	—	3 617	—	(227)	17 579
Current tax assets	304	(1)	73	—	—	376
Non-current assets held for sale	4 052	—	—	—	—	4 052
Loans and advances to customers	528 191	(863)	38 934	—	—	566 262
Loans to Group companies	—	—	537	—	(537)	—
Reinsurance assets	1 003	—	—	—	—	1 003
Investment securities	20 555	5 069	5 289	—	—	30 913
Investments in associates and joint ventures	569	—	—	—	—	569
Subsidiaries	—	—	—	18 330	(18 330)	—
Investment properties	1 220	—	—	—	—	1 220
Property and equipment	8 397	—	1 227	—	—	9 624
Goodwill and intangible assets	2 561	—	487	—	—	3 048
Deferred tax assets	366	—	278	—	—	644
Total assets	807 939	4 647	86 653	18 330	(19 198)	898 371
Liabilities						
Deposits from banks	36 035	149	5 322	—	(82)	41 424
Trading portfolio liabilities	51 684	—	72	—	(22)	51 734
Hedging portfolio liabilities	3 855	—	—	—	—	3 855
Other liabilities	18 215	197	2 046	—	(48)	20 410
Provisions	1 681	—	599	—	—	2 280
Current tax liabilities	59	(1)	(29)	—	—	29
Non-current liabilities held for sale	1 480	—	—	—	—	1 480
Deposits due to customers	477 427	426	65 248	—	—	543 101
Debt securities in issue	108 044	(1 265)	25	—	—	106 804
Liabilities under investment contracts	13 609	5 159	—	—	—	18 768
Loans from Group companies	—	—	716	—	(716)	—
Policyholder liabilities under insurance contracts	3 550	—	—	—	—	3 550
Borrowed funds	17 907	—	870	—	—	18 777
Deferred tax liabilities	1 599	(4)	119	—	—	1 714
Total liabilities	735 145	4 661	74 988	—	(868)	813 926
Equity						
Capital and reserves						
Attributable to ordinary equity holders:						
Share capital	1 435	—	195	259	(195)	1 694
Share premium	4 604	—	796	18 071	(18 135)	5 336
Retained earnings	56 903	(14)	8 009	—	—	64 898
Other reserves	3 941	—	1 227	—	—	5 168
	66 883	(14)	10 227	18 330	(18 330)	77 096
Non-controlling interest – ordinary shares	1 267	—	1 438	—	—	2 705
Non-controlling interest – preference shares	4 644	—	—	—	—	4 644
Total equity	72 794	(14)	11 665	18 330	(18 330)	84 445
Total liabilities and equity	807 939	4 647	86 653	18 330	(19 198)	898 371

Notes

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

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

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

1.22 Reporting changes *(continued)*

1.22.4 Impact of reporting changes on the Group's results *(continued)*

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

	Group				
	As previously reported[1] Rm	IFRS accounting policy changes[2] Rm	BAGL accounting policy changes Rm	Barclays Africa Limited Rm	BAGL restated Rm
Net interest income	24 111	(119)	—	5 310	29 302
Interest and similar income	50 766	(167)	—	6 698	57 297
Interest expense and similar charges	(26 655)	48	—	(1 388)	(27 995)
Impairments losses on loans and advances	(8 290)	—	(188)	(377)	(8 855)
Net interest income after impairment losses on loans and advances	15 821	(119)	(188)	4 933	20 447
Non-interest income	22 741	119	(54)	2 868	25 674
Net fee and commission income	15 435	(32)	(86)	2 066	17 383
Fee and commission income	17 936	—	—	2 160	20 096
Fee and commission expense	(2 501)	(32)	(86)	(94)	(2 713)
Net insurance premium income	5 618	—	—	—	5 618
Net insurance claims and benefits paid	(2 719)	—	—	—	(2 719)
Changes in investment contract and insurance liabilities	(980)	(727)	—	—	(1 707)
Gains and losses from banking and trading activities	3 670	108	—	757	4 535
Gains and losses from investment activities	963	773	—	(1)	1 735
Other operating income	754	(3)	32	46	829
Operating income before operating expenditure	38 562	—	(242)	7 801	46 121
Operating expenditure	(26 693)	(91)	242	(4 643)	(31 185)
Operating expenses	(25 874)	(91)	242	(4 606)	(30 329)
Other impairments	(113)	—	—	(19)	(132)
Indirect taxation	(706)	—	—	(18)	(724)
Share of post-tax results of associates and joint ventures	249	—	—	—	249
Operating profit before income tax	12 118	(91)	—	3 158	15 185
Taxation expense	(3 377)	22	—	(1 084)	(4 439)
Profit for the reporting period	8 741	(69)	—	2 074	10 746

Notes

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

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

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

1.22 Reporting changes *(continued)*

1.22.4 Impact of reporting changes on the Group's results *(continued)*

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

	As previously reported[1] Rm	IFRS accounting policy changes[2] Rm	Group BAGL accounting policy changes Rm	Barclays Africa Limited Rm	BAGL restated Rm
Profit for the reporting period	8 741	(69)	—	2 074	10 746
Other comprehensive income					
Items that will not be reclassified to the profit or loss component of the statement of comprehensive income					
Movement in retirement benefit asset and liabilities	(242)	158	—	(4)	(88)
Decrease in retirement benefit surplus	(279)	218	—	(10)	(71)
Increase in retirement benefit deficit	(59)	—	—	—	(59)
Deferred tax	96	(60)	—	6	42
Total items that will not be reclassified to the profit or loss component of the statement of comprehensive income	(242)	158	—	(4)	(88)
Items that are or may be subsequently reclassified to the profit or loss component of the statement of comprehensive income					
Foreign exchange differences on translation of foreign operations	140	—	—	198	338
Movement in cash flow hedging reserve	405	—	—	—	405
Fair value gains arising during the reporting period	2 650	—	—	—	2 650
Amount removed from other comprehensive income and recognised in the profit or loss component of the statement of comprehensive income	(2 088)	—	—	—	(2 088)
Deferred tax	(157)	—	—	—	(157)
Movement in available-for-sale reserve	1 109	—	—	209	1 318
Fair value gains arising during the reporting period	1 532	—	—	207	1 739
Amortisation of government bonds – release to the profit or loss component of the statement of comprehensive income	10	—	—	—	10
Deferred tax	(433)	—	—	2	(431)
Total items that will or may be subsequently reclassified to the profit or loss component of the statement of comprehensive income	1 654	—	—	407	2 061
Total comprehensive income for the reporting period	10 153	89	—	2 477	12 719
Profit attributable to:					
Ordinary equity holders	8 393	(69)	—	1 675	9 999
Non-controlling interest – ordinary shares	53	—	—	399	452
Non-controlling interest – preference shares	295	—	—	—	295
	8 741	(69)	—	2 074	10 746
Total comprehensive income attributable to:					
Ordinary equity holders	9 812	89	—	1 947	11 848
Non-controlling interest – ordinary share	46	—	—	530	576
Non-controlling interest – preference shares	295	—	—	—	295
	10 153	89	—	2 477	12 719

Notes
[1]Column refers to amounts published on 12 February 2013.
[2]These changes relate to the impact of IAS 19.

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

1.22 Reporting changes *(continued)*

1.22.4 Impact of reporting changes on the Group's results *(continued)*

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

	Group					
	As previously reported[2] Rm	IFRS accounting policy changes[3] Rm	Barclays Africa Limited Rm	Acquisition accounting Rm	Barclays Africa Limited acquisition impact on BAGL consolidation Rm	BAGL restated Rm
Assets						
Cash, cash balances and balances with central banks	26 997	444	17 338	—	—	44 779
Statutory liquid asset portfolio	57 473	—	—	—	—	57 473
Loans and advances to banks	57 499	1	18 282	—	—	75 782
Trading portfolio assets	84 623	71	48	—	—	84 742
Hedging portfolio assets	4 299	—	14	—	—	4 313
Other assets	14 730	(137)	3 531	—	—	18 124
Current tax assets	288	—	56	—	—	344
Non-current assets held for sale	35	—	—	—	—	35
Loans and advances to customers	504 925	(986)	38 188	—	—	542 127
Loans to Group companies	—	—	256	—	(256)	—
Reinsurance assets	1 009	—	—	—	—	1 009
Investment securities	21 182	4 308	2 592	—	—	28 082
Investments in associates and joint ventures	420	—	—	—	—	420
Subsidiaries	—	—	—	18 330	(18 330)	—
Investment properties	2 839	—	—	—	—	2 839
Property and equipment	7 996	—	1 646	—	—	9 642
Goodwill and intangible assets	2 135	—	147	—	—	2 282
Deferred tax assets	269	—	400	—	—	669
Total assets	786 719	3 701	82 498	18 330	(18 586)	872 662
Liabilities						
Deposits from banks	38 339	67	6 231	(1)	—	44 636
Trading portfolio liabilities	55 960	—	37	—	—	55 997
Hedging portfolio liabilities	2 456	—	—	—	—	2 456
Other liabilities	14 695	(24)	2 627	—	—	17 298
Provisions	1 710	—	548	—	—	2 258
Current tax liabilities	267	—	34	—	—	301
Non-current liabilities held for sale	—	—	—	—	—	—
Deposits due to customers	440 960	507	61 941	—	—	503 408
Debt securities in issue	130 262	(1 394)	15	—	—	128 883
Liabilities under investment contracts	15 233	4 689	—	—	—	19 922
Loans from Group companies	—	—	256	—	(256)	—
Policyholder liabilities under insurance contracts	3 183	—	—	—	—	3 183
Borrowed funds	14 051	—	948	—	—	14 999
Deferred tax liabilities	1 198	(41)	125	1	—	1 283
Total liabilities	718 314	3 804	72 762	—	(256)	794 624
Equity						
Capital and reserves						
Attributable to ordinary equity holders:						
Share capital	1 434	—	195	259	(195)	1 693
Share premium	4 676	—	539	18 071	(18 135)	5 151
Retained earnings	53 813	(104)	6 534	—	—	60 243
Other reserves	2 385	1	1 101	—	—	3 487
	62 308	(103)	8 369	18 330	(18 330)	70 574
Non-controlling interest – ordinary shares	1 453	—	1 367	—	—	2 820
Non-controlling interest – preference shares	4 644	—	—	—	—	4 644
Total equity	68 405	(103)	9 736	18 330	(18 330)	78 038
Total liabilities and equity	786 719	(138)	82 498	18 330	(18 586)	872 662

Notes

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

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

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

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

1.23 New standards and interpretations not yet adopted

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

IFRS 9 was initially published in November 2009 as the first step in replacing IAS 39 and contains new requirements for the classification and measurement requirements for financial assets. The classification and measurement requirements of financial liabilities were added to IFRS 9 in October 2010 and the hedge accounting requirements in November 2013.

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

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

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

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

IFRS 10, IFRS 12, IAS 27 and IAS 28 (amendments) apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An entity is required to consider specific factors to determine whether it qualifies as an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IAS 39 (or IFRS 9, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss is retained. The amendments will be applied retrospectively, subject to certain transition reliefs and will first be applicable to reporting periods beginning on or after 1 January 2014.

The Group is in the process of assessing the impact.

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

The Group is in the process of assessing the impact.

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

The Group is in the process of assessing the impact.

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

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

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

The Group is in the process of assessing the impact.

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

The Group is in the process of assessing the impact.

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

The Group is in the process of assessing the impact.

	Group 2013 Rm	Group 2012 Rm
2. Cash, cash balances and balances with central banks		
Balances with other central banks	**7 350**	6 061
Balances with the South African Reserve Bank ("SARB")	**12 417**	12 339
Coins and bank notes	**12 652**	11 085
Money market assets	**17 711**	15 285
	50 130	44 770
Portfolio analysis		
Available-for-sale financial assets		
Money market assets	**12 562**	11 636
Financial assets designated at fair value through profit or loss		
Money market assets	**3 210**	2 878
Held-to-maturity financial assets		
Money market assets	**1 933**	735
Loans and receivables	**32 425**	29 521
Balances with other central banks	**7 350**	6 061
Balances with the SARB	**12 417**	12 339
Coins and bank notes	**12 652**	11 085
Money market assets	**6**	36
	50 130	44 770

Included above are money market assets of **R493 million** (2012: R422 million) which are linked to investment contracts (refer to note 24.1).
Included above are money market assets of **R485 million** (2012: Rnil) that have been pledged as security, of which **R356 million** (2012: Rnil) relates to repurchase agreements (refer to note 47).

	Group 2013 Rm	Group 2012 Rm
3. Statutory liquid asset portfolio		
Republic of South Africa ("RSA") government bonds	**41 536**	51 853
Reverse repurchase agreements (refer to note 47)	**—**	3
Treasury bills	**20 519**	11 164
	62 055	63 020
Portfolio analysis		
Available-for-sale financial assets	**36 577**	35 047
RSA government bonds	**16 058**	23 883
Treasury bills	**20 519**	11 164
Available-for-sale financial assets in a fair value hedging relationship		
RSA government bonds	**25 478**	27 173
Financial assets designated at fair value through profit or loss	**—**	800
RSA government bonds	**—**	797
Reverse repurchase agreements	**—**	3
	62 055	63 020

RSA government bonds, SARB debentures and treasury bills valued at **R7 055 million** (2012: R2 592 million) have been pledged with the SARB, refer to note 47.

	Group	
	2013 Rm	2012 Rm
4. Loans and advances to banks		
Loans and advances to banks	**79 971**	62 511
Portfolio analysis		
Financial assets designated at fair value through profit or loss	**6 140**	9 647
Loans and receivables	**73 831**	52 864
	79 971	62 511

Loans with variable rates are **R55 992 million** (2012: R41 656 million) and fixed rates are **R23 979 million** (2012: R20 855 million).

Included above are loans and advances to banks with a carrying value of **R3 597 million** (2012: R6 037 million) that have been pledged as security, including collateralised loans of **R1 098 million** (2012: R6 037 million) relating to securities borrowed (refer to note 47), which excludes reverse repurchase agreements as disclosed in note 47. The amounts pledged are the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Included above are reverse repurchase agreements of **R15 770 million** (2012: R9 223 million), refer to note 47.

	Group	
	2013 Rm	2012 Rm
5. Trading and hedging portfolio assets		
Commodities	**1 080**	514
Debt instruments	**25 452**	24 615
Derivative assets (refer to note 60.3)	**43 603**	46 800
Commodity derivatives	**253**	605
Credit derivatives	**269**	195
Equity derivatives	**760**	986
Foreign exchange derivatives	**7 079**	5 807
Interest rate derivatives	**35 242**	39 207
Equity instruments	**12 253**	6 614
Money market assets	**4 646**	8 781
Total trading portfolio assets	**87 034**	87 324
Hedging portfolio assets (refer to note 60.3)	**3 357**	5 456
	90 391	92 780
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**1 595**	3 859
Derivatives designated as fair value hedging instruments	**1 762**	1 597
Financial assets held for trading	**85 954**	86 810
Debt instruments	**25 452**	24 615
Derivative assets	**43 603**	46 800
Equity instruments	**12 253**	6 614
Money market assets	**4 646**	8 781
Non-financial instruments	**1 080**	514
	90 391	92 780

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

Trading portfolio assets with a carrying value of **R10 499 million** (2012: R12 063 million) were pledged as security for repurchase agreements (refer to note 47). In addition, trading portfolio assets with a carrying value of **Rnil** (2012: R645 million) were pledged as security for deposits. These assets are pledged for the duration of the respective agreements.

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

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

	Group	
	2013 Rm	2012 Rm
6. Other assets		
Accounts receivable and prepayments	**10 938**	9 995
Deferred costs	**219**	180
Deferred acquisition costs[1] (refer to note 6.1)	**90**	85
Other deferred costs	**129**	95
Inventories	**642**	910
Cost	**710**	975
Writedown	**(68)**	(65)
Retirement benefit fund surplus (refer to note 45)	**577**	513
Settlement accounts	**3 453**	5 981
	15 829	17 579
Portfolio analysis		
Loans and receivables	**13 486**	15 324
Accounts receivable	**10 033**	9 343
Settlement accounts	**3 453**	5 981
Financial assets designated at fair value through profit or loss	**17**	17
Non-financial assets	**2 326**	2 238
	15 829	17 579
6.1 Deferred acquisition costs		
Balance at the beginning of the reporting period	**85**	70
Additions	**367**	182
Amortisation charge	**(362)**	(167)
Balance at the end of the reporting period	**90**	85

	Group	
	2013 Rm	2012 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**529**	376
Current tax liabilities		
Amount due to revenue authorities	**173**	29

Note

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

		Group 2013 Rm	Group 2012 Rm
8.	**Non-current assets and non-current liabilities held for sale**		
8.1	**Non-current assets held for sale**		
	Balance at the beginning of the reporting period	**4 052**	35
	Disposal of assets previously disclosed under non-current assets held for sale	**(70)**	(35)
	Transfer from cash, cash balances and balances with central banks	**—**	123
	Transfer from loans and advances to banks	**—**	14
	Transfer from other assets	**—**	159
	Transfer from reinsurance assets	**—**	206
	Transfer from investment securities	**4**	2 103
	Transfer from investments in associates and joint ventures (refer to note 13.5)	**—**	46
	Transfer from investment properties (refer to note 14)	**212**	1 378
	Transfer from property and equipment (refer to note 15)	**209**	23
	Fair value adjustments – Investment securities[1]	**266**	—
	Movements on non-current assets held for sale during the reporting period[1]	**141**	—
	Balance at the end of the reporting period	**4 814**	4 052
8.2	**Non-current liabilities held for sale**		
	Balance at the beginning of the reporting period	**1 480**	—
	Transfer from other liabilities	**1**	424
	Transfer from liabilities under investment contracts (refer to note 24)	**—**	698
	Transfer from policyholder liabilities under insurance contracts	**—**	206
	Transfer from deferred tax liabilities (refer to note 17)	**—**	152
	Fair value adjustments – liabilities under investment contracts[1]	**262**	—
	Movements on non-current liabilities held for sale during the reporting period[1]	**(92)**	—
	Balance at the end of the reporting period	**1 651**	1 480

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

- Through the RBB segment
  - In the Commercial Property Finance Equity ("CPF Equity") division, investment properties in two of its wholly-owned subsidiaries, with a total carrying value of R212 million, were transferred to non-current assets held for sale. The disposal of these properties is expected to take place during the 2014 reporting period.
- Through the Head office and Other segment
  - A number of assets classified as property and equipment within Corporate Real Estate Services have been identified as held for sale. These assets have a total carrying value of R209 million. The disposal of the property and equipment is due to take place during 2014.

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

- Through the RBB segment:
  - In the CPF Equity division, net assets of one of its subsidiaries, which have a carrying value of **R1 233 million** (2012: R1 209 million).
- Through the Financial Services segment:
  - Transferred net assets, which have a carrying value of **R45 million** (2012: R44 million) in Absa Insurance Risk Management Services Limited, a subsidiary of Absa Insurance Company Limited ("AIC").
  - Transferred net assets with a carrying value of **R395 million** (2012: R245 million) in the Absa Property Equity Fund ("APEF"). It is management's intention to dispose of units in the APEF such that the Group no longer has control over the APEF.
  - Transferred gross assets and liabilities totalling **R1 932 million** and **R975 million** respectively (2012: R1 667 million and R700 million), in the General Fund. This transfer is as a result of the planned amalgamation of the General Fund with the Absa Select Equity Fund.

Note

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

	Group	
	2013 Rm	2012 Rm
9. Loans and advances to customers		
Cheque accounts	**34 768**	34 282
Corporate overdrafts and specialised finance loans	**5 729**	5 121
Credit cards	**37 500**	33 504
Foreign currency loans	**22 760**	13 143
Instalment credit agreements (refer to note 9.1)	**66 764**	61 321
Gross advances	**81 248**	74 049
Unearned finance charges	**(14 484)**	(12 728)
Reverse repurchase agreements with non-banks (refer to note 47)	**3 893**	4 698
Loans to associates and joint ventures (refer to note 50.7)	**12 039**	10 094
Microloans	**2 192**	2 002
Mortgages	**276 253**	282 778
Other advances[1]	**20 742**	17 348
Overnight finance	**14 083**	18 862
Personal and term loans	**67 954**	58 456
Preference shares	**8 945**	6 342
Wholesale overdrafts	**47 764**	34 088
Gross loans and advances to customers	**621 386**	582 039
Impairment losses on loans and advances (refer to note 10)	**(16 049)**	(15 777)
	605 337	566 262
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**4 412**	4 970
Corporate overdrafts and specialised finance loans	**10**	194
Wholesale overdrafts	**4 402**	4 776
Financial assets designated at fair value through profit or loss	**10 546**	11 942
Foreign currency loans	**1 157**	950
Mortgages	**708**	1 019
Preference shares	**785**	1 175
Reverse repurchase agreements	**3 893**	4 699
Wholesale overdrafts	**4 003**	4 099
Loans and receivables	**606 428**	565 127
	621 386	582 039

The Group has securitised certain loans and advances to customers, the total carrying value of these securitised assets is **R4 068 million** (2012: R6 444 million), refer to note 48.

Included above are loans and advances to customers with a carrying value of **R3 659 million** (2012: R3 936 million) that have been pledged as security, including collateralised loans of **R3 024 million** (2012: R2 474 million) relating to securities borrowed, refer to note 47. Included above are reverse repurchase agreements of **R3 893 million** (2012: R4 698 million), refer to note 47. The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

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

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

9.1 Instalment credit agreements

	Group		
	2013		
	Gross advances Rm	Unearned finance charges Rm	Net advances Rm
Maturity analysis			
Less than one year	**25 270**	**(4 358)**	**20 912**
Between one and five years	**53 468**	**(9 631)**	**43 837**
More than five years	**2 510**	**(495)**	**2 015**
	81 248	**(14 484)**	**66 764**

	2012		
	Gross advances Rm	Unearned finance charges Rm	Net advances Rm
Less than one year	23 631	(3 749)	19 882
Between one and five years	48 207	(8 507)	39 700
More than five years	2 211	(472)	1 739
	74 049	(12 728)	61 321

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 **R4 573 million** (2012: R4 290 million).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R1 200 million** (2012: R1 758 million).

		Group	
		2013 Rm	2012 Rm
10.	**Impairment losses on loans and advances**		
	Balance at the beginning of the reporting period	**15 777**	14 270
	Amounts written off during the reporting period	**(7 404)**	(7 163)
	Foreign exchange differences	**422**	(62)
	Interest on impaired assets (refer to note 30)	**(851)**	(1 018)
	Impairments raised during the reporting period (refer to note 10.1)	**8 105**	9 750
	Balance at the end of the reporting period (refer to note 9)	**16 049**	15 777
	Comprising:		
	Identified impairments	**14 634**	14 687
	Unidentified impairments	**1 415**	1 090
		16 049	15 777
10.1	**Statement of comprehensive income charge**		
	Impairments raised during the reporting period	**8 105**	9 750
	Identified impairments	**7 754**	9 553
	Unidentified impairments	**351**	197
	Recoveries of loans and advances previously written off	**(1 118)**	(895)
		6 987	8 855
11.	**Reinsurance assets**		
	Insurance contracts (refer to note 25)	**713**	551
	Life insurance contracts	**24**	54
	Short-term insurance contracts	**689**	497
	Investment contracts (refer to note 24.1)	**157**	452
		870	1 003

Included in "other assets – accounts receivable and prepayments" are **R340 million** (2012: R14 million) relating to amounts receivable from reinsurers for claims made against them.

		2013 Rm	2012 Rm
12.	**Investment securities**		
	Debt instruments	**12 028**	10 525
	Investments linked to investment contracts (refer to note 24.1)	**16 134**	13 811
	Debt instruments	**388**	210
	Derivative instruments (refer to note 60.3)	**23**	41
	Listed equity instruments	**13 026**	11 136
	Money market instruments	**651**	554
	Unlisted equity and hybrid instruments	**2 046**	1 870
	Listed equity instruments	**1 573**	1 595
	Unlisted equity and hybrid instruments	**3 348**	4 982
		33 083	30 913

	Group	
	2013 Rm	2012 Rm
12. Investment securities *(continued)*		
Market value		
Directors' valuation of unlisted equity and hybrid instruments	**5 394**	6 852
Market value of debt instruments	**12 415**	10 736
Market value of derivative instruments	**23**	41
Market value of listed equity instruments	**14 600**	12 730
Market value of money market instruments	**651**	554
	33 083	30 913
Portfolio analysis		
Available-for-sale financial assets (refer to note 12.1)	**9 665**	7 348
Debt instruments	**9 477**	7 182
Listed equity instruments	**63**	73
Unlisted equity and hybrid instruments	**125**	93
Financial instruments designated at fair value through profit or loss	**22 669**	23 053
Debt instruments	**1 825**	2 872
Investments linked to investment contracts	**16 111**	13 770
Listed equity instruments	**1 510**	1 522
Unlisted equity and hybrid instruments	**3 223**	4 889
Held for trading financial instruments		
Derivative instruments linked to investment contracts (refer to note 60.3)	**23**	41
Held-to-maturity financial instruments		
Debt instruments	**726**	471
	33 083	30 913
12.1 Available-for-sale financial assets		
Carrying value at the beginning of the reporting period	**7 348**	4 010
Cost plus fair value movements	**7 387**	4 062
Impairments[1]	**(39)**	(52)
Movement in investment securities	**2 317**	3 338
Net acquisitions	**1 331**	2 654
Transferred to investments in associates and joint ventures (refer to note 13.5)	**—**	(25)
Exchange rate differences	**710**	330
Fair value movements and accrued interest income	**276**	379
Carrying value at the end of the reporting period	**9 665**	7 348
Cost plus fair value movements	**9 704**	7 387
Impairments[1]	**(39)**	(39)

Note
[1]All impairments relate to equity instruments.

	Group 2013 Rm	Group 2012 Rm
13. Investments in associates and joint ventures		
Unlisted investments	**694**	569
13.1 Movement in carrying value of associates and joint ventures accounted for under the equity method		
Balance at the beginning of the reporting period	**569**	420
Share of current reporting period post-tax results	**130**	249
Share of current reporting period results before taxation	**181**	343
Taxation on reporting period results	**(51)**	(94)
Net movement resulting from acquisitions, disposals and transfers (refer to note 13.5)	**(3)**	(20)
Dividends received	**—**	(78)
Impairment (refer to note 40)	**(2)**	—
Increase/(decrease) in loans and receivables	**—**	(2)
Balance at the end of the reporting period	**694**	569
13.2 Analysis of carrying value of associates and joint ventures accounted for under the equity method		
Unlisted investments		
Loans and receivables	**16**	16
Shares at cost	**102**	102
Share of post-acquisition reserves	**576**	451
	694	569

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

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

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

13.4 Associates and joint ventures

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

	Associates		Joint ventures	
Group share	**2013 Rm**	2012 Rm	**2013 Rm**	2012 Rm
Post-tax profit from continuing operations	**25**	180	**105**	69
Total comprehensive income	**25**	180	**105**	69

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

	Group			
	2013 Effective holding (%)	**2013 Movement Rm**	2012 Effective holding (%)	2012 Movement Rm
13.5 Net movement resulting from acquisitions, disposals and transfers				
Acquired during the previous reporting period, at cost:				
The Document Exchange Association		—	33	1
Transferred from investment securities during the previous reporting period (refer to note 12.1):		—		25
SBV Services Proprietary Limited		—	25	25
The South African Bankers Services Company Proprietary Limited		—	23	0
Disposed of during the current reporting period:				
Spring Valley Investments Proprietary Limited	**37**	**(3)**	—	—
Transferred to non-current assets held for sale during the previous reporting period (refer to note 8):		—		(46)
One Commercial Investment Holdings Cell Captive		—	49	(10)
Kilkishen Investments Proprietary Limited		—	50	(29)
Stand 1135 Houghton Proprietary Limited		—	50	(7)
		(3)		(20)

	Group	
	2013 Rm	2012 Rm
13.6 Details of the purchase consideration on net assets acquired		
Cash consideration	—	1
Transfer from investment securities	—	25
	—	26
13.7 Details of transfers and consideration received on net assets disposed		
Cash consideration on disposal	**3**	—
Transfer to non-current assets held for sale (refer to note 8)	—	(46)
	3	(46)

Refer to note 50.7 for additional disclosure of the Group's investments in associates and joint ventures.

	Group 2013 Rm	Group 2012 Rm
14. Investment properties		
Balance at the beginning of the reporting period	1 220	2 839
Additions	9	202
Change in fair value (refer to notes 38 and 39)	29	(408)
Disposals	(6)	(43)
Foreign exchange movements	49	8
Transfer to non-current assets held for sale (refer to note 8)	(212)	(1 378)
Balance at the end of the reporting period	1 089	1 220

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

	Group 2013 Cost Rm	2013 Accumulated depreciation and/or impairments Rm	2013 Carrying value Rm	2012 Cost Rm	2012 Accumulated depreciation and/or impairments Rm	2012 Carrying value Rm
15. Property and equipment						
Computer equipment	5 038	(3 192)	1 846	5 696	(4 195)	1 501
Freehold property	4 877	(384)	4 493	4 344	(365)	3 979
Furniture and other equipment	8 131	(4 744)	3 387	8 228	(4 962)	3 266
Leasehold property	1 666	(824)	842	1 729	(945)	784
Motor vehicles	149	(38)	111	151	(57)	94
	19 861	(9 182)	10 679	20 148	(10 524)	9 624

Group 2013

	Opening balance Rm	Additions Rm	Disposals Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depre-ciation Rm	Closing balance Rm
Reconciliation of property and equipment							
Computer equipment	1 501	1 081	(40)	—	—	(696)	1 846
Freehold property	3 979	698	(34)	(98)	(13)	(39)	4 493
Furniture and other equipment	3 266	1 400	(477)	(111)	97	(788)	3 387
Leasehold property	784	152	(103)	—	120	(111)	842
Motor vehicles	94	26	(13)	—	11	(7)	111
	9 624	3 357	(667)	(209)	215	(1 641)	10 679
Note				8		39	

	Group 2012							
	Opening balance Rm	Additions Rm	Disposals Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Impairment Rm	Depreciation Rm	Closing balance Rm
15. Property and equipment *(continued)*								
Reconciliation of property and equipment								
Computer equipment	1 655	532	(69)	(1)	22	(11)	(627)	1 501
Freehold property	3 673	339	—	(22)	15	—	(26)	3 979
Furniture and other equipment	3 362	1 531	(811)	—	25	—	(841)	3 266
Leasehold property	879	282	(282)	—	(4)	—	(91)	784
Motor vehicles	73	51	(22)	—	—	—	(8)	94
	9 642	2 735	(1 184)	(23)	58	(11)	(1 593)	9 624
Note				8		40	39	

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

Included in the above additions is **R488 million** (2012: R185 million) that relates to expenditure capitalised to the cost of the asset during the course of its construction. During the current reporting period, an amount of **R571 million** (2012: R209 million) was transferred from assets under construction and brought into use.

	Group					
	2013			2012		
	Cost Rm	**Accumulated amortisation and/or impairments Rm**	**Carrying value Rm**	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
16. Goodwill and intangible assets						
Computer software development costs	**3 565**	**(1 716)**	**1 849**	3 152	(1 359)	1 793
Customer lists and relationships	**689**	**(202)**	**487**	661	(152)	509
Goodwill	**936**	**(176)**	**760**	896	(176)	720
Other	**76**	**(31)**	**45**	39	(13)	26
	5 266	**(2 125)**	**3 141**	4 748	(1 700)	3 048

	Group 2013					
	Opening balance Rm	**Additions Rm**	**Disposals Rm**	**Foreign exchange movements Rm**	**Amortisation Rm**	**Closing balance Rm**
Reconciliation of goodwill and intangible assets						
Computer software development costs	**1 793**	**547**	**(200)**	**115**	**(406)**	**1 849**
Customer lists and relationships	**509**	**37**	**(10)**	**—**	**(49)**	**487**
Goodwill	**720**	**—**	**—**	**40**	**—**	**760**
Other	**26**	**40**	**(6)**	**—**	**(15)**	**45**
	3 048	**624**	**(216)**	**155**	**(470)**	**3 141**
Note					39	

16. Goodwill and intangible assets *(continued)*

Reconciliation of goodwill and intangible assets

	Group 2012							
	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	1 398	898	—	(116)	8	(300)	(95)	1 793
Customer lists and relationships	145	387	—	(1)	2	(24)	—	509
Goodwill	732	139	1	(134)	—	—	(18)	720
Other	7	24	—	(2)	—	(3)	—	26
	2 282	1 448	1	(253)	10	(327)	(113)	3 048
Note			58			39	40	

Refer to note 1.12 for useful lives, amortisation methods and amortisation rates. The majority of computer software development costs were internally generated with the remainder externally acquired.

Included in computer software development costs is **R375 million** (2012: R211 million) relating to assets under construction.

	Group	
	2013 Rm	2012 Rm
Composition of goodwill		
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
Absa Asset Management Proprietary Limited	**30**	30
Barclays International Leasing Company Limited	**32**	25
Barclays Bank of Ghana Limited	**65**	59
Glenrand MIB employee benefits and healthcare	**22**	22
Global Alliance Seguros S.A.	**24**	24
NewFunds Proprietary Limited	**1**	1
Nile Bank Limited	**110**	83
Woolworths Financial Services Proprietary Limited	**364**	364
	760	720

Significant assumptions made in reviewing impairments

Management has to consider at least annually whether the current carrying value of goodwill is impaired. This calculation is based on discounting expected risk adjusted pre-tax cash flows at a risk adjusted pre-tax interest rate appropriate to the operating unit, the determination of which requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which detailed forecasts are available, normally capped at five years, and to assumptions regarding the growth rate, although this is usually capped at inflation growth where higher growth is forecasted by the CGU. While forecasts are compared with actual performance and external sources of data, expected cash flows naturally reflect management's best estimate of future performance. The recoverable amount in the calculation above is based on the value in use for the CGU.

The discount rate used in the impairment calculations is **12%** (2012: 12%). Growth rates used in the impairment calculations range from **5% to 6%** (2012: 4,8% to 5%). A change in the discount rate and the growth rate by 2% will not have a significant impact on the resultant impairment calculation.

		Group	
		2013 Rm	2012 Rm
17.	**Deferred tax**		
17.1	**Reconciliation of net deferred tax liability**		
	Balance at the beginning of the reporting period	**1 070**	614
	Deferred tax asset released on STC credits	**—**	31
	Deferred tax on amounts charged directly to other comprehensive income	**(673)**	547
	Available-for-sale investments	**34**	431
	Fair value measurement	**31**	430
	Transfer to the profit or loss component of the statement of comprehensive income	**3**	1
	Cash flow hedges	**(710)**	158
	Fair value measurement	**(253)**	742
	Transfer to the profit or loss component of the statement of comprehensive income	**(457)**	(584)
	Retirement benefit funds assets and liabilities	**3**	(42)
	Charge to the profit or loss component of the statement of comprehensive income (refer to note 42)	**(42)**	43
	Tax effect of translation and other differences	**(31)**	(13)
	Transfer to non-current assets held for sale (refer to note 8)	**—**	(152)
	Balance at the end of the reporting period	**324**	1 070
17.2	**Deferred tax liability/(asset)**		
	Tax effects of temporary differences between tax and book value for:		
	Accruals and provisions	**1 545**	1 707
	Fair value adjustments on financial instruments	**(338)**	(20)
	Impairment of loans and advances	**(113)**	43
	Lease and rental debtor allowances	**(84)**	(18)
	Other differences	**(157)**	(366)
	Property allowances	**200**	127
	Retirement benefit funds assets and liabilities	**258**	241
	Deferred tax liability	**1 311**	1 714
	Deferred tax asset	**(987)**	(644)
	Deferred tax asset – normal	**(987)**	(644)
	Accruals and provisions	**—**	(190)
	Assessed losses	**(88)**	(143)
	Fair value adjustments on financial instruments	**—**	(24)
	Impairment of loans and advances	**(153)**	(208)
	Share-based payments	**(110)**	(12)
	Retirement benefit assets	**(13)**	(110)
	Other differences	**(623)**	43
	Net deferred tax liability	**324**	1 070
17.3	**Future tax relief**		
	Balance at the beginning of the reporting period	**1 003**	404
	Losses incurred	**481**	906
	Movement in temporary differences	**(38)**	0
	Operating losses utilised	**(111)**	(307)
	Balance at the end of the reporting period	**1 335**	1 003

	Group 2013 Rm	Group 2012 Rm
18. Deposits from banks		
Call deposits	**7 703**	9 845
Fixed deposits	**12 545**	3 933
Foreign currency deposits	**17 130**	5 668
Notice deposits	**702**	—
Other	**14 282**	8 882
Repurchase agreements (refer to note 47)	**16 702**	13 096
	69 064	41 424
Portfolio analysis		
Financial liabilities at amortised cost	**59 744**	30 292
Financial liabilities designated at fair value through profit or loss	**9 320**	11 132
Fixed deposits	**7**	539
Foreign currency deposits	**37**	35
Repurchase agreements	**9 276**	10 558
	69 064	41 424

Deposits with variable rates are **R38 590 million** (2012: R14 708 million) and with fixed rates are **R30 474 million** (2012: R26 716 million).

	Group 2013 Rm	Group 2012 Rm
19. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 60.3)	**47 736**	46 812
Commodity derivatives	**155**	174
Credit derivatives	**523**	212
Equity derivatives	**1 913**	1 782
Foreign exchange derivatives	**7 799**	5 629
Interest rate derivatives	**37 346**	39 015
Short positions	**3 741**	4 922
Total trading portfolio liabilities	**51 477**	51 734
Hedging portfolio liabilities (refer to note 60.3)	**2 391**	3 855
	53 868	55 589
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**434**	14
Derivatives designated as fair value hedging instruments	**1 957**	3 841
Financial liabilities held for trading	**51 477**	51 734
Derivative liabilities	**47 736**	46 812
Short positions	**3 741**	4 922
	53 868	55 589

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

	Group 2013 Rm	Group 2012 Rm
20. Other liabilities		
Accruals	**1 572**	1 466
Audit fee accrual	**109**	86
Creditors	**9 075**	7 914
Deferred income	**562**	392
Liabilities under finance leases (refer to note 20.1)	**108**	303
Retirement benefit funds and post-retirement medical plan obligations (refer to note 45)	**1 272**	877
Settlement balances	**6 618**	8 732
Share-based payment liability (refer to note 57)	**459**	640
	19 775	20 410
Portfolio analysis		
Financial liabilities at amortised cost	**15 765**	16 935
Creditors	**9 039**	7 900
Liabilities under finance leases	**108**	303
Settlement balances	**6 618**	8 732
Financial liabilities designated at fair value through profit or loss	**36**	17
Non-financial liabilities	**3 974**	3 458
	19 775	20 410

Group 2013	Minimum lease payments due Rm	Interest Rm	Principal Rm
20.1 Liabilities under finance leases			
Less than one year	**94**	**(2)**	**92**
Between one and two years	**16**	**—**	**16**
	110	**(2)**	**108**

Group 2012	Minimum lease payments due Rm	Interest Rm	Principal Rm
Liabilities under finance leases			
Less than one year	235	(23)	212
Between one and two years	82	(2)	80
Between two and three years	11	(0)	11
	328	(25)	303

Under the terms of the leases, no contingent rentals are payable. Refer to note 15 for details of property and equipment subject to finance leases.

20. Other liabilities *(continued)*

20.1 Liabilities under finance leases *(continued)*

20.1.1 Terms and conditions of finance leases

Description	Address	Details
Roggebaai	31 Lower Long Street, Cape Town	Original term of 20 years with negotiable escalation clauses and a renewal date of 28 February 2014.
IBM Global Financing	Various locations	Lease of various items of information technology systems with an original term of between three and five years with no escalation clauses.

	Group	
	2013 Rm	2012 Rm
20.1.2 Minimum future income receivable from subleasing		
Receivable within one year	**1**	1
Receivable within two to five years	**0**	0
	1	1

	Group		
	2013		
	Staff bonuses and incentive provisions Rm	**Sundry provisions Rm**	**Total Rm**
21. Provisions			
Balance at the beginning of the reporting period	**1 222**	**1 058**	**2 280**
Additions	**1 383**	**699**	**2 082**
Amounts used	**(850)**	**(913)**	**(1 763)**
Reversals	**(118)**	**(21)**	**(139)**
Balance at the end of the reporting period	**1 637**	**823**	**2 460**

	2012		
	Staff bonuses and incentive provisions Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the reporting period	1 295	963	2 258
Additions	1 115	640	1 755
Amounts used	(1 164)	(460)	(1 624)
Reversals	(24)	(85)	(109)
Balance at the end of the reporting period	1 222	1 058	2 280

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R2 304 million** (2012: R1 675 million).

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

	Group 2013 Rm	Group 2012 Rm
22. Deposits due to customers		
Call deposits	**52 843**	56 667
Cheque account deposits	**174 686**	170 915
Credit card deposits	**1 914**	1 938
Fixed deposits	**168 054**	147 686
Foreign currency deposits	**17 456**	12 253
Notice deposits	**56 349**	55 728
Other[1]	**11 139**	8 434
Repurchase agreements with non-banks (refer to note 47)	**1 208**	1 503
Savings and transmission deposits	**104 362**	87 977
	588 011	543 101
Portfolio analysis		
Financial liabilities at amortised cost	**570 148**	524 012
Financial liabilities designated at fair value through profit or loss	**17 863**	19 089
Cheque account deposits	**80**	61
Fixed deposits	**16 258**	17 099
Other	**317**	426
Repurchase agreements with non-banks	**1 208**	1 503
	588 011	543 101
23. Debt securities in issue		
Credit linked notes	**8 155**	9 800
Floating rate notes	**44 719**	52 639
Liabilities arising from securitised structured entities	**495**	2 391
Negotiable certificates of deposit	**20 494**	17 575
Other	**11**	7
Promissory notes	**935**	1 378
Structured notes and bonds	**1 487**	1 122
Senior notes	**21 533**	21 892
	97 829	106 804
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**12 079**	11 987
Negotiable certificates of deposit	**2 791**	2 144
Senior notes	**9 288**	9 843
Financial liabilities at amortised cost	**82 207**	91 619
Financial liabilities designated at fair value through profit or loss	**3 543**	3 198
Credit linked notes	**2 245**	1 571
Promissory notes	**292**	529
Structured notes and bonds	**1 006**	1 098
	97 829	106 804

Note

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

	Group 2013 Rm	Group 2012 Rm
24. Liabilities under investment contracts		
Balance at the beginning of the reporting period	**18 768**	19 922
Change in investments contracts (refer to note 35)	**2 274**	1 363
Inflows on investment contracts	**3 157**	1 831
Policyholder benefits on investment contracts	**(4 319)**	(3 366)
Linked investment policies	**(107)**	(1 680)
Transfer to non-current liabilities held for sale (refer to note 8)	**—**	698
Balance at the end of the reporting period[1]	**19 773**	18 768
Portfolio analysis		
Financial liabilities designated at fair value through profit or loss	**19 773**	18 768

	Group 2013 Total assets linked to investment contracts Rm	Group 2013 Intercompany eliminations Rm	Group 2013 Net assets attributable to external policyholders Rm
24.1 Assets linked to investment contracts			
Money market assets (refer to note 2)	**493**	**—**	**493**
Investment securities (refer to note 12)	**19 146**	**(3 012)**	**16 134**
Other assets	**1**	**—**	**1**
Other liabilities	**(24)**	**—**	**(24)**
Reinsurance asset (refer to note 11)	**157**	**—**	**157**
	19 773	**(3 012)**	**16 761**

	2012 Total assets linked to investment contracts Rm	2012 Intercompany eliminations Rm	2012 Net assets attributable to external policyholders Rm
Assets linked to investment contracts			
Money market assets (refer to note 2)	422	—	422
Investment securities (refer to note 12)	17 911	(4 100)	13 811
Other assets	1	—	1
Other liabilities	(18)	—	(18)
Reinsurance asset (refer to note 11)	452	—	452
	18 768	(4 100)	14 668

25. Policyholder liabilities under insurance contracts

	Group 2013 Gross Rm	Group 2013 Reinsurance Rm	Group 2013 Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 25.1)	**941**	**(420)**	**521**
Claims reported and loss adjustment expense	**741**	**(411)**	**330**
Claims incurred but not reported	**200**	**(9)**	**191**
Unearned premiums at the end of the reporting period	**1 028**	**(269)**	**759**
Balance at the beginning of the reporting period	**1 035**	**(261)**	**774**
Increase during the reporting period	**2 563**	**(172)**	**2 391**
Release during the reporting period	**(2 570)**	**164**	**(2 406)**
	1 969	**(689)**	**1 280**
Long-term insurance contracts (refer to note 25.2)	**1 989**	**(24)**	**1 965**
	3 958	**(713)**	**3 245**

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

	Group 2013 Rm	Group 2012 Rm
Comprising:		
Unit-linked insurance contracts		
Gross	**1 518**	1 298
Non-linked insurance contracts	**1 727**	1 701
Gross	**2 440**	2 252
Reinsurance (refer to note 11)	**(713)**	(551)
	3 245	2 999

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

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

	Group 2013 Gross Rm	Group 2013 Reinsurance Rm	Group 2013 Net Rm
Balance at the beginning of the reporting period	707	(236)	471
Cash paid for claims settled during the reporting period	(2 372)	(880)	(3 252)
Increase in claims arising from the current reporting period's claims outstanding	2 541	741	3 282
Increase in claims arising from the previous reporting period's claims outstanding	65	(45)	20
Balance at the end of the reporting period (refer to note 25)	941	(420)	521

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

25.2 Reconciliation of gross long-term insurance contracts

	Group 2013 Rm	Group 2012 Rm
Balance at the beginning of the reporting period	1 808	1 472
Reinsurance liability	(30)	(3)
Transfer adjustment	28	(5)
Change in insurance contract liabilities (refer to note 35)	183	344
Change in economic assumptions	(74)	54
Change in methodology	(51)	(13)
Change in non-economic assumptions	(2)	18
Expected cash flow	769	683
Expected release of margins	(769)	(700)
Experience variances	29	(3)
Increase in retrospective liabilities	221	186
New business	13	90
Transfer of policies	20	—
Unwind of discount rate	27	29
Balance at the end of the reporting period (refer to note 25)	1 989	1 808
Recoverable from reinsurers (refer to note 11)	24	54
Net liabilities	1 965	1 754
Unit-linked liabilities	1 518	1 298
Non-linked liabilities	447	456
	1 989	1 808

26. Borrowed funds

Subordinated callable notes issued by Absa Bank Limited

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

Interest rate	*Final maturity date*	*Note*	Group 2013 Rm	Group 2012 Rm
8,80%	7 March 2019	i	**1 725**	1 725
8,10%	27 March 2020	ii	**2 000**	2 000
10,28%	3 May 2022	iii	**600**	600
8,295%	21 November 2023	iv	**1 188**	1 188
Three-month JIBAR + 2,10%	3 May 2022	v	**400**	400
Three-month JIBAR + 1,95%	21 November 2022	vi	**1 805**	1 805
Three-month JIBAR + 2,05%	21 November 2023	vii	**2 007**	2 007
CPI-linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	viii	**—**	1 886
6,00%	20 September 2019	ix	**3 000**	3 000
5,50%	7 December 2028	x	**1 500**	1 500
Subordinated callable notes issued by other subsidiaries				
USD three-month LIBOR	29 April 2013	xi	**—**	136
Bank of Botswana Certificates rate + 0,85%	30 October 2014	xii	**120**	207
Ninety-one day Kenyan Government Treasury Bill rate +0,60%	19 November 2014	xiii	**121**	97
Ninety-one day Zambian Government Treasury Bill rate +2,00%	9 May 2015	xiv	**96**	82
One-hundred and eighty-two day Kenyan Government Treasury Bill rate + 1,00%	14 July 2015	xv	**90**	73
11,50%	14 July 2015	xvi	**153**	124
One hundred and eighty-two day Zambian Government Treasury Bill rate + 2,50% (capped at 13,00% overall)	18 May 2016	xvii	**96**	82
USD three-month LIBOR + 1,00%	31 March 2018	xviii	**69**	56
Accrued Interest			**1 490**	1 475
Fair value adjustment			**65**	334
			16 525	18 777

Portfolio analysis

	Group 2013 Rm	Group 2012 Rm
Amortised cost financial liabilities held in a fair value hedging relationship	**5 080**	5 206
Financial liabilities designated at fair value through profit or loss	**—**	778
Financial liabilities held at amortised cost	**11 445**	12 793
	16 525	18 777

26. Borrowed funds *(continued)*

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

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

iii The 10,28% fixed rate notes may be redeemed in full at the option of 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 2017. 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.

iv 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. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate. Absa Bank Limited has an option to exercise the redemption on any interest payment date after 21 November 2018.

v The three-month JIBAR plus 2,10% floating rate notes may be redeemed in full at the option of 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 2017. 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%.

vi 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. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate. Absa Bank Limited has an option to exercise the redemption on any interest payment date after 21 November 2017.

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

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

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

x The 5,50% CPI-linked notes may be redeemed in full at the option of 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 date for payment shall be 7 December 2023. If Absa Bank Limited does not exercise the redemption option, a coupon step-up of 150 bps shall apply.

xi The floating rate notes issued by Barclays Bank of Kenya Limited ("Barclays Kenya") to Barclays Bank PLC were redeemed in full on 29 April 2013. These notes carried interest at the United States Dollar three-month London Interbank Offered Rate ("USD three-month LIBOR") rate. Interest was paid quarterly in arrears on the last working day of March, June, September and December.

xii The privately placed floating rate notes issued by Barclays Bank of Botswana Limited ("Barclays Botswana") are redeemable in full on 30 October 2014. These notes carry interest at the Bank of Botswana Certificates rate plus 0,85% and interest is paid semi-annually on 30 April and 31 October. In terms of this issue of note, a new class of redeemable preference shares will be compulsorily created and the notes converted to preference shares should Barclays Botswana experience pre-tax losses in excess of its retained earnings and other reserves.

xiii The floating rate notes issued by Barclays Kenya, which are traded on the Nairobi Securities Exchange, will be redeemed in full on 19 November 2014. The notes bear interest at the ninety-one day Kenyan Government Treasury Bill rate plus 0,60%. Interest is paid quarterly in arrears on the second Monday of February, May, August and November.

xiv The floating rate notes issued by Barclays Bank Zambia PLC ("Barclays Zambia"), which are listed on the Lusaka Stock Exchange, will be redeemed in full on 9 May 2015. The notes bear interest at the ninety-one day Zambian Government Treasury Bill rate plus 2,00%. Interest is paid semi-annually in arrears on 9 May and 9 November.

xv The floating rate notes issued by Barclays Kenya, which are traded on the Nairobi Securities Exchange, will be redeemed in full on 14 July 2015. The notes bear interest at the one hundred and eighty-two day Kenyan Government Treasury Bill rate plus 1,00%. Interest is paid semi-annually in arrears on the first Monday of January and July.

xvi The 11,50% fixed rate notes issued by Barclays Kenya, which are traded on the Nairobi Securities Exchange, will be redeemable in full on 14 July 2015. Interest is paid semi-annually in arrears on the first Monday of January and July.

xvii The floating rate notes issued by Barclays Zambia, which are listed on the Lusaka Stock Exchange, will be redeemed in full on 18 May 2016. The notes bear interest at the one hundred and ninety-two day Zambian Government Treasury Bill rate plus 2,50%. Interest is paid semi-annually in arrears on 18 May and 18 November.

xviii The floating rate notes issued by Barclays Bank of Uganda Limited ("Barclays Uganda") to Barclays Bank PLC may be redeemed in full or in part on any anniversary of the drawdown of the loan post 31 March 2013. Mandatory redemption in full will occur on 31 March 2018. The notes bear interest at the USD three-month LIBOR plus 1,00%. Interest is paid quarterly in arrears on 31 March, 30 June, 30 September and 31 December.

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

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

	Group	
	2013 Rm	2012 Rm
27. Share capital and premium		
27.1 Ordinary share capital		
Authorised		
880 467 500 (2012: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
847 750 679 (2012: 718 210 043) ordinary shares of R2,00 each	**1 696**	1 696
437 896 (2012: 547 750) treasury shares held by Group entities	**(1)**	(2)
	1 695	1 694
Total issued capital		
Share capital	**1 695**	1 694
Share premium	**4 474**	5 336
	6 169	7 030

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 current reporting period

During the reporting period, 129 540 636 ordinary shares were issued to conclude the strategic combination of Barclays' Africa operations. The transaction is a business combination of entities under common control as defined in IFRS 3. The transaction was accounted for in terms of the Group's policy on accounting for business combinations under common control, and these ordinary shares are therefore included in the issued share capital and share premium in both the current and previous reporting periods as if they had always been in issue.

Shares issued during the previous reporting period

There were no shares issued during the previous reporting period.

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

28. Other reserves

28.1 General credit risk reserve

The general credit risk reserve consists of the following:

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

28.2 Available-for-sale reserve

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

28.3 Cash flow hedging reserve

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

28.4 Foreign currency translation reserve

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

28.5 Insurance contingency reserve

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

28.6 Foreign insurance subsidiary regulatory reserve

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

- 20% until the value of 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.

28.7 Share-based payment reserve

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

28.8 Associates' and joint ventures' reserve

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

	Group	
	2013 Rm	2012 Rm
29. Non-controlling interest – preference shares		
Authorised		
30 000 000 (2012: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2012: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

The only subsidiary of the Group that gives rise to a significant non-controlling interest is Absa Bank Limited. Whilst 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 63% 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 nominal value of the shares in the event of insolvency, and to any dividend that is declared, but unpaid.

As at 31 December 2013, there are no preference dividends that have been declared but remain unpaid. Please 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	
	2013 Rm	2012 Rm
30. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	**245**	166
Fair value adjustments on hedging instruments	**3 803**	(185)
Investment securities	**2 072**	1 742
Loans and advances to banks	**1 292**	1 251
Loans and advances to customers	**50 697**	48 161
Cheque accounts	**3 143**	3 022
Corporate overdrafts and specialised finance loans	**123**	484
Credit cards	**5 697**	3 593
Foreign currency loans	**275**	288
Instalment credit agreements	**5 841**	5 585
Interest on impaired financial assets (refer to note 10)	**851**	1 018
Reverse repurchase agreements	**12**	(41)
Loans to associates and joint ventures	**657**	494
Microloans	**478**	505
Mortgages	**19 642**	20 986
Other advances[1]	**927**	479
Overnight finance	**786**	814
Personal and term loans	**9 073**	8 244
Preference shares	**484**	485
Wholesale overdrafts	**2 708**	2 205
Other interest[2]	**385**	578
Statutory liquid asset portfolio	**1 738**	5 584
	60 232	57 297
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale financial assets held in a fair value hedging relationship (refer to note 60.2)	**(2 450)**	1 780
Loans and advances to customers	**164**	431
Statutory liquid asset portfolio	**(2 614)**	1 349
Fair value adjustments on hedging instruments	**4 549**	390
Cash flow hedges (refer to note 60.2)	**1 730**	1 990
Economic hedges	**1**	(9)
Fair value hedges (refer to note 60.2)	**2 818**	(1 591)
Interest on financial assets held at amortised cost	**54 038**	51 013
Interest on financial assets held as available-for-sale	**4 208**	3 782
Interest on financial assets designated at fair value through profit or loss	**(113)**	332
Cash, cash balances and balances with central banks	**62**	61
Hedging instruments	**(747)**	(575)
Investment securities	**8**	68
Loans and advances to customers	**535**	709
Statutory liquid asset portfolio	**29**	69
	60 232	57 297

Notes

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

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

	Group 2013 Rm	Group 2012 Rm
31. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 358**	1 400
Debt securities in issue	**5 850**	8 410
Deposits due to customers	**21 568**	19 207
Call deposits	**2 813**	2 881
Cheque account deposits	**3 120**	3 288
Credit card deposits	**8**	9
Fixed deposits	**8 566**	6 992
Foreign currency deposits	**424**	114
Notice deposits	**2 916**	2 471
Other	**1 103**	1 053
Savings and transmission deposits	**2 618**	2 399
Deposits from banks	**590**	656
Call deposits	**315**	528
Fixed deposits	**274**	103
Other	**1**	25
Fair value adjustments on hedging instruments	**500**	(999)
Interest incurred on finance leases	**19**	51
Other[1]	**(2 004)**	(730)
	27 881	27 995
Portfolio analysis		
Fair value adjustments on amortised cost financial liabilities held in a fair value hedging relationship (refer to note 60.2)	**(820)**	445
Borrowed funds	**(126)**	43
Debt securities in issue	**(694)**	402
Fair value adjustments on hedging instruments	**893**	(652)
Cash flow hedges (refer to note 60.2)	**(52)**	(79)
Economic hedges	**46**	(185)
Fair value hedges (refer to note 60.2)	**899**	(388)
Interest on financial liabilities designated at fair value through profit or loss	**488**	639
Borrowed funds	**17**	70
Debt securities in issue	**150**	281
Deposits due to customers	**714**	634
Hedging instruments	**(393)**	(346)
Interest on financial liabilities held at amortised cost	**27 320**	27 563
	27 881	27 995

Note

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

	Group	
	2013 Rm	2012 Rm
32. Net fee and commission income		
Asset management and other related fees	**160**	158
Consulting and administration fees	**661**	566
Credit-related fees and commissions	**15 145**	14 439
Cheque accounts	**3 598**	3 589
Credit cards[1]	**1 226**	655
Electronic banking	**4 129**	4 093
Other[2]	**3 889**	3 614
Savings accounts	**2 303**	2 488
Insurance commission received	**1 315**	1 147
Investment banking fees	**255**	252
Merchant income	**2 197**	2 034
Other	**203**	258
Pension fund payment services	**—**	122
Trust and other fiduciary service fees	**1 412**	1 120
Portfolio and other management fees	**1 144**	870
Trust and estate income	**268**	250
Fee and commission income	**21 348**	20 096
Fee and commission expense	**(2 794)**	(2 713)
Cheque processing fees	**(150)**	(161)
Insurance commission paid	**(1 001)**	(945)
Other	**(1 298)**	(1 198)
Transaction-based legal fees	**(115)**	(209)
Trust and other fiduciary service fees	**(88)**	(73)
Valuation fees	**(142)**	(127)
	18 554	17 383

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.

	Group	
	2013 Rm	2012 Rm
32.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	**3 598**	3 589
Credit cards	**1 226**	655
Other	**2 178**	1 913
Savings accounts	**2 303**	2 488
Fee and commission income	**9 305**	8 645
Fee and commission expense	**(1 525)**	(1 520)
	7 780	7 125

Notes

[1]Includes acquiring and issuing fees.

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

	Group	
	2013 Rm	2012 Rm
33. Net insurance premium income		
Gross insurance premiums	7 813	7 073
Life insurance contracts	2 886	2 670
Short-term insurance contracts	4 927	4 403
Premiums ceded to reinsurers	(2 127)	(1 455)
Reinsurance on life insurance contracts	(205)	(175)
Reinsurance on short-term insurance contracts	(1 922)	(1 280)
	5 686	5 618
Comprising (net of reinsurance)		
Life	2 681	2 495
Credit life	783	989
Funeral business	457	451
Home mortgage protection	594	598
Other	847	457
Short-term	3 005	3 123
Commercial business	563	1 115
Personal business	2 442	2 008
	5 686	5 618
34. Net insurance claims and benefits paid		
Gross claims and benefits paid on insurance contracts	4 733	3 657
Life insurance claims and benefits	874	704
Short-term insurance claims and benefits	3 859	2 953
Reinsurance recoveries	(1 914)	(938)
Reinsurance recoveries on life insurance contracts	(137)	(111)
Reinsurance recoveries on short-term insurance contracts	(1 777)	(827)
	2 819	2 719
Comprising (net of reinsurance)		
Life	738	593
Credit life	154	110
Funeral business	132	129
Home mortgage protection	306	274
Other	146	80
Short-term	2 081	2 126
Commercial business	948	846
Personal business	1 133	1 280
	2 819	2 719

	Group 2013 Rm	Group 2012 Rm
35. Changes in investment and insurance contract liabilities		
Increase in insurance contract liabilities (refer to note 25.2)	**183**	344
Increase in investment contract liabilities (refer to note 24)	**2 274**	1 363
	2 457	1 707
36. Gains and losses from banking and trading activities		
Net gains on investments	**312**	93
Debt instruments designated at fair value through profit or loss	**181**	179
Equity instruments designated at fair value through profit or loss	**141**	(76)
Available-for-sale unwind from reserves	**(10)**	(10)
Net trading result	**3 854**	4 382
Net trading income excluding the impact of hedge accounting	**4 092**	4 360
Ineffective portion of hedges	**(238)**	22
Cash flow hedges (refer to note 60.2.2)	**(234)**	45
Fair value hedges (refer to note 60.2.1)	**(4)**	(23)
Other gains	**195**	60
	4 361	4 535
Net trading income excluding the impact of hedge accounting	**4 092**	4 360
Gains/(losses) on financial instruments designated at fair value through profit or loss	**1 126**	(857)
Net gains on financial assets designated at fair value through profit or loss	**125**	1 129
Net gains/(losses) on financial liabilities designated at fair value through profit or loss	**1 001**	(1 986)
Gains on financial instruments held for trading	**2 966**	5 217
Other gains	**195**	60
Gains/(losses) on financial instruments designated at fair value through profit or loss	**135**	(3)
Gains on financial instruments held for trading	**60**	63

	Group 2013 Rm	Group 2012 Rm
37. Gains and losses from investment activities		
Available-for-sale unwind from reserves	4	2
Net gains on investments from insurance activities	2 803	1 686
Policyholder – insurance contracts	337	329
Policyholder – investment contracts	2 181	1 086
Shareholder funds	285	271
Other gains	24	47
	2 831	1 735
Gains on investments from insurance activities	2 803	1 686
Gains on financial instruments designated at fair value through profit or loss	2 805	1 687
Losses on financial instruments held for trading	(2)	(1)
38. Other operating income		
Foreign exchange differences	40	41
Income from investment properties	62	30
Change in fair value (refer to note 14)	62	—
Rentals	—	30
Income from maintenance contracts	16	25
Loss on disposal of intangible assets	(1)	(3)
(Loss)/profit on disposal of property and equipment	(5)	79
Profit on disposal of developed properties	49	33
Gross sales	102	67
Cost of sales	(53)	(34)
Profit on sale of repossessed properties	15	14
Gross sales	357	550
Cost of sales	(342)	(536)
Rental income	347	348
Sundry income[1]	376	262
	899	829

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

	Group 2013 Rm	Group 2012 Rm
39. Operating expenses		
Amortisation of intangible assets (refer to note 16)	**470**	327
Auditors' remuneration	**259**	203
Audit fees – current reporting period	**182**	157
Audit fees – under provision	**9**	9
Audit-related fees[1]	**44**	31
Other services	**24**	6
Cash transportation	**715**	710
Depreciation (refer to note 15)	**1 641**	1 593
Equipment costs	**391**	382
Rentals	**133**	138
Maintenance	**258**	244
Information technology[2]	**2 078**	2 201
Investment properties charges – change in fair value (refer to note 14)	**33**	408
Marketing costs	**1 355**	1 137
Operating lease expenses on properties	**1 309**	1 010
Other[3]	**2 913**	2 404
Printing and stationery	**310**	280
Professional fees[2]	**1 578**	937
Property costs	**1 692**	1 950
Staff costs	**17 593**	15 787
Bonuses	**1 679**	1 210
Other[4]	**1 203**	844
Salaries and current service costs on post-retirement benefits	**13 942**	13 008
Share-based payments (refer to note 57)	**428**	469
Training costs	**341**	256
Telephone and postage	**1 083**	1 000
	33 420	30 329

Notes

[1]Includes fees paid for assurance reports performed on behalf of various regulatory bodies.

[2]"Information technology" and "professional fees" include research and development costs totalling **R246 million** (2012: R113 million).

[3]Includes fraud losses, travel and entertainment costs as well as administration fees related to the Edcon portfolio.

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

		Group 2013 Rm	Group 2012 Rm
40.	**Other impairments**		
	Financial instruments	28	7
	Other	5	125
	Computer software development costs (refer to note 16)	—	95
	Property and equipment (refer to note 15)	—	11
	Goodwill (refer to note 16)	—	18
	Investments in associates and joint ventures (refer to note 13.1)	2	—
	Repossessed properties	3	1
		33	132
	The current and previous reporting periods' impairment losses reported by segment are disclosed in note 59.		
41.	**Indirect taxation**		
	Training levy	117	108
	VAT net of input credits	883	616
		1 000	724
42.	**Taxation expense**		
	Current		
	Foreign tax	170	75
	South African current tax	5 378	4 428
	South African current tax – previous reporting period	(284)	(206)
	STC	—	99
		5 264	4 396
	Deferred		
	Deferred tax (refer to note 17.1)	(42)	43
	Accelerated tax depreciation	85	(117)
	Allowances for loan losses	(72)	(4)
	Other provisions	(104)	45
	Other temporary differences	81	77
	Share-based payments	—	—
	Assessed losses	(39)	—
	Retirement benefit fund assets and liabilities	7	42
		5 222	4 439
	Reconciliation between operating profit before income tax and the taxation expense		
	Operating profit before income tax	18 096	15 185
	Share of post-tax results of associates and joint ventures (refer to note 13)	(130)	(249)
		17 966	14 936
	Tax calculated at a tax rate of 28%	5 030	4 182
	Effect of different tax rates in other countries	(25)	(4)
	Expenses not deductible for tax purposes	466	246
	Income not subject to tax	(500)	(444)
	Other	251	360
	STC	—	99
		5 222	4 439

43. Earnings per share

43.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders, obtained from the profit or loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the reporting period.

	Group 2013 Rm	Group 2012 Rm
Basic earnings attributable to ordinary equity holders	**11 981**	9 999
Weighted average number of ordinary shares in issue (millions)	**847,3**	847,1
Issued shares at the beginning of the reporting period	**718,2**	718,2
Shares issued during the reporting period[1]	**129,5**	129,5
Treasury shares held by Group entities (weighted)	**(0,4)**	(0,6)
Basic earnings per share (cents)	**1 414,0**	1 180,4

43.2 Diluted earnings per share

Diluted earnings are determined by adjusting the 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 2013 Rm	Group 2012 Rm
Diluted earnings attributable to ordinary equity holders	**11 981**	9 999
Diluted weighted average number of ordinary shares in issue (millions)	**848,0**	848,7
Issued number of ordinary shares	**847,3**	847,1
Adjustments for share options issued at no value	**0,7**	1,6
Diluted earnings per share (cents)	**1 412,9**	1 178,2

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

Diluted earnings per share are 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.

Notes

[1]The Group has acquired the entire issued share capital of Barclays Africa Limited and has issued 129 540 636 consideration shares to Barclays Africa Group Holdings Limited (a wholly owned subsidiary of Barclays). Following this acquisition, Barclays has increased its stake to 62,3% from 55,5% in the ordinary shares of Barclays Africa Group. No weighting has been applied to this share issue in line with the principles of accounting for business combinations under common control.

	Group			
	2013		2012	
	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm
44. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders:		11 981		9 999
Total headline earnings adjustment:		(138)		420
IFRS 3 – Goodwill impairment (refer to note 40)	—	—	18	18
IFRS 5 – Gains and losses on disposal of non-current assets held for sale	(171)	(138)	—	—
IAS 16 and IAS 36 – Loss/(profit) on disposal and impairment of property and equipment (refer to note 38)	5	4	(79)	(62)
IAS 27 – Loss on disposal of subsidiary	8	8	—	—
IAS 28 and IFRS 11 – Headline earnings component of share of post-tax results of associates and joint ventures	—	—	(1)	(1)
IAS 36 – Impairment of investments in associates and joint ventures (refer to note 40)	2	2	—	—
IAS 36 and IAS 38 – Loss on disposal and impairment of intangible assets (refer to notes 38 and 40)	1	—	98	70
IAS 39 – Release of available-for-sale reserves (refer to note 36)	10	7	10	7
IAS 39 – Disposal and impairment of available-for-sale assets	6	4	—	—
IAS 40 – Change in fair value of investment properties (refer to notes 38 and 39)	(29)	(25)	408	388
Headline earnings/diluted headline earnings		**11 843**		10 419
Headline earnings per share (cents)		**1 397,7**		1 229,9
Diluted headline earnings per share (cents)		**1 396,6**		1 227,6

	Group	
	2013 Rm	2012 Rm
45. Retirement benefit obligations		
Surplus disclosed in "Other assets"		
Subsidiaries' defined benefit plans excluding the Absa Pension Fund[1] (refer to notes 6 and 45.2.1)	111	47
Absa Pension Fund defined benefit plan (refer to notes 6 and 45.1.1)	466	466
	577	513
Obligations disclosed in "Other liabilities"		
Subsidiaries' defined benefit plans excluding the Absa Pension Fund (refer to notes 20 and 45.2.1)	(1 192)	(822)
Subsidiaries' post-retirement medical aid plans (refer to notes 20 and 45.3)	(80)	(55)
	(1 272)	(877)
Statement of comprehensive income charge included in staff costs and interest expense		
Subsidiaries' defined benefit plans in a deficit position excluding the Absa Pension Fund (refer to note 45.2.4)	127	113
Subsidiaries' defined benefit plans in a surplus position excluding the Absa Pension Fund (refer to note 45.2.4)	(7)	44
Absa Pension Fund defined benefit plan in a surplus position (refer to note 45.1.3)	(24)	(34)
Subsidiaries' post-retirement medical aid plans (refer to notes 20 and 45.3)	8	7
	104	130
Recognised in other comprehensive income		
Subsidiaries' defined benefit plans in deficit position excluding Absa Pension Fund (refer to note 45.2.4)	357	79
Subsidiaries' defined benefit plans in a surplus position excluding Absa Pension Fund (refer to note 45.2.4)	(30)	16
Absa Pension Fund defined benefit plan in a surplus position (refer to note 45.1.3)	26	61
Subsidiaries' post-retirement medical aid plans (refer to notes 20 and 45.3)	23	—
	376	156

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

45. Retirement benefit fund obligations *(continued)*

45.1 Absa Pension Fund[1]

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

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

The fund is financed by employer and employee contributions and investment income. Employer contributions in respect of the defined benefit portion are based on actuarial advice. The expense or income recorded in the profit or loss component of the statement of comprehensive income is determined by the sum of the current service cost, interest income on plan assets and interest expense. It is the 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.

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

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

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of the fund be carried out at least every three years. The most recent statutory valuation of the fund was effected on 31 March 2013 and confirmed that the fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 ("the PF Act"). The PF Act facilitates the determination of the surplus apportionment to members, while avoiding the inappropriate distribution of surpluses. The PF Act requires that a fund explicitly establish additional contingency reserves to ensure the financial soundness of the fund going forward. The valuation has been performed using the projected unit benefit credit method in respect of the defined benefit portion.

Notes

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

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

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

45. Retirement benefit fund obligations *(continued)*

45.1 Absa Pension Fund *(continued)*

45.1.1 Defined benefit plan reconciliations

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

Note
[1]Included in staff costs.

45. Retirement benefit fund obligations *(continued)*

45.1 Absa Pension Fund *(continued)*

45.1.1 Defined benefit plan reconciliations *(continued)*

	Group 2013 Rm	Group 2012 Rm
Reconciliation of movement in the plan assets		
Balance at the beginning of the reporting period	**19 868**	18 008
Defined benefit portion	7 535	6 612
Defined contribution portion	12 333	11 396
Reconciling items – defined benefit portion	**834**	923
Benefits paid	(464)	(448)
Employer contributions	1	3
Interest income on the plan assets	527	537
Remeasurement – return on plan assets in excess of interest	211	654
Increase as result of defined contribution member transfers	559	177
Reconciling items – defined contribution portion	**2 166**	937
Return on plan assets	1 878	985
Employer contributions	764	741
Employee contributions	496	430
Disbursements and member transfers	(972)	(1 219)
Balance at the end of the reporting period	**22 868**	19 868
Reconciliation of movement in the irrecoverable surplus		
Balance at the beginning of the reporting period	**(919)**	(585)
Interest on irrecoverable surplus	(65)	(49)
Changes in the irrecoverable surplus in excess of interest	428	(285)
Balance at the end of the reporting period	**(556)**	(919)

45.1.2 Nature of the pension fund assets

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

45. Retirement benefit fund obligations *(continued)*

45.1 Absa Pension Fund *(continued)*

45.1.2 Nature of the pension fund assets *(continued)*

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

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

45. Retirement benefit fund obligations *(continued)*

45.1 Absa Pension Fund *(continued)*

45.1.5 Sensitivity analysis of the key principal assumptions

	Group	
	2013[1]	
	Reasonable possible change	Impact on defined benefit obligation increase/ (decrease) Rm
Key principal actuarial assumption		
Increase in discount rate (%)	0,5	(530)
Increase in inflation (%)	0,5	503
Increase in life expectancy (years)	1	298

45.1.6 Sensitivity analysis of the key principal assumptions

Sensitivity analysis

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

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

Note

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

45. Retirement benefit fund obligations *(continued)*

45.2 Subsidiaries' defined benefit plans excluding Absa Pension Fund

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

	Group					
	2013					
	Barclays Bank of Botswana	**Barclays Bank of of Kenya**	**Barclays Bank of Zambia**	**Barclays Bank of Seychelles**	**Barclays Bank of Mauritius**	**Barclays Bank of Mozambique**
Membership						
Defined benefit active members	**—**	**10**	**—**	**12**	**333**	**671**
Defined benefit deferred pensioners	**106**	**1 065**	**505**	**11**	**44**	**—**
Defined benefit pensioners	**195**	**1 441**	**168**	**4**	**226**	**847**
Defined contribution active members	**1 989**	**—**	**1 110**	**263**	**519**	**—**
Duration of the scheme (years)	**13**	**9**	**8**	**18**	**17**	**13,5**
	2012					
	Barclays Bank of Botswana	Barclays Bank of of Kenya	Barclays Bank of Zambia	Barclays Bank of Seychelles	Barclays Bank of Mauritius	Barclays Bank of Mozambique
Membership						
Defined benefit active members	—	13	—	15	333	671
Defined benefit deferred pensioners	107	1 175	510	9	44	—
Defined benefit pensioners	185	1 407	130	4	226	847
Defined contribution active members	1 993	—	1 140	234	519	—
Duration of the scheme (years)	12,5	8	8	17	17	13,5

Without detracting from the individuality of the respective funds, the comments about the fund benefits and increases are made in general for the Africa funds collectively excluding the Absa Pension Fund.

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 are 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.

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 and defined disclosures; this presentation is different to that of the Absa Pension Fund due to the different nature of the Absa Pension Fund.

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 2011.

Contributions are generally determined by the Bank in consultation with the Actuary following the funding valuation to ensure the sustainability and financial soundness of the funds. The expense included in staff costs for the defined contribution plans is **R658 million** (2012: R730 million). 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 plans 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.

	Group	
	2013 Rm	2012 Rm
45. Retirement benefit fund obligations *(continued)*		
45.2 Subsidiaries' defined benefit plans excluding the Absa Pension Fund		
45.2.1 Defined benefit plan reconciliations		
Reconciliation of the net surplus		
Present value of funded defined benefit obligations	**(2 364)**	(2 316)
Fair value of the defined benefit plan assets	**1 283**	1 541
Funded defined benefit plan status	**(1 081)**	(775)
Net deficit arising from defined benefit obligation	**(1 081)**	(775)
Reconciliation of movement in the defined benefit obligation		
Balance at the beginning of the reporting period	**(2 316)**	(2 575)
Actuarial losses	**(370)**	(139)
Actuarial losses – changes in financial assumptions	**(331)**	(119)
Actuarial losses – experience adjustments	**(39)**	(20)
Benefits paid	**148**	242
Current service costs	**(40)**	(63)
Interest expense	**(195)**	(229)
Employee contributions	**—**	(21)
Past service costs including curtailments	**—**	(8)
Settlement gains	**647**	491
Foreign exchange differences	**(238)**	(14)
Balance at the end of the reporting period	**(2 364)**	(2 316)
Reconciliation of movement in the plan assets		
Balance at the beginning of the reporting period	**1 541**	1 902
Benefits paid	**(148)**	(242)
Employer contributions	**111**	121
Interest income on the plan assets	**115**	152
Remeasurement – return on plan assets in excess of interest	**43**	44
Employee contributions	**—**	21
Settlement losses	**(647)**	(500)
Foreign exchange differences	**268**	43
Balance at the end of the reporting period	**1 283**	1 541
45.2.2 Barclays Bank of Mozambique's defined benefit plan ring fenced assets		
Treasury bills	**103**	100
Trade debtors	**16**	—
Interest owing by government	**—**	10
Bank balances with BBM	**234**	254
Government bonds	**183**	169
Money market assets	**112**	—
Total plan assets	**648**	533

The assets of the Barclays Bank Mozambique ("BBM") pension fund have been ringfenced to the retirement benefit funds, but do not qualify as plan assets in terms of IAS 19 as they are not in a separate entity. Therefore these assets are presented on the Group's statement of financial position. During the current year the process of transferring the assets into a separate legal entity was initiated. Management expects the transfer of the assets into a separate entity to be completed in the next financial year. Provided these assets meet the requirements of IAS 19 after transfer, the assets would then be presented as plan assets. The related defined benefit obligation amounts to **R907 million** (2012: R640 million).

45. Retirement benefit fund obligations
(continued)

45.2.3 *Nature of the defined benefit plan asset*

	Group 2013 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Quoted fair value	202	392	345	939
Unquoted fair value	41	54	156	251
Own transferable financial instruments	15	10	—	25
Own occupied or used property	—	—	68	68
	258	456	569	1 283

	Group 2012 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Quoted fair value	257	510	292	1 059
Unquoted fair value	—	55	237	292
Own transferable financial instruments	8	29	18	55
Own occupied or used property	—	—	135	135
	265	594	682	1 541

	Group 2013 Rm	Group 2012 Rm
45.2.4 *Movements in the defined benefit plans presented in total comprehensive income*		
The profit and loss portion:		
Net interest expense	80	77
Current service cost	40	63
Past service cost including curtailments	—	8
Settlement losses	—	9
	120	157
Recognised in other comprehensive income:		
Actuarial losses – changes in financial assumptions	331	119
Actuarial losses – experience adjustments	39	20
Remeasurement – return on the plan assets in excess of interest	(43)	(44)
	327	95
45.2.5 *The principal actuarial assumptions (weighted averages)*		
Discount rate (%)	9,7	10,4
Inflation (%)	6,2	6,6
Future pension increases (%)	3,9	4,6
Future salary increases (%)	6,8	8,0
Average life expectancy in years of pensioner retiring at 60 – Male	17,6	17,7
Average life expectancy in years of pensioner retiring at 60 – Female	21,1	21,3

45. Retirement benefit fund obligations *(continued)*

45.2.6 *Sensitivity analysis of principal assumptions (weighted averages)*

	Group 2013	
	Reasonable possible change %	Impact on the defined benefit obligation increase/ (decrease) Rm
Principal actuarial assumption		
Increase in discount rate (%)	0,5	(37)
Increase in inflation (%)	0,5	24
Increase in life expectancy of one year	0,5	13

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.

45.3 Post-retirement medical aid plans

Woolworths Financial Services Proprietary Limited subsidises a portion of the medical aid contributions of retired employees who participate in the Wooltru Healthcare Fund. The accrued and future liability in respect of post-retirement medical aid contributions is valued annually on the reporting date. This liability was actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions. For purposes of the valuation, it was assumed that medical inflation is **8,9%** (2012: 7,7%) per annum. The discount rate used to value the liability is **10%** (2012: 8,7%) per annum. At the reporting date, the accrued liability amounted to **R7,3 million** (2012: R7 million) in respect of those current and retired employees who participate in the Wooltru Healthcare Fund. Employees who joined the healthcare fund after 1 November 2000 are not entitled to receive post-retirement healthcare benefits.

The Barclays Bank of Ghana has an obligation to its in-service and retired employees in subsidising their actual incurred medical costs after retirement. The accrued and future liability in respect of the medical costs is valued annually on the reporting date. This liability was actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions. For purposes of the valuation, it was assumed that medical inflation is **9%** (2012: 7,5%) per annum. The discount rate used to value the liability is **14%** (2012: 12,5%) per annum. At the reporting date, the accrued net liability amounted to **R67 million** (2012: R43 million) in respect of those in-service and retired employees.

The Barclays Bank of Mauritius contributes to a medical aid scheme for some of its pensioners and has an obligation to its retired employees in subsidising their actual incurred medical costs after retirement. The accrued and future liability in respect of the medical costs is valued every three years on the reporting date, and projected thereafter. This liability was actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality assumptions. For purposes of the valuation, it was assumed that medical inflation is **7%** (2012: 8%) per annum. The discount rate used to value the liability is **7,5%** (2012: 9%) per annum. At the reporting date, the accrued liability amounted to **R6 million** (2012: R5 million) in respect of those retired employees.

Note

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

45. Retirement benefit fund obligations *(continued)*

45.3 Post-retirement medical aid plans *(continued)*

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

	Group	
	2013 Rm	2012 Rm
Defined benefit obligation	(82)	(57)
Fair value of plan assets	2	2
Net deficit arising from post-retirement medical aid plans	**(80)**	(55)
Reconciliation of movement in the obligation		
Balance at the beginning of the reporting period	**(57)**	(56)
Actuarial gains/(losses)	(23)	—
Actuarial gains/(losses) – changes in financial assumptions	(2)	1
Actuarial gains/(losses) – experience adjustments	(21)	(1)
Benefits paid	6	2
Current service costs	(2)	(2)
Interest expense	(6)	(5)
Foreign exchange differences	—	4
Balance at the end of the reporting period	**(82)**	(57)

Reconciliations of the movement in the plan assets have not been provided as the movements are less than R1 million.

45.4 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 plan assets is below this rate, it may lead to a strain on the fund, which over time, may result in a plan deficit. Typically the funds have a relatively balanced investment in equity security, debt security and real estate to mitigate any concentration risk. Due to the long-term nature of the plan liabilities, the boards of the pension funds consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to improve the return generated by the fund. This may in turn result in improved discretionary benefits to members or reduced costs for the sponsoring entity.

Inflation/Pension increase risk

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

Longevity risk

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

Salary risk

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

Measurement risk

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

One of the most important assumptions is the discount rate derived from prevailing bond yields where these are available (where these are not available, the inflation rate plus a reasonable risk free real return is used as a proxy). A decrease in the discount rate will, all else equal, 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.

	Group	
	2013 Rm	2012 Rm
46. Dividends per share		
46.1 Dividends declared		
Dividends declared to ordinary equity holders		
Interim dividend (30 July 2013: **350 cents**) (27 July 2012: 315 cents)	**2 514**	2 262
Dividend paid on treasury shares – Interim	**(2)**	(3)
Special dividend (30 July 2013: **708 cents**)	**5 085**	—
Dividend paid on treasury shares – Special	**(10)**	—
Final dividend (11 February 2014: **470 cents**) (12 February 2013: 369 cents)	**3 984**	2 650
Dividend paid on treasury shares – Final	**n/a**[1]	(5)
	11 571	4 904
Dividends declared to non-controlling preference equity holders		
Interim dividend (30 July 2013: **2 999,4521 cents**) (27 July 2012: 3 134,6575 cents)	**148**	155
Final dividend (11 February 2014: **2 979,3151 cents**) (12 February 2013: 2 950,5479 cents)	**147**	146
	295	301
46.2 Dividends paid		
Dividends paid to ordinary equity holders		
Final dividend (12 February 2013: **369 cents**) (10 February 2012: 392 cents)	**2 650**	2 815
Dividend paid on treasury shares – Final[1]	**(5)**	(5)
Interim dividend (30 July 2013: **350 cents**) (27 July 2012: 315 cents)[2]	**2 967**	2 262
Dividend paid on treasury shares – Interim[1]	**(2)**	(3)
Special dividend (30 July 2013: **708 cents**)[2]	**6 002**	—
Dividend paid on treasury shares – Special	**(10)**	—
	11 602	5 069
Dividends paid to non-controlling preference equity holders		
Final dividend (12 February 2013: **2 950,5479 cents**) (10 February 2012: 2 827,2329 cents)	**146**	140
Interim dividend (30 July 2013: **2 999,4521 cents**) (27 July 2012: 3 134,6575 cents)	**148**	155
	294	295

Notes

[1]The dividend paid on treasury shares is calculated on the dividend payment date.

[2]The dividend amount is calculated on the number of shares in issue, including the shares issued on 31 July 2013 for consideration on the acquisition of Barclays Africa Limited.

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

47.1 Reverse repurchase agreements and cash collateral on securities borrowed

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

	Group			
	2013		2012	
	Cash collateral on securities borrowed Rm	Reverse repurchase agreements Rm	Cash collateral on securities borrowed Rm	Reverse repurchase agreements Rm
Assets				
Statutory liquid assets portfolio (refer to note 3)	—	—	—	3
Loans and advances to banks (refer to note 4)	1 098	15 770	6 037	9 223
Loans and advances to customers (refer to note 9)	2 862	3 893	2 474	4 698
	3 960	19 663	8 511	13 924

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 **R19 663 million** (2012: R13 922 million) of which **Rnil** (2012: Rnil) have been sold or repledged.

47.2 Repurchase agreements and cash collateral on securities lent

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

	Group			
	2013		2012	
	Cash collateral on securities lent Rm	Repurchase agreements Rm	Cash collateral on securities lent Rm	Repurchase agreements Rm
Liabilities				
Deposits from banks (refer to note 18)	352	16 702	307	13 096
Deposits due to customers (refer to note 22)	313	1 208	371	1 503
	665	17 910	678	14 599

The assets transferred and not derecognised in the above repurchase agreements are valued at **R10 499 million** (2012: R12 063 million), refer to note 5. They are pledged as security for the term of the underlying repurchase agreement. The remainder of the repurchase agreements are secured by a portion of the statutory liquid asset portfolio of **R7 055 million** (2012: R2 592 million), refer to note 3, and money market assets of **R356 million** (2012: Rnil), refer to note 2.

48. Transfer of financial assets

48.1 Assets transferred, but not derecognised

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

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

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

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

48. Transfer of financial assets *(continued)*

48.1 Assets transferred, but not derecognised *(continued)*

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

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

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

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

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

48.2 Assets recognised to the extent of continuing involvement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

48. Transfer of financial assets *(continued)*

48.3 Securities lending and repurchase agreements

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

	Group			
	2013		2012	
	Carrying amounts of assets at the reporting date Rm	Associated liabilities at the reporting date Rm	Carrying amounts of assets at the reporting date Rm	Associated liabilities at the reporting date Rm
Trading portfolio assets				
Equity instruments	1 197	(1 257)	1 149	(1 405)
Debt instruments	20 875	(20 875)	14 599	(14 599)
	22 072	(22 132)	15 748	(16 004)

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

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

	Group							
	2013							
	Amounts subject to enforceable netting arrangements							
	Effects of netting on statement of financial position			Related amounts not set off				
	Gross amounts Rm	Amounts set off[1] Rm	Net amounts reported on the statement of financial position[2] Rm	Offsetting financial instruments Rm	Financial collateral[3] Rm	Net amount Rm	Amounts not subject to enforceable netting arrange-ments[4] Rm	Total per statement of financial position[5] Rm
Derivative financial assets	46 278	(1 667)	44 611	(37 580)	(3 981)	3 050	2 372	46 983
Reverse repurchase agreements and other similar secured lending	36 515	(14 419)	22 096	—	(22 096)	—	745	22 841
Total assets	82 793	(16 086)	66 707	(37 580)	(26 077)	3 050	3 117	69 824
Derivative financial liabilities	(46 835)	550	(46 285)	37 580	256	(8 449)	(3 842)	(50 127)
Repurchase agreements and other similar secured borrowing	(18 263)	—	(18 263)	—	18 263	—	(312)	(18 575)
Total liabilities	(65 098)	550	(64 548)	37 580	18 519	(8 449)	(4 154)	(68 702)

Notes

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

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

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

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

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

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

	Group 2012							
	Amounts subject to enforceable netting arrangements							
	Effects of netting on statement of financial position			Related amounts not set off				
	Gross amounts Rm	Amounts set off[1] Rm	Net amounts reported on the statement of financial position[2] Rm	Offsetting financial instruments Rm	Financial collateral[3] Rm	Net amount Rm	Amounts not subject to enforceable netting arrange-ments[4] Rm	Total per statement of financial position[5] Rm
Derivative financial assets	53 962	(3 997)	49 965	(43 678)	(3 152)	3 135	2 332	52 297
Reverse repurchase agreements and other similar secured lending	30 054	(11 424)	18 630	—	(18 630)	—	89	18 719
Total assets	84 016	(15 421)	68 595	(43 678)	(21 782)	3 135	2 421	71 016
Derivative financial liabilities	(49 153)	1 666	(47 487)	43 678	169	(3 640)	(3 180)	(50 667)
Repurchase agreements and other similar secured borrowing	(15 207)	—	(15 207)	—	15 207	—	—	(15 207)
Total liabilities	(64 360)	1 666	(62 694)	43 678	15 376	(3 640)	(3 180)	(65 874)

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 64.2.

Notes

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

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

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

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

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

50. Related parties

Barclays Bank PLC owns **62,3%** (2012: 55,5%) of the ordinary shares in the Group. The remaining **37,7%** (2012: 44,5%) of the shares are widely held on the JSE.

The following are defined as related parties of the Group:

- key management personnel (refer to notes 50.1 and 50.2);
- the parent company (refer to note 50.3);
- fellow subsidiaries, associates and joint ventures of the parent company (refer to note 50.4);
- subsidiaries and consolidated structured entities (refer to notes 50.5 and 50.6);
- associates, joint ventures and retirement benefit funds (refer to note 50.7);
- an entity controlled/jointly controlled or significantly influenced by any individual referred to above;
- post-employment benefit plans for the benefit of employees or any entity that is a related party of the Group; and
- children and/or dependants and spouses or partners of the individuals referred to above.

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

50.1 Transactions with key management personnel

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

	Group			
	2013		2012	
	Transactions with key management Rm	Transactions with entities controlled by key management Rm	Transactions with key management Rm	Transactions with entities controlled by key management Rm
Loans				
Balance at the beginning of the reporting period	27	428	14	666
Inception/(discontinuance) of related party relationships and other[1]	(1)	(399)	(4)	(3)
Loans issued[2]	39	10	42	84
Loans repaid	(40)	(19)	(25)	(319)
Balance at the end of the reporting period	25	20	27	428
Interest income	2	2	1	44

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

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

Notes

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

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

	Group			
	2013		2012	
	Transactions with key management Rm	Transactions with entities controlled by key management Rm	Transactions with key management Rm	Transactions with entities controlled by key management Rm
50. Related parties *(continued)*				
50.1 Transactions with key management personnel *(continued)*				
Deposits				
Balance at the beginning of the reporting period	12	3	31	3
Inception/(discontinuance) of related party relationships and other[1]	(16)	(0)	(19)	1
Deposits received	291	10	217	13
Deposits repaid[2]	(276)	(12)	(217)	(14)
Balance at the end of the reporting period	11	1	12	3
Interest expense	1	0	1	0
Guarantees issued by the Group	52	32	53	50

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

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

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R0,17 million** (2012: R0,41 million). Key management personnel received claims of **Rnil** (2012: R0,08 million).

Notes

[1]Includes balances relating to key management personnel who resigned during the reporting periods.
[2]Includes interest paid on deposits held by key management.

	Group	
	2013 Rm	2012 Rm
50. Related parties *(continued)*		
50.2 Key management personnel compensation		
Directors		
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**42**	30
Share-based payments	**25**	32
Termination benefits	**—**	12
	68	75
Other key management personnel		
Post-employment benefit contributions	**3**	2
Salaries and other short-term benefits	**77**	65
Share-based payments	**48**	47
Termination benefits	**—**	0
	128	114
50.3 Balances and transactions with parent company[1]		
Balances		
Loans and advances to banks	**39 223**	35 537
Derivative assets	**19 040**	14 310
Nominal value of derivative assets	**1 042 021**	1 399 103
Other assets	**1 556**	668
Investment securities	**534**	584
Deposits from banks	**(22 404)**	(12 244)
Derivative liabilities	**(17 232)**	(13 846)
Nominal value of derivative liabilities	**(1 183 511)**	(1 213 065)
Other liabilities	**(187)**	(15)
Borrowed funds	**(69)**	—
Transactions		
Interest and similar income	**(343)**	(204)
Interest expense and similar charges	**65**	87
Net fee and commission expenses/(income)	**6**	(18)
Gains and losses from banking and trading activities	**274**	(158)
Other operating income	**(71)**	(37)
Operating expenditure/(recovered expenses)	**48**	(55)
Dividends paid	**7 469**	2 819

Trade balances must be settled in accordance with market conventions applicable to the underlying transaction. Non-trade balances must be settled by the close of the month immediately following the month in which the transaction occurred. Further, settlement must be in the currency required by the parent company. In exceptional cases, it may be impractical or inefficient to settle balances monthly. In such cases, the unsettled balances must be explicitly agreed to on a monthly basis in writing and full settlement must be made at least quarterly.
There were no bad debt expenses and provisions for bad debts that related to balances and transactions with the parent company.

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

50. Related parties *(continued)*

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

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

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

	Group	
	2013 Rm	2012 Rm
Balances		
Loans and advances to banks	**863**	391
Derivative assets	**0**	10
Nominal value of derivative assets	**2 650**	426
Other assets	**284**	87
Deposits from banks	**(1 753)**	(539)
Derivative liabilities	**(18)**	—
Nominal value of derivative liabilities	**(2 132)**	—
Other liabilities	**(313)**	(86)
Transactions		
Interest and similar income	**(1)**	0
Net fee and commission income	**(30)**	(7)
Other operating income	**56**	126
Operating income/recovered expenses	**2**	(3)

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

There were no bad debt expenses and provisions for bad debts that related to balances and transactions with fellow subsidiaries, associates and joint ventures of the parent company.

Note

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

50. Related parties *(continued)*

50.5 Subsidiaries and consolidated structured entities[1]

The information provided below 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	2013 % holding	2012 % 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[2]	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[2]	Holding company for ATIS Group.	South Africa	**100**	100
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
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)[3]	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.	Tanzania	**66**	55
Woolworths Financial Services Proprietary Limited	Provides credit cards, in-store cards and personal loans.	South Africa	**50**	50

Notes

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

[2]These entities were not assessed to be material in the previous reporting period.

[3]Refer to note 58.5.1 for details regarding the change in shareholding in NBC.

50. Related parties *(continued)*

50.5 Subsidiaries and consolidated structured entities[1] *(continued)*

Name	Nature of business	Country of incorporation	Group 2013 % holding	Group 2012 % holding
Absa Bank Limited and its subsidiaries[1]	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers and clients.	South Africa	**100**	100
Absa Capital Representative Office Nigeria Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	**100**	100
Absa Technology Finance Solutions Proprietary Limited	Financial broker/executive finance company.	South Africa	**100**	100
Absa Vehicle and Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	**100**	100
Alberton Industrial Properties Proprietary Limited[2]	Obtains loans from 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	Providers short-term insurance and other related insurance products.	South Africa	**100**	100
Absa Life Botswana (Proprietary) Limited	Provides life assurance products focusing on risk and investment products that Absa's offerings to various market segments in Botswana	Botswana	**100**	100

Notes

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

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

Name	Nature of business	Country of incorporation	Group 2013 % holding	Group 2012 % holding
50. Related parties *(continued)*				
50.5 Subsidiaries and consolidated structured entities[1] *(continued)*				
Absa Financial Services and its subsidiaries *(continued)*				
Absa Life Limited	Provides life assurance products, focusing on risk and investment products, that complement the Group's offerings to various market segments.	South Africa	100	100
Absa Mortgage Fund Managers Proprietary Limited	Provides loans to small and large companies, close corporations, trusts, property investors and developers for the development, acquisition and/or refinancing of income-producing commercial and industrial properties.	South Africa	100	100
Absa 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
Barclays Africa Limited and its subsidiaries	Investment Holding Company	United Kingdom	100	n/a
Barclays Bank of Botswana Limited	Provides retail and corporate banking.	Botswana	68	n/a
Barclays Bank of Ghana Limited	Provides retail and corporate banking.	Ghana	100	n/a
Barclays Bank of Kenya Limited	Provides retail and corporate banking.	Kenya	69	n/a
Barclays Bank Mauritius Limited	Provides retail and corporate banking.	Mauritius	100	n/a
Barclays Bank (Seychelles) Limited	Provides retail and corporate banking.	Seychelles	100	n/a
Barclays Bank Tanzania Limited	Provides retail and corporate banking.	Tanzania	100	n/a
Barclays Bank of Uganda Limited	Provides retail and corporate banking.	Uganda	100	n/a
Barclays Bank of Zambia PLC	Provides retail and corporate banking.	Zambia	100	n/a
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 Benefit Fund	Cell captive.	South Africa	n/a	n/a
Absa Bond Fund	Fund used to invest in unit trusts.	South Africa	n/a	n/a
Absa Foundation Trust	Provides funding for community upliftment. It receives a percentage of the Group's dividends which it distributes to identified community-related projects.	South Africa	n/a	n/a
Absa General Fund	Fund used to invest in unit trusts.	South Africa	n/a	n/a
Home Obligor Mortgages Enhanced Securities Proprietary Limited	Securitisation vehicle for Absa Home Loans division.	South Africa	n/a	n/a
Maravedi Financial Services-Life Cell	Credit life insurance.	South Africa	n/a	n/a
NewFunds eRafi overall SA Index ETF Portfolio	Exchange-trade fund.	South Africa	n/a	n/a
New Rand Trust	Exchange-trade fund.	South Africa	n/a	n/a

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

50. Related parties *(continued)*

50.5 Subsidiaries and consolidated structured entities *(continued)*

	Group	
	2013 Rm	2012 Rm
Subsidiaries' aggregate profits and losses after taxation[1]	**11 851**	9 750

50.6 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 statutory, regulatory and contractual requirements and from the protective rights of non-controlling interests.

Statutory requirements

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

Regulatory requirements

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

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

The total amount of regulatory capital required to be maintained by regulated entities within the Group was **R55 292 million** at (2012: R42 726 million).

Contractual requirements

Certain of the Group's securitisation and structured entities hold assets or interests in assets that are only available to meet the liabilities of those entities and have issued public debt securities. The 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 2013 was **R12 293 million** and **R10 666 million** respectively (2102: R11 881 million and R10 060 million respectively).

Protective right 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 the Bank 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 29.

Note

[1]Profit attributable to ordinary equity holders, excluding shares of post-tax results of associates and joint ventures.

50. Related parties *(continued)*

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

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

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

	Group		
	2013		
	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	—	9 654	9 654
Value of Absa defined contribution pension fund investments managed by the Group	—	14 499	14 499
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	97	97
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	708	708
Statement of financial position			
Other assets	—	577	577
Loans and advances to customers (refer to note 9)	12 039	—	12 039
Other liabilities	—	(1 272)	(1 272)
Statement of comprehensive income			
Interest and similar income	(657)	(642)	(1 299)
Interest expense and similar charges	—	695	695
Fee and commission income	(86)	—	(86)
Fee and commission expense	150	—	150
Current service costs (refer to note 39)	—	50	50
Employer and employee contributions to Absa defined contribution pension fund	—	1 260	1 260

	2012		
	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	—	9 078	9 078
Value of Absa defined contribution pension fund investments managed by the Group	—	12 333	12 333
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	108	108
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	632	632
Statement of financial position			
Other assets	6	513	519
Loans and advances to customers (refer to note 9)	10 094	—	10 094
Other liabilities	(25)	(877)	(902)
Statement of comprehensive income			
Interest and similar income	(608)	(689)	(1 297)
Interest expense and similar charges	—	730	730
Fee and commission income	(79)	—	(79)
Fee and commission expense	160	—	160
Current service costs (refer to note 39)	—	72	72
Employer and employee contributions to Absa defined contribution pension fund	—	1 171	1 171

Note

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

50. Related parties *(continued)*

50.7 Associates, joint ventures and retirement benefit fund[1] *(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	Country of incorporation	2013 Ownership %	2012 Ownership %
Equity-accounted associates				
SBV Services Proprietary Limited[2]	Cash transportation services.	South Africa	**25**	25
Spring Valley Investments Proprietary Limited[3]	Property development.	South Africa	**—**	37
The Document Exchange Association	Facilitates the electronic exchange of documents between the banks.	South Africa	**33**	33
The South African Bankers Services Company Proprietary Limited[2]	Automatic clearing house.	South Africa	**23**	23
Equity-accounted joint ventures				
FFS Finance South Africa Proprietary Limited	Provides financing solutions to Ford Motor Company customers.	South Africa	**50**	50
Integrated Processing Solutions Proprietary Limited	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	South Africa	**50**	50
MAN Financial Services (S.A.) Proprietary Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	South Africa	**50**	50
Associates and joint ventures designated at fair value through profit or loss	Various.	South Africa	**Various**	Various

Notes

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

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

[3]The investment has been sold during the current reporting period.

51. Structured entities

Exchange-traded funds

Exchange-traded funds ("ETFs") are passively managed index funds that are listed and traded on a securities exchange. An ETF tracks the performance of and/or gains a broad exposure to a particular index, sector or commodity for individual and institutional investors. All ETFs have a market maker to ensure that liquidity is always maintained, and in many instances, the 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 market maker, 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 structured entities 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.

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.

51. Structured entities *(continued)*

Preference share funding vehicles

The Group provides financing to a number of structured entities, established and managed by clients, in the form of a subscription for cumulative redeemable preference shares. These instruments typically have the economic characteristics of vanilla debt instruments, and as such the 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 structured entities to enable them to purchase fixed assets, such as property. The loans are fully collateralised by the underlying asset, and the repayment of principal and interest is met through the receipt of lease income. The loans are subject to guarantees received from the parent company, or from other trading entities within the same group of companies. The 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.

51.1 Consolidated structured entities

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

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

The Group has consolidated The Absa Foundation Trust since 2006.

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

51. Structured entities *(continued)*

51.2 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 structured entities 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						
	2013						
	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	—	—	—	873	—	—	873
Investment securities	—	8	582	591	9	—	1 190
Debt securities	—	—	—	584	3	—	587
Equity securities	—	8	582	7	6	—	603
Loans and advances to customers	5 106	—	1	1 433	—	745	7 285
Derivatives held for trading	—	—	—	15	—	—	15
Interest rate derivatives (carrying value)	—	—	—	15	—	—	15
Interest rate derivatives (notional value)	—	—	—	1 520	—	—	1 520
Undrawn liquidity facilities (notional value)[1]	—	—	152	460	—	133	745
Other assets	—	71	39	—	—	—	110
	5 106	79	774	3 372	9	878	10 218
Liabilities							
Deposits due to customers	302	—	5	986	32	1	1 326
	302	—	5	986	32	1	1 326
Maximum exposure to loss[2]	5 106	79	774	3 372	9	878	10 218
Total size of entities[3]	26 602	2 531	4 135	6 574	29 906	746	70 494

Notes

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

[2]The 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.

51. Structured entities *(continued)*

51.2 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	
	2013 Losses recognised in profit or loss	
	Derivatives Rm	Investment securities Rm
Securitisation vehicles	87	—

Financial support provided or to be provided to unconsolidated structured entities

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

51.3 Sponsored entities

In addition to the unconsolidated structured entities in which the Group has an interest, it also sponsors some structured entities in which it has no interest.

The Group did not earn material income from its involvement in the unconsolidated structured entities which it sponsors.

Assets transferred to unconsolidated sponsored structured entities

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

	Group	
	2013 Rm	2012 Rm
Loans and advances	—	2 000
Other	85	—

	Group 2013 Rm	Group 2012 Rm
52. Assets under management and administration		
Alternative asset management and exchange-traded funds	**72 840**	41 957
Deceased estates[1]	**2 559**	2 012
Other	**14 383**	12 995
Participation bond schemes	**—**	2 184
Portfolio management	**46 203**	44 222
Private equity	**—**	819
Trusts[1]	**4 472**	3 783
Unit trusts	**123 318**	138 978
	263 775	246 950
53. Financial guarantee contracts		
Financial guarantee contracts	**243**	146

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 2013 Rm	Group 2012 Rm
54. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**745**	578

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.

	Group 2013 Rm	Group 2012 Rm
Operating lease payments due		
No later than one year	**847**	936
Later than one year and no later than five years	**1 521**	1 948
Later than five years	**296**	365
	2 664	3 249

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.

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

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

Note
[1]Unaudited.

	Group	
	2013 Rm	2012 Rm
55. Contingencies		
Guarantees	**21 215**	19 348
Irrevocable debt facilities	**49 609**	48 107
Irrevocable equity facilities	**400**	543
Letters of credit	**6 402**	7 080
Other	**5 674**	4 328
	83 300	79 406

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

Guarantees include performance and payment guarantee contracts.

Legal proceedings

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

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

The Group is engaged in various other litigation proceedings involving claims by and against it, which arise in the ordinary course of business. The Group does not expect the ultimate resolution of any proceedings, to which the Group is party, to have a significant adverse effect on the financial statements of the Group and the Group has not disclosed the contingent liabilities associated with these claims either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the conduct of the claim. Provision is made for all liabilities which are expected to materialise.

55, Contingencies *(continued)*

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.

	Group	
	2013 Rm	2012 Rm
56. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**12 653**	11 085
Loans and advances to banks	**3 201**	2 900
	15 854	13 985

57. Share-based payments

During the reporting period, **R11 million** (2012: R13 million) and **R417 million** (2012: R450 million) were charged to the statement of comprehensive income in respect of the below equity-settled and cash-settled share-based payment transactions, respectively.

Staff costs

	2013 Rm	2012 Rm
The statement of comprehensive income charge for share-based payments is as follows (refer to note 39):		
Equity-settled arrangements:		
Barclays Africa Group Limited Long-Term Incentive Plan ("LTIP") (refer to note 57.1)	**11**	6
Other equity-settled arrangements	**—**	7
Cash-settled arrangements:		
Barclays Africa Group Limited Deferred Award Plan ("DAP") (refer to note 57.2)	**215**	386
Barclays Africa Group Limited Phantom Joiners Share Award Plan ("JSAP") (refer to note 57.3)	**32**	43
Barclays Africa Group Limited Joiners Share Value Plan ("JSVP") (refer to note 57.4)	**45**	—
Barclays Africa Group Limited Share Value Plan ("SVP") (refer to note 57.5)	**120**	—
Other cash-settled arrangements	**5**	27
Total share-based payment staff cost	**428**	469
Total carrying amount of liabilities for cash-settled arrangements (refer to note 20)	**459**	640

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Barclays Africa Group Limited share price. Changes in the share price are accounted for in the statement of comprehensive income (refer to note 1.18.2 for share-based payment accounting policy).

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

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

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

57. Share-based payments *(continued)*

57.1 Barclays Africa Group Limited Long-Term Incentive Plan

The 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.

	Group Number of awards	
	2013 '000	2012 '000
Outstanding at the beginning of the reporting period	**849**	—
Granted during the reporting period	**1 204**	849
Forfeited during the reporting period	**(103)**	—
Outstanding at the end of the reporting period	**1 950**	849

The awards outstanding have no exercise price and a weighted average contractual life of **1,0 years** (2012: 2,0 years). As the terms and conditions of this share scheme dictate that awards be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

Fair value assumptions of awards during the current reporting period

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

57.2 Barclays Africa Group Limited Deferred Award Plan

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

	Group Number of awards	
	2013 '000	2012 '000
Outstanding at the beginning of the reporting period	**4 427**	4 384
Exercised during the reporting period	**(2 216)**	(1 722)
Forfeited during the reporting period	**(182)**	(407)
Granted during the reporting period	**—**	2 172
Outstanding at the end of the reporting period	**2 029**	4 427

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

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

The fair value of the DAP awards at grant date is based on the share price at grant date. The 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.

At 31 December 2013 **1,55 million** (2012: 3,10 million) Deferred Award Plan phantom shares were hedged through forward contracts at a price of **R163,78**, refer to note 60.2.3.

57. Share-based payments *(continued)*

57.3 Barclays Africa Group Limited Phantom Joiners Share Award Plan

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

	Group Number of awards	
	2013 '000	2012 '000
Outstanding at the beginning of the reporting period	**727**	954
Exercised during the reporting period	**(273)**	(338)
Forfeited during the reporting period	**(48)**	(181)
Granted during the reporting period	**—**	292
Outstanding at the end of the reporting period	**406**	727

The awards outstanding at the reporting period date have no exercise price and a weighted average contractual life of **1,2 years** (2012: 1,8 years). As the terms and conditions of this share scheme dictate that awards be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

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

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

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

57. Share-based payments *(continued)*

57.4 Barclays Africa Group Limited Joiners Share Value Plan ("JSVP")

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

	Group Number of awards	
	2013 '000	2012 '000
Outstanding at the beginning of the reporting period	**—**	—
Exercised during the reporting period	**(87)**	—
Forfeited during the reporting period	**(67)**	—
Granted during the reporting period	**648**	—
Outstanding at the end of the reporting period	**494**	—

The awards outstanding at the reporting period date have no exercise price and a weighted average contractual life of **1,8 years**. As the terms and conditions of this share scheme dictate that awards be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

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

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

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

57. Share-based payments *(continued)*

57.5 Barclays Africa Group Limited Share Value Plan

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

	Group Number of awards	
	2013 '000	2012 '000
Outstanding at the beginning of the reporting period	**—**	—
Exercised during the reporting period	**(2)**	—
Forfeited during the reporting period	**(82)**	—
Granted during the reporting period	**1 821**	—
Outstanding at the end of the reporting period	**1 737**	—

The phantom awards outstanding have no exercise price and a weighted average contractual life of **1,7 years**. As the terms and conditions of this share scheme dictate that awards be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

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

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

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

At 31 December 2013 **1,34 million** SVP phantom shares were hedged through forward contracts at a price of **R164,11**, Refer to note 60.2.3.

58. Acquisitions and disposals of businesses and other similar transactions

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

	Group	
	2013 Rm	2012 Rm
Summary of net cash inflow/(outflow) due to acquisitions/disposals	**300**	(13)

58.1 Acquisitions of businesses during the current reporting period

The Group acquired 100% of the issued ordinary share capital of Barclays Africa Limited during the current reporting period. This transaction is a business combination of entities under common control as defined in IFRS 3. Refer to note 1.22 for further details.

58.2 Acquisitions of business during the previous reporting period

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

	Group 2012 Fair value recognised on acquisition Rm
Details of the net assets acquired are as follows:	
Investment securities	2
Other liabilities	(2)
Net assets acquired	—
Satisfied by:	
Cash outflow on acquisition	1
Fair value of net assets acquired	—
Goodwill	1
Net cash outflow due to acquisition	1
Total cash and cash equivalents acquired	—

Since its acquisition, NewFunds contributed revenue of Rnil (revenue generated from intragroup transactions of R2,8 million) and a net profit before tax of Rnil to the Group for the period 1 May 2012 to 31 December 2012. If the acquisition occurred on 1 January 2012, the Group's revenue would have been Rnil higher and the net profit before tax for the reporting period would have been Rnil higher.

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

58.3 Disposals of business during the current reporting period

58.3.1 The Group disposed of 100% of its investment in its wholly owned subsidiary CMB Nominees Proprietary Limited on 2 December 2013. This occurred as part of the disposal of the Custody and Trustee business, a division of Absa Corporate, Investment Banking and Wealth. The total cash consideration received on disposal of the business was R300 million.

58.3.2 The Group disposed of two wholly owned subsidiaries for nominal consideration. The combined net asset value of the two companies on the date of disposal, was R7,6 million. The total loss on disposal is R7,6 million (refer to note 36).

58.4 Disposals of business during the previous reporting period

There were no disposals during the previous reporting period.

58.5 Transactions with non-controlling interests

58.5.1 Acquisition of an additional interest in a subsidiary during the current reporting period

During March 2013, the Group acquired additional shares in National Bank of Commerce Limited (NBC) for a purchase consideration of R368 million as part of a rights issue by NBC whereby the non-controlling shareholders did not take up any shares. This increased the Group's effective shareholding in NBC from 55% to 65,89%. A clawback option for a period of 12 months was granted to the non-controlling shareholders who were unable to subscribe for the shares at the date of the rights issue. The option grants the non-controlling shareholders the right to purchase their pro-rata portion of the shares from the Group at the original issue price plus interest at a market-related rate.

58.5.2 Acquisition of an additional interest in a subsidiary during the previous reporting period

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

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

There were no disposals of fractional interests in subsidiaries that resulted in a loss of control during the current reporting period.

59. Segment report

59.1 Summary of segments

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

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

- Retail and Business Banking("RBB")
  - Business Banking South Africa (previously Business Markets): provides a comprehensive range of commercial banking products and services to large, medium and small businesses.
  - Retail Banking South Africa (previously Retail Markets): offers various products and services to customers through the following divisions:
    - Home Loans: offers residential property-related finance solutions direct to the customer through personalised services, as well as through a range of electronic channels and intermediaries such as estate agents and originators.
    - Vehicle and Asset Finance ("VAF"): offers customised vehicle and asset finance products and services through vehicle dealers as well as directly to retail and business customers through face-to-face engagements, call centre agents and digital channels. The VAF product line incorporates vehicle management solutions including fleet card management and associated services.
    - Card: provides credit cards and merchant acquiring. It includes the Edcon portfolio 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.
    - Retail Bank: offers financial solutions to individuals in South Africa, ranging from those entering the market with basic banking needs, to affluent individuals who require sophisticated banking solutions.
  - 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.
- CIBW: offers corporate, investment banking and wealth management services. The business model centres on delivering specialist investment banking, corporate banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions, government clients and high net worth individuals.
- Financial Services: comprises various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services and a variety of investment products.
- Head office, inter-segment eliminations and Other: consists of various non-banking activities and includes investment income earned by the Group, as well as income earned by the London branch, Absa Manx Holdings and Corporate Real Estate Services ("CRES").

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

59. Segment report *(continued)*

59.1 Summary of segments *(continued)*

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

➜ Portfolio changes

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

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

➜ Head office allocations

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

- Intragroup allocation of funding costs and other Group Treasury items now includes all income derived from the Group's liquid asset portfolio as well as allocation of dividends paid on the non-controlling preference shares, secondary tax on companies and an increased allocation of intragroup interest. The allocation is based on the risk-weighted assets carried by each business segment.
- Internal funding revenue generated by "Money Markets" desk in CIBW was moved from the Markets business to Group Treasury (in the Head office segment) and was in turn allocated out to the business segments.
- Head office operating cost items have been allocated to business segments wherever practicable using the most appropriate driver of the cost.
- Fees recognised in 'Operating income before operating expenditure' and 'Taxation expense', that were payable and receivable between business lines within CIBW and between CIBW and Head office in respect of Structured Capital Markets activities have been eliminated. Both the allocation of secondary tax on companies, referred to above, and this item impacts the relative tax rates of segments.

  The Group's Head office segment now represents a smaller proportion of the Group's earnings and will primarily consist of: Group consolidation entries; accounting mismatches (defined as IFRS accounting adjustments not deemed relevant to business segment performance); timing items (items allocated to business segments with a timing lag) and corporate items that cannot be meaningfully allocated to business segments.

	Group		
	2013		
	South Africa and other international operations Rm	**Rest of Africa Rm**	**Total Rm**
59.2 Segment report per geographical segment			
Net interest income – external	**24 959**	**7 392**	**32 351**
Non-interest income – external	**23 125**	**3 930**	**27 055**
Total assets	**787 514**	**172 085**	**959 599**

	2012		
	South Africa and other international operations Rm	Rest of Africa Rm	Total Rm
Segment report per geographical segment			
Net interest income – external	23 379	5 923	29 302
Non-interest income – external	22 201	3 473	25 674
Total assets	798 284	100 087	898 371

59. Segment report *(continued)*

59.3 Segment report per market segment

	RBB		CIBW	
	2013	2012	**2013**	2012
Statement of comprehensive income (Rm)				
Net interest income	**27 602**	24 798	**4 724**	4 103
Net interest income – external	**36 911**	34 796	**(7 836)**	(8 837)
Net interest income – internal	**(9 309)**	(9 998)	**12 560**	12 940
Impairment losses on loans and advances	**(6 678)**	(8 696)	**(300)**	(139)
Non-interest income	**16 366**	15 407	**6 924**	6 388
Non-interest income – external	**15 593**	14 681	**8 297**	8 949
Non-interest income – internal	**773**	726	**(1 373)**	(2 561)
Operating expenses	**(24 679)**	(22 419)	**(6 731)**	(6 205)
Depreciation and amortisation	**(1 051)**	(968)	**(86)**	(60)
Other operating expenses	**(23 628)**	(21 451)	**(6 645)**	(6 145)
Other	**(399)**	(411)	**(84)**	22
Other impairments	**(21)**	(41)	**(10)**	—
Indirect taxation	**(482)**	(439)	**(88)**	(94)
Share of post-tax results of associates and joint ventures	**104**	69	**14**	116
Operating profit before income tax	**12 212**	8 679	**4 533**	4 169
Taxation expense	**(3 526)**	(2 834)	**(1 154)**	(837)
Profit for the reporting period	**8 686**	5 845	**3 379**	3 332
Profit attributable to:				
Ordinary equity holders	**8 045**	5 278	**3 150**	3 146
Non-controlling interest – ordinary shares	**452**	367	**124**	91
Non-controlling interest – preference shares	**189**	200	**105**	95
	8 686	5 845	**3 379**	3 332
Headline earnings	**7 999**	5 668	**3 017**	3 146
Operating performance (%)				
Net interest margin on average interest-bearing assets[2]	**4,52**	4,33	**1,19**	0,99
Impairment losses on loans and advances as a percentage of average loans and advances to customers[2]	**1,50**	2,05	**0,22**	0,12
Non-interest income as a percentage of total revenue[3]	**37,2**	38,3	**59,4**	60,9
Revenue growth[3]	**9**	3	**11**	11
Cost growth[3]	**(10)**	(5)	**(8)**	(7)
Cost-to-income ratio[3]	**56,1**	55,8	**57,8**	59,1
Statement of financial position (Rm)				
Loans and advances to customers	**452 327**	439 429	**152 891**	126 193
Investment securities	**7 731**	6 332	**5 771**	7 919
Other assets	**282 052**	223 032	**383 704**	368 301
Total assets	**742 110**	668 793	**542 366**	502 413
Deposits due to customers	**281 161**	253 526	**311 946**	289 767
Debt securities in issue	**3 477**	3 660	**75 674**	82 988
Other liabilities	**435 706**	395 171	**146 939**	121 901
Total liabilities	**720 344**	652 357	**534 559**	494 656

Notes

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

[2]These ratios are unaudited.

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

Financial Services		Other		eliminations[1]		Group	
2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
14	6	**(402)**	(79)	**413**	474	**32 351**	29 302
41	9	**1 710**	2 174	**1 525**	1 160	**32 351**	29 302
(27)	(3)	**(2 112)**	(2 253)	**(1 112)**	(686)	**—**	—
(24)	(24)	**—**	—	**15**	4	**(6 987)**	(8 855)
4 353	4 025	**(53)**	337	**(535)**	(483)	**27 055**	25 674
4 804	4 460	**(37)**	309	**(1 602)**	(2 725)	**27 055**	25 674
(451)	(435)	**(16)**	28	**1 067**	2 242	**—**	—
(2 322)	(2 138)	**56**	(71)	**256**	504	**(33 420)**	(30 329)
(113)	(70)	**(202)**	(175)	**(660)**	(648)	**(2 112)**	(1 921)
(2 209)	(2 068)	**258**	104	**916**	1 152	**(31 308)**	(28 408)
(124)	(119)	**(100)**	(96)	**(196)**	(3)	**(903)**	(607)
(6)	(24)	**4**	—	**—**	(67)	**(33)**	(132)
(118)	(105)	**(104)**	(96)	**(208)**	10	**(1 000)**	(724)
—	10	**—**	—	**12**	54	**130**	249
1 897	1 750	**(499)**	91	**(47)**	496	**18 096**	15 185
(528)	(502)	**169**	10	**(183)**	(276)	**(5 222)**	(4 439)
1 369	1 248	**(330)**	101	**(230)**	220	**12 874**	10 746
1 369	1 248	**(330)**	101	**(253)**	226	**11 981**	9 999
—	—	**—**	—	**23**	(6)	**599**	452
—	—	**—**	—	**—**	—	**294**	295
1 369	1 248	**(330)**	101	**(230)**	220	**12 874**	10 746
1 370	1 265	**(312)**	76	**(231)**	264	**11 843**	10 419
n/a	n/a	**n/a**	n/a	**n/a**	n/a	**4,48**	4,28
4,73	12,31	**n/a**	n/a	**n/a**	n/a	**1,20**	1,60
99,7	99,9	**n/a**	n/a	**n/a**	n/a	**45,5**	46,7
8	0	**n/a**	n/a	**n/a**	n/a	**8**	4
(9)	(1)	**n/a**	n/a	**n/a**	n/a	**(10)**	(4)
53,2	53,0	**n/a**	n/a	**n/a**	n/a	**56,3**	55,2
—	296	**46**	266	**73**	78	**605 337**	566 262
21 300	19 846	**29**	55	**(1 748)**	(3 239)	**33 083**	30 913
11 821	10 778	**32 026**	34 044	**(388 424)**	(334 959)	**321 179**	301 196
33 121	30 920	**32 101**	34 365	**(390 099)**	(338 120)	**959 599**	898 371
—	—	**—**	—	**(5 096)**	(192)	**588 011**	543 101
—	—	**21 505**	21 935	**(2 827)**	(1 779)	**97 829**	106 804
28 238	26 222	**7 425**	7 170	**(429 750)**	(386 443)	**188 558**	164 021
28 238	26 222	**28 930**	29 105	**(437 673)**	(388 414)	**874 398**	813 926

	RBB		CIBW	
	2013	2012	**2013**	2012
59. Segment report *(continued)*				
59.3 Segment report per market segment *(continued)*				
Financial performance (%)				
Return on average risk-weighted assets[1]	**2,30**	1,72	**1,86**	2,16
Return on average assets[1]	**1,19**	0,89	**0,57**	0,56
Other[1]				
Banking customer base by segment (millions)	**11,88**	12,68	**0**	0

	RBB	
	2013 Rm	2012 Rm
59.4 Retail and Business Banking		
Statement of comprehensive income		
Net interest income	**27 602**	24 798
Net interest income – external	**36 911**	34 796
Net interest income – internal	**(9 309)**	(9 998)
Impairment losses on loans and advances	**(6 678)**	(8 696)
Non-interest income	**16 366**	15 407
Non-interest income – external	**15 593**	14 681
Non-interest income – internal	**773**	726
Operating expenses	**(24 679)**	(22 419)
Other	**(399)**	(411)
Operating profit before income tax	**12 212**	8 679
Taxation expense	**(3 526)**	(2 834)
Profit for period	**8 686**	5 845
Profit attributable to:		
Ordinary equity holders	**8 045**	5 278
Non-controlling interest – ordinary shares	**452**	367
Non-controlling interest – preference shares	**189**	200
	8 686	5 845
Headline earnings	**7 999**	5 668
Statement of financial position		
Loans and advances to customers	**452 327**	439 429
Investment securities	**7 731**	6 332
Other assets	**282 052**	223 032
Total assets	**742 110**	668 793
Deposits due to customers	**281 161**	253 526
Debt securities in issue	**3 477**	3 660
Other liabilities	**435 706**	395 171
Total liabilities	**720 344**	652 357

Note
[1] These ratios are unaudited.

Financial Services		Other		Head office and inter-segment eliminations		Group	
2013	2012	2013	2012	2013	2012	2013	2012
n/a	n/a	n/a	n/a	n/a	n/a	2,18	2,07
4,15	4,11	n/a	n/a	n/a	n/a	1,29	1,17
n/a	n/a	n/a	n/a	n/a	n/a	11,88	12,68

Retail Banking South Africa		Business Banking South Africa		RBB Rest of Africa	
2013 Rm	2012 Rm	2013 Rm	2012 Rm	2013 Rm	2012 Rm
16 106	14 705	5 237	5 277	6 259	4 816
27 665	26 205	3 463	3 875	5 783	4 716
(11 559)	(11 500)	1 774	1 402	476	100
(5 162)	(6 583)	(896)	(1 532)	(620)	(581)
11 189	10 746	3 140	2 753	2 037	1 908
10 431	10 024	3 138	2 749	2 024	1 908
758	722	2	4	13	—
(14 565)	(12 937)	(4 920)	(5 313)	(5 194)	(4 169)
(314)	(298)	(43)	(59)	(42)	(54)
7 254	5 633	2 518	1 126	2 440	1 920
(1 985)	(1 691)	(727)	(438)	(814)	(705)
5 269	3 942	1 791	688	1 626	1 215
4 957	3 641	1 734	642	1 354	995
178	164	2	(17)	272	220
134	137	55	63	—	—
5 269	3 942	1 791	688	1 626	1 215
4 941	3 626	1 710	1 042	1 348	1 000
352 764	345 698	61 679	63 409	37 884	30 322
—	—	874	1 036	6 857	5 296
178 753	170 994	35 870	22 527	67 429	29 511
531 517	516 692	98 423	86 972	112 170	65 129
134 830	126 893	87 915	79 100	58 416	47 533
2 996	3 636	—	—	481	24
386 290	380 355	8 643	6 876	40 773	7 940
524 116	510 884	96 558	85 976	99 670	55 497

60. Derivatives

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

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

60.1 Derivatives held for trading

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

60.2 Derivatives held for hedging

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

60.2.1 Derivatives designated as fair value hedges

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

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

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

	Group	
	2013 Rm	2012 Rm
(Losses)/Gains on hedged items (assets) (refer to note 30)	**(2 450)**	1 780
Gains/(Losses) on hedging instruments (assets) (refer to note 30)	**2 818**	(1 591)
Gains/(Losses) on hedged items (liabilities) (refer to note 31)	**820**	(445)
(Losses)/Gains on hedging instruments (liabilities) (refer to note 31)	**(899)**	388

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

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

	Group	
	2013 Rm	2012 Rm
Ineffectiveness (outside range) (refer to note 36)	**(4)**	(23)
Ineffectiveness (inside range)	**2**	(21)

60.2.2 Derivatives designated as cash flow hedges – interest rate risk

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

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

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

60. Derivatives *(continued)*

60.2 Derivatives held for hedging *(continued)*

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

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

	Group						
	2013						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast receivable cash flow[1]	1 446	403	62	16	4	38	1 969
Forecast payable cash flow[1]	(33)	(65)	(221)	(251)	(161)	(77)	(808)
Net cash flow before taxation	**1 413**	**338**	**(159)**	**(235)**	**(157)**	**(39)**	**1 161**

	2012						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast receivable cash flow[1]	1 947	1 324	634	198	20	—	4 123
Forecast payable cash flow[1]	(11)	—	—	(1)	(2)	(26)	(40)
Net cash flow before taxation	1 936	1 324	634	197	18	(26)	4 083

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

	Group	
	2013 Rm	2012 Rm
Interest and similar income (refer to note 30)	1 730	1 990
Interest expense and similar charges (refer to note 31)	52	79
Gains and losses from banking and trading activities (refer to note 36)	(234)	45
	1 548	2 114

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

	Group	
	2013 Rm	2012 Rm
Ineffectiveness (outside range) (refer to note 36)	(234)	45
Ineffectiveness (inside range)	158	202

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

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

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

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

Note

[1]These balances are shown before taxation.

60. Derivatives *(continued)*

60.2 Derivatives held for hedging *(continued)*

60.2.3 Derivatives designated as cash flow hedges – share-based payment transactions *(continued)*

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

	Group						
	2013						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast payable cash flow[1]	(306)	(171)	(77)	—	—	—	(554)
Forecast profit or loss impact[1]	(29)	(82)	(57)	—	—	—	(168)
Net cash flow before taxation	(335)	(253)	(134)	—	—	—	(722)

	2012						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast payable cash flow[1]	(364)	(229)	(100)	—	—	—	(693)
Forecast profit or loss impact[1]	(30)	(106)	(71)	—	—	—	(207)
Net cash flow before taxation	(394)	(335)	(171)	—	—	—	(900)

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

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

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

	Group	
	2013 Rm	2012 Rm
Ineffectiveness (outside range)	—	—

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

60.3 Detailed breakdown of derivatives

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

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Note
[1]These balances are shown before taxation.

60. Derivatives *(continued)*

60.3 Detailed breakdown of derivatives *(continued)*

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

	Group					
	2013				2012	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Trading						
Foreign exchange derivatives						
Foreign exchange forwards	42 146	(823)	997	(1 820)	50 066	(420)
Currency swaps	366 981	(30)	5 308	(5 338)	534 509	437
Over-the-counter ("OTC") foreign exchange options	53 097	128	823	(695)	35 237	160
OTC foreign exchange options purchased	26 340	778	782	(4)	18 820	401
OTC foreign exchange options written	26 757	(650)	41	(691)	16 417	(241)
Other OTC foreign exchange derivatives	47	1	(53)	54	246	(1)
Exchange-traded derivatives	88 263	4	4	—	97 174	1
Eurodollar futures	83 115	—	—	—	96 534	—
Exchange-traded options purchased	—	—	—	—	496	1
Exchange-traded futures	5 148	4	4	—	144	—
Total foreign exchange derivatives	550 534	(720)	7 079	(7 799)	717 232	177
Interest rate derivatives						
Forward rate agreements ("FRAs")	2 076 796	103	770	(667)	1 281 461	(131)
Currency interest rate swaps	178 906	(1 066)	7 575	(8 641)	174 075	(827)
Swaps	6 414	(199)	26	(225)	62 362	(102)
Interest rate swaps	1 847 814	(904)	26 722	(27 626)	1 126 047	1 721
OTC options on FRAs and swaps	25 446	10	112	(102)	109 669	(29)
OTC options on FRAs and swaps purchased	12 351	112	112	—	71 196	568
OTC options on FRAs and swaps written	13 095	(102)	—	(102)	38 473	(597)
Other OTC interest rate derivatives	24 315	(42)	37	(79)	12 319	(4)
Exchange-traded derivatives	27 095	(3)	2	(5)	7 635	—
Exchange-traded derivatives purchased	27 032	2	2	—	—	—
Exchange-traded derivatives written	63	(5)	—	(5)	7 635	—
Embedded derivatives	1	(3)	(2)	(1)	11 790	(435)
Total interest rate derivatives	4 186 787	(2 104)	35 242	(37 346)	2 785 358	193
Balance carried forward	4 737 321	(2 824)	42 321	(45 145)	3 502 590	370

	Group					
	2013				2012	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
60. Derivatives *(continued)*						
60.3 Detailed breakdown of derivatives *(continued)*						
Trading *(continued)*						
Balance brought forward	4 737 321	(2 824)	42 321	(45 145)	3 502 590	370
Equity derivatives						
OTC options purchased	4 948	274	289	(15)	8 021	529
OTC options written	6 103	(1 160)	(727)	(433)	8 331	(544)
Equity futures	2	2	2	—	1 989	(6)
Other OTC equity derivatives	41 847	1 059	2 515	(1 456)	30 505	(659)
OTC equity derivatives	52 900	175	2 079	(1 904)	48 846	(680)
Exchange-traded derivatives	52 829	(4)	5	(9)	3 361	5
Exchange-traded options purchased	1 861	—	—	—	544	5
Exchange-traded options written	2 996	(11)	(10)	(1)	14	—
Exchange-traded futures	47 972	7	15	(8)	2 803	—
Embedded derivatives	1	(1 324)	(1 324)	—	1 028	(121)
Total equity derivatives	105 730	(1 153)	760	(1 913)	53 235	(796)
Commodity derivatives						
Agricultural forwards	8 121	2	14	(12)	361	(32)
OTC agricultural options	9	(2)	(2)	0	132	(9)
OTC agricultural options purchased	9	(2)	(2)	0	54	(1)
OTC agricultural options written	—	—	—	—	78	(8)
OTC options on gold						
OTC gold options purchased	54	2	2	—	28	—
Other OTC commodity derivatives	13 574	94	237	(143)	4 768	502
OTC commodity derivatives	21 758	96	251	(155)	5 289	461
Exchange-traded agricultural derivatives						
Exchange-traded agricultural futures	772	2	2	—	2 218	2
Embedded derivatives	—	—	—	—	296	(32)
Total commodity derivatives	22 530	98	253	(155)	7 803	431
Balance carried forward	4 865 581	(3 879)	43 334	(47 213)	3 563 628	5

	Group					
	2013				2012	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
60. Derivatives *(continued)*						
60.3 Detailed breakdown of derivatives *(continued)*						
Trading *(continued)*						
Balance brought forward	**4 865 581**	**(3 879)**	**43 334**	**(47 213)**	3 563 628	5
Credit derivatives						
Credit derivatives purchased (swaps)	7 196	(214)	16	(230)	4 320	(78)
Credit derivatives written (swaps)	23 805	(4)	253	(257)	11 865	18
Embedded derivatives	(112)	(36)	—	(36)	11 201	43
Total credit derivatives	**30 889**	**(254)**	**269**	**(523)**	27 386	(17)
Total trading	**4 896 470**	**(4 133)**	**43 603**	**(47 736)**	3 591 014	(12)
Hedging						
Cash flow hedges						
Interest rate swaps	173 811	1 161	1 595	(434)	149 992	3 845
Total cash flow hedges	**173 811**	**1 161**	**1 595**	**(434)**	149 992	3 845
Fair value hedges						
Currency swaps	1 859	(134)	13	(147)	—	—
Interest rate swaps	147 479	(61)	1 749	(1 810)	137 150	(2 244)
Total fair value hedges	**149 338**	**(195)**	**1 762**	**(1 957)**	137 150	(2 244)
Total hedges	**323 149**	**966**	**3 357**	**(2 391)**	287 142	1 601
Investments						
Interest rate derivatives						
Other OTC interest rate derivatives	199	3	3	—	233	7
Total interest rate derivatives	**199**	**3**	**3**	**—**	233	7
Equity derivatives						
OTC bond options purchased	—	—	—	—	486	34
Equity futures	494	20	20	—	(12)	—
Total equity derivatives	**494**	**20**	**20**	**—**	474	34
Total investments	**693**	**23**	**23**	**—**	707	41
Total derivative instruments	**5 220 312**	**(3 144)**	**46 983**	**(50 127)**	3 878 863	1 630

60 Derivatives *(continued)*

60.3 Detailed breakdown of derivatives *(continued)*

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

Notional amount

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

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

Fair value

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

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

	Group 2013 Assets Rm	Group 2013 Liabilities and equity Rm	Group 2012 Assets Rm	Group 2012 Liabilities and equity Rm
Fair value through profit or loss	**131 916**	**104 403**	140 644	108 571
Designated at fair value	**42 582**	**50 535**	48 337	52 982
Cash, cash balances and balances with central banks	**3 210**	**—**	2 878	—
Statutory liquid asset portfolio	**—**	**—**	800	—
Loans and advances to banks	**6 140**	**—**	9 647	—
Other assets	**17**	**—**	17	—
Loans and advances to customers	**10 546**	**—**	11 942	—
Investment securities	**22 669**	**—**	23 053	—
Deposits from banks	**—**	**9 320**	—	11 132
Other liabilities	**—**	**36**	—	17
Deposits due to customers	**—**	**17 863**	—	19 089
Debt securities in issue	**—**	**3 543**	—	3 198
Liabilities under investment contracts	**—**	**19 773**	—	18 768
Borrowed funds	**—**	**—**	—	778
Held for trading	**85 977**	**51 477**	86 851	51 734
Trading portfolio assets	**85 954**	**—**	86 810	—
Investment securities	**23**	**—**	41	—
Trading portfolio liabilities	**—**	**51 477**	—	51 734
Hedging instruments	**3 357**	**2 391**	5 456	3 855
Hedging portfolio assets	**3 357**	**—**	5 456	—
Hedging portfolio liabilities	**—**	**2 391**	—	3 855
Available-for-sale	**84 282**	**—**	81 204	—
Designated as available-for-sale	**58 804**	**—**	54 031	—
Cash, cash balances and balances with central banks	**12 562**	**—**	11 636	—
Statutory liquid asset portfolio	**36 577**	**—**	35 047	—
Investment securities	**9 665**	**—**	7 348	—
Hedged items				
Statutory liquid asset portfolio	**25 478**	**—**	27 173	—
Amortised cost	**714 533**	**756 468**	652 029	692 844
Held at amortised cost	**710 121**	**739 309**	647 059	675 651
Cash, cash balances and balances with central banks	**32 425**	**—**	29 521	—
Loans and advances to banks	**73 831**	**—**	52 864	—
Other assets	**13 486**	**—**	15 324	—
Loans and advances to customers	**590 379**	**—**	549 350	—
Deposits from banks	**—**	**59 744**	—	30 292
Other liabilities	**—**	**15 765**	—	16 935
Deposits due to customers	**—**	**570 148**	—	524 012
Debt securities in issue	**—**	**82 207**	—	91 619
Borrowed funds	**—**	**11 445**	—	12 793
Hedged items	**4 412**	**17 159**	4 970	17 193
Loans and advances to customers	**4 412**	**—**	4 970	—
Debt securities in issue	**—**	**12 079**	—	11 987
Borrowed funds	**—**	**5 080**	—	5 206
Held-to-maturity	**2 659**	**—**	1 206	—
Cash, cash balances and balances with central banks	**1 933**	**—**	735	—
Investment securities	**726**	**—**	471	—
Other assets and liabilities	**26 209**	**13 527**	23 288	12 511
Total equity	**—**	**85 201**	—	84 445
	959 599	**959 599**	898 371	898 371

62. Assets and liabilities not held at fair value

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

	Group			
	2013		2012	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with other central banks	7 350	7 350	6 061	6 061
Balances with the SARB	12 417	12 417	12 339	12 339
Coins and bank notes	12 652	12 652	11 085	11 085
Money market assets	1 939	1 939	36	36
Cash, cash balances and balances with central banks (refer to note 2)	34 358	34 358	29 521	29 521
Loans and advances to banks (refer to note 4)	73 831	73 831	52 864	52 864
Other assets (refer to note 6)	13 486	13 486	15 324	15 324
Retail Banking South Africa	352 764	352 602	345 698	353 021
Cheque accounts	2 015	2 015	1 907	1 907
Credit cards	34 071	34 071	31 350	31 350
Instalment credit agreements	63 600	63 297	57 305	58 758
Loans to associates and joint ventures	10 287	10 287	8 393	8 393
Mortgages	226 706	226 771	230 880	236 750
Personal and term loans	16 085	16 161	15 863	15 863
Business Banking South Africa	60 971	61 141	62 390	63 295
Cheque accounts	17 075	17 075	17 997	17 997
Commercial property finance	30 682	30 852	31 016	31 921
Instalment credit agreements	984	984	1 441	1 441
Loans to associates and joint ventures	559	559	627	627
Term loans	11 671	11 671	11 309	11 309
RBB Rest of Africa	37 884	37 884	30 322	30 322
CIBW	143 053	137 249	115 270	115 270
CIBW South Africa	121 683	115 879	101 223	101 223
CIBW Rest of Africa	21 370	21 370	14 047	14 047
Head office, inter-segment eliminations, Financial Services and Other	119	119	640	640
Loans and advances to customers – net of impairment losses (refer to note 9)	594 791	588 995	554 320	562 548
Investment securities (refer to note 12)	726	726	471	471
Total assets	717 192	711 396	652 500	660 728
Financial liabilities				
Deposits from banks (refer to note 18)	59 744	56 532	30 292	30 295
Other liabilities (refer to note 20)	15 765	15 297	16 935	16 935
Call deposits	52 843	52 843	56 667	56 667
Cheque account deposits	174 606	174 606	170 854	170 854
Credit card deposits	1 914	1 914	1 937	1 937
Fixed deposits	151 797	151 837	130 588	131 028
Foreign currency deposits	17 456	17 456	12 253	12 253
Notice deposits	56 348	56 350	55 728	55 935
Other deposits	10 822	10 822	8 008	8 008
Saving and transmission deposits	104 362	104 362	87 977	87 977
Deposits due to customers (refer to note 22)	570 148	570 190	524 012	524 659
Debt securities in issue (refer to note 23)	94 286	94 324	103 606	103 606
Borrowed funds (refer to note 26)	16 525	17 069	17 999	19 284
Total liabilities	756 468	753 412	692 844	694 779

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

	Group				
			2013		
	Carrying value Rm	Fair value Rm	Valuations with reference to observable prices Level 1 Rm	Valuations with reference to observable inputs Level 2 Rm	Valuations with reference to unobservable inputs Level 3 Rm
Financial assets					
Balances with other central banks	7 350	7 350	3 948	2 849	553
Balances with the SARB	12 417	12 417	11 851	566	—
Coins and bank notes	12 652	12 652	12 652	—	—
Money market assets	1 939	1 939	6	—	1 933
Cash, cash balances and balances with central banks (refer to note 2)	34 358	34 358	28 457	3 415	2 486
Loans and advances to banks (refer to note 4)	73 831	73 831	6 291	58 501	9 039
Other assets (refer to note 6)	13 486	13 486	4 193	6 557	2 736
Retail Banking South Africa	352 764	352 602	1 752	5 280	345 570
Cheque accounts	2 015	2 015	806	—	1 209
Credit cards	34 071	34 071	—	381	33 690
Instalment credit agreements	63 600	63 297	—	360	62 937
Loans to associates and joint ventures	10 287	10 287	—	—	10 287
Mortgages	226 706	226 771	—	—	226 771
Personal and term loans	16 085	16 161	946	4 539	10 676
Business Banking South Africa	60 971	61 141	—	—	61 141
Cheque accounts	17 075	17 075	—	—	17 075
Commercial property finance	30 682	30 852	—	—	30 852
Instalment credit agreements	984	984	—	—	984
Loans to associates and joint ventures	559	559	—	—	559
Term loans	11 671	11 671	—	—	11 671
RBB Rest of Africa	37 884	37 884	1 231	20 977	15 676
CIBW	143 053	137 249	10 546	25 509	101 194
CIBW South Africa	121 683	115 879	9 271	12 746	93 862
CIBW Rest of Africa	21 370	21 370	1 275	12 763	7 332
Head office, inter-segment eliminations, Financial Services and Other	119	119	—	—	119
Loans and advances to customers – net of impairment losses (refer to note 9)	594 791	588 995	13 529	51 766	523 700
Investment securities (refer to note 12)	726	726	—	—	726
Total assets	717 192	711 396	52 470	120 239	538 687
Financial liabilities					
Deposits from banks (refer to note 18)	59 744	56 532	11 648	35 850	9 034
Other liabilities (refer to note 20)	15 765	15 297	7 622	1 680	5 995
Call deposits	52 843	52 843	52 799	30	14
Cheque account deposits	174 606	174 606	159 021	4 496	11 089
Credit card deposits	1 914	1 914	—	—	1 914
Fixed deposits	151 797	151 837	447	145 845	5 545
Foreign currency deposits	17 456	17 456	244	13 864	3 348
Notice deposits	56 348	56 350	—	56 350	—
Other deposits	10 822	10 822	804	7 531	2 487
Saving and transmission deposits	104 362	104 362	73 557	16 228	14 577
Deposits due to customers (refer to note 22)	570 148	570 190	286 872	244 344	38 974
Debt securities in issue (refer to note 23)	94 286	94 324	22 234	69 590	2 500
Borrowed funds (refer to note 26)	16 525	17 069	15 694	760	615
Total liabilities	756 468	753 412	344 070	352 224	57 118

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

62.1 Valuation methodology – non-fair value items

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

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

Financial assets

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

Loans and advances to banks and customers

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

Financial liabilities

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

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

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

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

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

Financial liabilities *(continued)*

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

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

Valuation inputs

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

Quoted market prices – Level 1

Financial instrument fair values are classified as Level 1 if they have been determined using observable prices in an active market. Such fair values are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

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

Valuation technique using observable inputs – Level 2

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

Valuation technique using significant unobservable inputs – Level 3

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

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

62.2 Measurement of financial instruments at Level 2

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

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

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

62.3 Measurement of financial instruments at Level 3

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

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

63. Fair value hierarchy disclosures

63.1 Valuation methodology

The table below 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			
	2013			
Recurring fair value measurements	Valuations with reference to observable prices Level 1[1] Rm	Valuations based on observable inputs Level 2[1] Rm	Valuations based on un-observable inputs Level 3[2] Rm	Total Rm
Financial assets				
Cash, cash balances and balances with central banks (refer to note 2)	7 976	7 796	—	15 772
Statutory liquid asset portfolio (refer to note 3)	62 055	—	—	62 055
Loans and advances to banks (refer to note 4)	—	6 140	—	6 140
Trading and hedging portfolio assets (refer to note 5)	36 263	52 011	1 037	89 311
Debt instruments	24 049	530	873	25 452
Derivative assets	—	46 796	164	46 960
Commodity derivatives	—	253	—	253
Credit derivatives	—	258	11	269
Equity derivatives	—	760	—	760
Foreign exchange derivatives	—	7 053	39	7 092
Interest rate derivatives	—	38 472	114	38 586
Equity instruments	12 176	77	—	12 253
Money market assets	38	4 608	—	4 646
Other assets (refer to note 6)	—	1	16	17
Loans and advances to customers (refer to note 9)	—	4 069	6 477	10 546
Investment securities (refer to note 12)	21 232	7 156	3 969	32 357
Total financial assets	127 526	77 173	11 499	216 198
Financial liabilities				
Deposits from banks (refer to note 18)	—	9 320	—	9 320
Trading and hedging portfolio liabilities (refer to note 19)	3 741	49 578	549	53 868
Derivative liabilities	—	49 578	549	50 127
Commodity derivatives	—	161	—	161
Credit derivatives	—	478	45	523
Equity derivatives	—	1 607	306	1 913
Foreign exchange derivatives	—	7 755	57	7 812
Interest rate derivatives	—	39 577	141	39 718
Short positions	3 741	—	—	3 741
Other liabilities (refer to note 20)	—	36	—	36
Deposits due to customers (refer to note 22)	—	10 725	7 138	17 863
Debt securities in issue (refer to note 23)	—	3 508	35	3 543
Liabilities under investment contracts (refer to note 24)	—	19 773	—	19 773
Borrowed funds (refer to note 26)	—	—	—	—
Total financial liabilities	3 741	92 940	7 722	104 403
Non-financial assets				
Investment properties (refer to note 14)	—	—	1 089	1 089
Trading and hedging portfolio assets (refer to note 5)				
Commodities	1 080	—	—	1 080
Non-recurring fair value measurements				
Non-current assets held for sale (refer to note 8)	2 424	1 297	1 093	4 814
Non-current liabilities held for sale (refer to note 8)	975	175	501	1 651

Notes

[1]The nature of the valuation techniques is summarised in note 63.2.

[2]The nature of the valuation techniques is summarised in note 63.3.

Group 2012			
Valuations with reference to observable prices Level 1[1] Rm	Valuations based on observable inputs Level 2[1] Rm	Valuations based on un-observable inputs Level 3[2] Rm	Total Rm
7 391	7 123	—	14 514
63 017	3	—	63 020
—	9 647	—	9 647
30 236	61 078	952	92 266
23 742	—	873	24 615
16	52 161	79	52 256
1	604	—	605
—	152	43	195
15	966	5	986
—	5 823	1	5 824
—	44 616	30	44 646
6 473	141	—	6 614
5	8 776	—	8 781
—	1	16	17
—	5 523	6 419	11 942
11 103	12 866	6 473	30 442
111 747	96 241	13 860	221 848
82	11 050	—	11 132
4 965	50 550	74	55 589
43	50 550	74	50 667
5	169	—	174
—	188	24	212
—	1 756	26	1 782
38	5 591	—	5 629
—	42 846	24	42 870
4 922	—	—	4 922
—	1	16	17
—	11 417	7 672	19 089
—	3 011	187	3 198
—	18 768	—	18 768
778	—	—	778
5 825	94 797	7 949	108 571
—	—	1 220	1 220
514	—	—	514
2 226	379	1 447	4 052
—	1 274	206	1 480

63. Fair value hierarchy disclosures *(continued)*

63.1 Valuation methodology *(continued)*

63.1.1 Fair value measurement and valuation processes

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 ("IVC") team, where IVC are independent of front office management.

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

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

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

Investment properties

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

63.1.2 Significant transfers between levels

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

63.2 Valuation techniques using observable inputs

Valuations based on observable inputs include:

Level 1

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

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

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

Level 2

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

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

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

63. Fair value hierarchy disclosures *(continued)*

63.3 Valuation techniques using unobservable inputs

Valuations based on unobservable inputs include:

Level 3

Asset and liabilities valued using inputs that are not based on observable market data (unobservable data) such as an entity's own assumptions of market participants in pricing the asset or liability.

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

In determining the value of Level 3 financial instruments, the following are the principal inputs that can require judgement:

(i) Volatility

Volatility is a key input in the valuation of options across all asset classes. For some asset classes, volatility is unobservable.

(ii) Basis risk

Basis risk is a key input in the valuation of cross currency swaps. For some currency pairs or maturities, basis risk is unobservable.

(iii) Credit spreads

Credit spreads are key inputs in the valuation of credit default swaps, credit linked notes and debt instruments or liabilities. For some issuers or tenors, credit spreads are unobservable.

(iv) Yield curves

Yield curves are key inputs in the valuation of certain debt instruments. For some debt instruments, yield curves are unobservable.

(v) Future earnings and marketability discounts

Future earnings and marketability discounts are key inputs in the valuation of certain private equity investments. Forecast earnings and marketability discounts are unobservable for some investments.

(vi) Comparator multiples

Comparator multiples and point of difference applied to chosen multiples are key inputs in the valuation of certain private equity investments. Price earnings multiples and point of difference applied to chosen multiples are unobservable for some investments.

(vii) Discount rates

Discount rates are key inputs in the valuation of certain private equity investments. Discount rates are unobservable for some investments.

(viii) Investment properties

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

Judgemental inputs on valuation of principal instruments

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Debt securities and treasury and other eligible bills

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

63. Fair value hierarchy disclosures *(continued)*

63.3 Valuations techniques using unobservable inputs *(continued)*

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

Equity instruments

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

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

Derivatives

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

Loans and advances

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

Deposits, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives as detailed above.

63.4 Fair value adjustments

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

Bid-offer valuation adjustments

For assets and liabilities where the Group is not a market maker, mid prices are adjusted to bid and offer prices respectively. Bid-offer adjustments reflect expected close out strategy and, for derivatives, the fact that they are managed on a portfolio basis. The methodology for determining the bid-offer adjustment for a derivative portfolio will generally involve netting between long and short positions and the bucketing of risk by strike and term in accordance with hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the 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 a transaction cost.

Uncollateralised derivative adjustments

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

63. Fair value hierarchy disclosures *(continued)*

63.4 Fair value adjustments *(continued)*

Model valuation adjustments

Valuation models are reviewed under 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.

63.5 Third-party credit enhancements

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

63. Fair value hierarchy disclosures *(continued)*

63.6 Movements on assets and liabilities subsequently measured at fair value using valuations based on unobservable inputs (Level 3)

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

	Group				
	2013				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm
Opening balance at the beginning of the reporting period	952	16	6 419	6 473	1 220
Movement in other comprehensive income	—	—	—	20	—
Net interest income	55	—	346	(461)	—
Other income	—	—	—	—	58
Gains and losses from banking and trading activities	(165)	—	203	92	—
Gains and losses from investment activities	—	—	(99)	8	21
Purchases	13	—	767	1 475	5
Sales	—	—	(45)	(3 165)	(6)
Issues	—	—	—	5	—
Settlements	—	—	(987)	(579)	—
Transferred to/(from) assets/liabilities	(55)	—	(127)	48	(209)
Movement in/(out) of Level 3[1]	237	—	—	53	—
Closing balance at the end of the reporting period	1 037	16	6 477	3 969	1 089

	2012				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm
Opening balance at the beginning of the reporting period	1 156	16	6 832	6 186	2 839
Movement in other comprehensive income	—	—	—	—	—
Net interest income	—	—	11	33	—
Gains and losses from banking and trading activities	54	—	742	471	—
Gains and losses from investment activities	—	—	—	(216)	—
Other comprehensive income	—	—	—	—	(400)
Purchases	30	—	632	117	202
Sales	(40)	—	(869)	(10)	(43)
Issues	37	—	154	—	—
Settlements	(108)	—	(1 083)	(108)	—
Transferred to/(from) assets/liabilities	—	—	—	—	(1 378)
Movement in/(out) of Level 3	(177)	—	—	—	—
Closing balance at the end of the reporting period	952	16	6 419	6 473	1 220

Note
[1]Refer to note 63.1.2.

Group

2013					
Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
15 080	74	16	7 672	187	7 949
20	—	—	—	—	—
(60)	—	—	9	—	9
58	—		—	—	—
130	306	—	153	(152)	307
(70)	—	—	(1)	—	(1)
2 260	7	—	27	—	34
(3 216)	(3)	—	427	—	424
5	—	—	—	—	—
(1 566)	—	(16)	(1 149)	—	(1 165)
(343)	—	—	—	—	—
290	165	—	—	—	165
12 588	549	—	7 138	35	7 722

2012					
Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
17 029	184	16	7 612	209	8 021
—	—	—	—	—	—
44	—	—	—	—	—
1 267	—	—	735	7	742
(216)	—	—	—	—	—
(400)	—	—	—	—	—
981	28	—	—	—	28
(962)	—	—	920	—	920
191	3	—	(1 595)	(29)	(1 621)
(1 299)	(6)	—	—	—	(6)
(1 378)	15	—	—	—	15
(177)	(150)	—	—	—	(150)
15 080	74	16	7 672	187	7 949

63. Fair value hierarchy disclosures *(continued)*

63.7 Unrealised gains and losses on Level 3 positions

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

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

	2012						
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm	Non-current assets held for sale Rm	Total assets at fair value Rm
Net interest income	—	—	29	7	—	—	36
Gains and losses from banking and trading activities	30	—	437	584	—	—	1 051
Gains and losses from investment activities	—	—	—	(215)	—	—	(215)
	30	—	466	376	—	—	872

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

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

63. Fair value hierarchy disclosures *(continued)*

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

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

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

63.9 Sensitivity analysis of valuations using unobservable inputs

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

A significant parameter has been deemed to be one which may result in a charge to the profit or loss section of the statement of comprehensive income, or a change in the fair value asset or liability of more than 10% of the underlying value of the affected item. This is demonstrated by the following sensitivity analysis which includes reasonable ranges of possible outcomes:

	Group 2013				
	Significant unob-servable parameters[1]	**Potential effect recorded in profit or loss**		**Potential effect recorded directly in equity**	
		Favourable Rm	**Unfavourable Rm**	**Favourable Rm**	**Unfavourable Rm**
Trading and hedging portfolio assets	**i, iii**	**43**	**43**	—	—
Other assets	**i, iii**	**2**	**2**	—	—
Loans and advances to customers	**i, iii, v,vi, vii**	**1 202**	**159**	—	—
Investment securities	**iv, v, vi**	**355**	**355**	—	—
Investment properties	**viii**	**2**	**2**	—	—
Trading and hedging portfolio liabilities	**iii**	**13**	**5**	—	—
Deposits due to customers	**iv**	**224**	**223**	—	—
		1 841	**789**	—	—

	2012				
	Significant unob-servable parameters[1]	Potential effect recorded in profit or loss		Potential effect recorded directly in equity	
		Favourable Rm	Unfavourable Rm	Favourable Rm	Unfavourable Rm
Trading and hedging portfolio assets	i, iii	126	113	—	—
Loans and advances to customers	i, iii, iv, v, vi, vii	264	326	—	—
Investment securities	iv, v, vi	1 527	1 735	5	4
Trading and hedging portfolio liabilities	iii	51	51	—	—
Other liabilities	vi	5	2	—	—
Deposits due to customers	iv	122	122	—	—
Debt securities in issue	iv	59	59	—	—
		2 154	2 408	5	4

Note
[1]Refer to note 63.3 for details of unobservable parameters.

63. Fair value hierarchy disclosures *(continued)*

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

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

Instrument	Parameter	Positive/(negative) variance in parameters
Credit derivatives	Credit spreads	100/(100) bps
Equity derivatives	Volatilities	10/(10)%
Foreign currency options	Volatilities	10/(10)%
Foreign currency swaps and foreign interest rate products	Basis risk and yield curve	100/(100) bps
Loans and advances designated at fair value through profit or loss	Credit spreads	100/(100) bps
Investment securities (private equity, property equity, investments and other)	Future earnings and marketability discounts Comparator multiples Discount rates	15/(15)%
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100/(100) bps
Investment properties	Selling price per unit Selling price escalations per year Rental income per unit Rental escalations per year Expense ratios Vacancy rates Income capitalisation rates Risk adjusted rates	15/(15)%

63.10 Measurement of financial instruments at Level 2

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments categorised as Level 2 in the fair value hierarchy.

Category of asset/liability	Valuation techniques applied	Significant observable inputs	Fair value of asset/liability Rm
Cash, cash balances and balances with central banks	Discounted cash flow	Underlying price of market traded instruments and interest rates	7 796
Loans and advances to banks	Discounted cash flow	Interest rate curves, money market curves	6 140
Trading and hedging portfolio assets			
Debt instruments	Discount cash flow	Underlying price of market traded instruments and interest rates	530
Derivative assets			46 796
Commodity derivatives	Discounted cash flow model, option pricing models, futures pricing model, ETF model	Spot price (physical or futures), interest rates, volatility	253
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Interest rate, recovery rate, credit spread, quanto ratio	258
Equity derivatives	Discounted cash flow model, option pricing models, futures pricing model	Spot price, interest rate, volatility, dividend stream	760
Foreign exchange derivatives	Discounted cash flow model, option pricing models	Spot price, interest rate, volatility	7 053
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rate curves, repo curves, money market curves, volatility	38 472
Equity instruments	Net asset value	Underlying price of market traded instruments	77
Money market assets	Discounted cash flow	Money market rates and interest rates	4 608
Loans and advances to customers	Discounted cash flow	Interest rate curves, money market curves	4 069

63. Fair value hierarchy disclosures *(continued)*

63.10 Measurement of financial instruments at Level 2 *(continued)*

Category of asset/liability	Valuation techniques applied	Significant observable inputs	Fair value of asset/liability Rm
Investment securities	Listed equity – is valued at the last market bid price. Unlisted equity is valued at par. Other items are valued utilising discounted cash flow models.	The underlying price of the market traded instrument	7 156
Deposits from banks	Discounted cash flow	Interest rate curves and money market curves	9 320
Trading and hedging portfolio liabilities			
Derivative liabilities			49 578
Commodity derivatives	Discounted cash flow model, option pricing models, futures pricing model, ETF model	Spot price (physical or futures), interest rates, volatility	161
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Interest rate, recovery rate, credit spread, quanto ratio	478
Equity derivatives	Discounted cash flow model, option pricing models, futures pricing model	Spot price, interest rate, volatility, dividend stream	1 607
Foreign exchange derivatives	Discounted cash flow model, option pricing models	Spot price, interest rate, volatility	7 755
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rate curves, repo curves, money market curves, volatility	39 577
Other liabilities	Discounted cash flow	The underlying price of the market traded instrument, as well as interest rate curves and money market curves	36
Deposits due to customers	Discounted cash flow	Interest rate curves and money market curves	10 725
Debt securities in issue	Discounted cash flow	The underlying price of the market traded instrument and interest rate curves	3 508
Liabilities under investment contracts	Discounted cash flow	The underlying price of the market traded instrument and interest rate curves	19 773

63.11 Measurement of financial instruments at Level 3

The table below sets out information about significant unobservable inputs used at the end of the reporting period in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Category of asset/liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fair value measurement sensitivity to the unobservable inputs	Fair value of asset/liability Rm
Loans and advances to customers	Discounted cash flow, and dividend yield models	Credit ratings	Credit spreads vary between 1,35% and 7,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	6 477
Investment securities	Discounted cash flows, third-party valuations, earnings before interest tax depreciation and amortisation ("EBITDA") multiples, income capitalisation valuations, net asset value models	Weighted average cost of capital, EBITDA multiples, liquidity discounts, minority discounts, capitalisation rates	Discount rates between 9,7% and 18%, multiples between 5,5 and 6,1	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on value.	3 969

63. Fair value hierarchy disclosures *(continued)*

63.11 Measurement of financial instruments at Level 3 *(continued)*

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fair value measurement sensitivity to the unobservable inputs	Fair value of asset/liability Rm
Trading and hedging portfolio assets					
Debt instruments	Discounted cash flows	Credit spreads used in the calculation of the counterparty credit risk adjustment	0,9% to 3,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	873
Derivative assets					164
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Illiquid credit curves, recovery rates, quanto ratio	0% to 3,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	11
Equity derivatives	Discounted cash flow model, option pricing models, futures pricing model	Volatility, dividend streams > 3 years	16,9% to 37,2%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	—
Foreign exchange derivatives	Discounted cash flow model, option pricing models	African basis curves > 1 year	-2,5% to 1,7%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	39
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rates (ZAR-SWAP-SPREAD curves, ZAR-REAL < 1 year, ZAR-MM-FundingSPR >5 years, repo curves > 1 year)	-1,5% to 8,3%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	114

63. Fair value hierarchy disclosures *(continued)*

63.11 Measurement of financial instruments at Level 3 *(continued)*

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fair value measurement sensitivity to the unobservable inputs	Fair value of asset/liability Rm
Deposits due to customers	Discounted cash flow	ZAR MM funding spread greater than 5 years	0,85% to 1,2%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	7 138
Debt securities in issue	Discounted cash flow	Credit spread	10 to 20 bps	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	35
Trading and hedging portfolio liabilities					
Derivative liabilities					549
Credit derivatives	Discounted cash flow model, credit default swap model (hazard rate model)	Illiquid credit curves, recovery rates, quanto ratio	0% to 3,5%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	45
Equity derivatives	Discounted cash flow model, option pricing models, futures pricing model	Volatility, dividend streams > 3 years	16,9% to 37,2%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	306
Foreign exchange derivatives	Discounted cash flow model, option pricing models	African basis curves > 1 year	-2,5% to 1,7%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	57
Interest rate derivatives	Discounted cash flow model, option pricing models	Interest rates (ZAR-SWAP-SPREAD curves, ZAR-REAL < 1 year, ZAR-MM-FundingSPR >5 years, repo curves > 1 year)	-1,5% to 8,3%	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	141

63. Fair value hierarchy disclosures *(continued)*

63.12 Measurement of non-financial assets and liabilities at Level 3

The table below sets out information about significant unobservable inputs used at the end of the reporting period in measuring non-financial assets and liabilities categorised as Level 3 in the fair value hierarchy.

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	Fair value measurement sensitivity to the unobservable inputs	Fair value of asset/liability Rm
Investment properties	Discounted cash flow	Estimates of periods in which rental units will be disposed of	2 to 7 years	The sensitivity of the fair value measurement is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on the fair value.	1 089
		Selling price escalations per year	0% to 6%		
		Rental escalations per year	0% to 10%		
		Expense ratios	22% to 75%		
		Vacancy rates	2% to 15%		
		Income capitalisation rate	10% to 12%		
		Risk adjusted discount rates	14% to 16%		

64. Risk management

64.1 Introduction (unaudited)

Financial risks are inherent within the Group's activities and disclosure as required by IFRS 7 will follow. A well established principal risk policy ("RRP") provides an integrated risk management framework, outlining the process for managing risks facing the Group. This assists in mitigating the Group's risk and comprises for four principal risks, namely credit, market, funding and operational risk.

The Group's risk appetite (unaudited)

The Group's risk appetite is defined as the level of risk the Group is willing to accept in planning and achieving its business objectives. The Group's risk appetite framework is embedded within key decision-making processes and supports the implementation of the Group's strategy. The Group uses this to maximise returns without exposing it to levels of risk above its appetite. In particular, the risk appetite framework assists in protecting the Group's financial performance, improves management responsiveness and debate regarding the Group's risk profile, assists executive management in improving the control and coordination of risk-taking across business units and identifies unused risk capacity in pursuit of profitable opportunities.

The Group's risk appetite framework is developed using a formal quantitative method and is set by the board. Risk appetite outcomes are subjected to stress testing, (i.e. validated, by estimating the Group's sensitivity to adverse changes in the business environment). This framework then forms the basis for setting business unit targets and risk-taking limits across the Group.

The Group's risk appetite can be categorised into four broad areas namely:

- earnings volatility in comparison to targets;
- capacity to absorb unexpected losses;
- capital ratio targets; and
- capacity to grow.

64. Risk management *(continued)*

64.1 Introduction (unaudited) *(continued)*

Stress testing (unaudited)

Stress testing is embedded in the risk management of the Group and is a key focus area in the strategic planning processes. Through stress testing and scenario analysis, the Group is able to assess the performance of its portfolios under potentially adverse economic conditions.

Stress tests simulate the effects on business units' financial position across the Group by analysing the impact on profits and the ability to maintain appropriate capital ratios and liquidity levels. Insights gained are integrated into the management process covering the medium to long term. Stress testing also forms an integral part of evaluating the Group's risk appetite for reasonableness under specifically designed scenarios. Stress tests are regularly discussed with the regulators.

Risk appetite key indicators and triggers (unaudited)

The Group aims to manage its risk profile in a proactive way. To support this, key indicators and triggers have been developed to act as early signals in the event that one of the scenarios or stress situations may materialise. The forward-looking indicators include, inter alia, economic indices directly correlated with risk measures and financials. The indicators and triggers are monitored routinely and considered by the Group Risk and Capital Management Committee ("GRCMC").

64.2 Credit risk

Credit risk is the risk of financial loss should the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The Group actively seeks to originate and manage credit risk in such a way as to achieve sustainable asset growth and risk-adjusted returns in line with board-approved risk appetite.

Strategy

The Group's credit risk objectives are:

- supporting the achievement of sustainable asset and revenue growth in line with our risk appetite;
- simplifying risk management processes;
- investing in skills and experience;
- operating sound credit granting processes;
- monitoring credit diligently;
- using appropriate models to assist decision-making;
- improving forecasting and reducing variability;
- continually improving collection and recovery; and
- optimising the control environment.

Performance (unaudited)

Retail credit risk (unaudited)

- **Growth:** Overall South Africa loans and advances remained flat driven by growth in Vehicle and Asset Finance ("VAF"), acquisition of Edcon, modest increase in unsecured lending, offset by continuing reduction in the home loans legal recovery book. Outside South Africa, the portfolio has grown at 11% from 2012 and contributes 8% of the total retail portfolio as at reporting period. This growth is primarily driven by unsecured loans, with Kenya and Mauritius being the main contributors.
- **Portfolio performance:** New business quality within South Africa continues to improve across major portfolios due to improvements in credit policy and customer segmentation. In Ghana, Mozambique and Tanzania actions have been implemented to address new business performance concerns caused by operational challanges. Overall retail portfolio performance has continued to improve with non-performing loans ("NPLs") reducing from 6,6% to 5,6%, primarily due to reduction in South Africa home loans where NPLs reduced by R5,2 billion, from 8,0% as a percentage of loans and advances to 5,9%.
- **Impairment:** South African home loans impairment loss ratio reduced from 2,0% to 0,7% driven by non-recurrence of 2012 charges taken to increase coverage, and reduced inflow into NPL due to strong performance of new business and improved collection capabilities. Impairment loss ratio in South Africa unsecured loans, cards and VAF increased from the previous reporting period returning to more normalised levels, and reflective of the current economic environment. Impairment loss ratio for retail portfolios outside South Africa increased from 1,8% to 2,4%, primarily in Ghana and Botswana. Overall NPL coverage ratio increased as balances decreased.

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

Wholesale credit risk (unaudited)

- **Growth:** Portfolio experienced modest growth in reporting period, above GDP growth rates and within appetite levels. Renewed interest by South African large corporate and multinational corporate clients in infrastructure and other project finance ventures resulted in a noticeable increase in the Investment Bank's term lending portfolio (26,5% increase from prior reporting). The Markets business increased 23% from prior reporting period, underpinned by increased demand for currency hedging from corporate clients and financial institutions. Outside South Africa, the wholesale portfolio grew by 13%, with Mauritius on-shore and off-shore strategies showing particularly strong results (30% portfolio growth).
- **Portfolio performance:** Performance was well in line with expectations. In particular, arrears within Business Banking have reduced. Average probability of default ("PD") measures improved across the wholesale client base. The exposure in early warning list ("EWL") reduced significantly over the reporting period as a consequence of heightened management attention and active client engagement. The South African Reserve Bank ("SARB") review of the Group's advanced internal ratings based ("AIRB") approach to risk models and reporting confirmed the appropriateness of the Group's risk modelling approach within wholesale credit.
- **Impairments:** Impairments reduced significantly from the previous reporting period primarily in Commercial Property Finance ("CPF") and Commercial Asset Finance ("CAF") due to significant reduction in exposure to customers in legal status resulting from increased risk management intervention. NPL coverage ratio increased from the previous reporting period across the major portfolios.

Approach to credit risk

Approach to credit modelling/internal ratings

The principal objective of credit 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. Integral to this is the calculation of internal ratings that is used in numerous aspects of credit risk management and in the calculation of regulatory capital ("RC") and economic capital ("EC"). The key building blocks of this process are:

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

These parameters are used in a variety of applications that measure credit risk across the entire portfolio and can be calculated to represent different aspects of the credit cycle:

- PD estimates can be calculated on a through-the-cycle ("TTC") basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time ("PIT") basis, reflecting the predicted default frequency in the next 12 months.
- EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under actual conditions.

These parameters can be used in different combinations for a wide range of credit risk measurement and management. Internal ratings are used for the following purposes:

- Credit approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and certain retail home loans portfolios, PD models are used to direct applications to an appropriate credit sanctioning level.
- Credit grading: to provide a common measure of risk across the Group, wholesale credit grading employs a 26-point scale of default probabilities.
- Risk-reward and pricing: PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.
- Risk appetite: measures of expected loss ("EL") and the potential volatility of loss are used in the Group's risk appetite framework.
- 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.
- Collections and recoveries: model outputs are used to identify segments of the portfolio where collection and recovery efforts should be prioritised.
- EC calculations: most EC calculations use the same PD and EAD inputs as the RC process. The EC process also uses the same underlying LGD model outputs as used in RC calculations, but does not incorporate the same economic downturn adjustment used in RC calculations.
- Risk management information: Group Risk and the business units generate risk reports to inform senior management on issues such as business performance, risk appetite and consumption of EC. Model outputs are used as key indicators in these reports.

Retail portfolio

Ratings assigned across each retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter and used in decisions concerning underwriting, "pay/no pay" and assignment of accounts to risk grades used to calculate RC. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- Internal risk estimates of PD, EAD and LGD are grounded in historical experience, incorporating all relevant material and available data, information and methods. Both the historical observation periods and default definitions used are consistent with regulatory requirements.
- For each product, PDs are assigned at account level by calibrating the raw behavioural model scores/ratings to the observed long-run average default rate for each pool.

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

Approach to credit risk *(continued)*

Retail portfolio *(continued)*

- For each product, EADs are assigned to each account based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.
- LGDs are estimated for each product and assigned at account level, based on the LGD pool to which the account has been assigned. Calibration data on historically defaulted accounts includes observed EADs, recovery streams, cure and write-off rates. The models also make use of suitable risk drivers such as loan-to-value ("LTV"), which are updated monthly.
- The mortgage loan PD model was recalibrated and implemented in January 2013. Subsequently new group requirements have come into effect and the mortgage Basel model suite is in the process of being redeveloped and should be implemented during the first quarter of 2014 once approved through the appropriate governance process. The remaining products will be redeveloped sequentially in terms of materiality.
- To ensure the effectiveness of the validation process, an independent review is performed annually. Models are approved by the Retail Credit Transactional Risk Committee ("RCTRC") and the most material models require approval by the Models Committee ("MC").
- Models are independently reviewed on an annual basis and when new models have been developed or changes occur to models. In addition, a process is in place to perform post model adjustments as needed or when management applies its discretion.

Wholesale portfolio

The rating process relies both on internally developed PD rating models and vendor provided solutions. While the rating and credit decision-making process in the retail portfolio is largely automated, this process in the wholesale portfolio relies on quantitative and qualitative assessments on a transactional level. Information used in the calculation of customer ratings includes:

- financial statements;
- projected cash flows;
- equity price information;
- external rating agency grades; and
- behavioural scorecards.

Internal LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process, while the EAD models aim to replicate the expected utilisation of a customer's facility should a default occur.

PD measures based on behavioural scores and equity prices are updated monthly for credit risk management and capital calculation purposes. Other PD models that rely on more static information are updated at least quarterly in a conventional environment or as and when extraordinary circumstances warrant a review of the customer's credit standing.

To ensure the effectiveness of the validation process, an independent review is performed annually. Models are approved at the Wholesale Credit Risk Management Committee ("WCRMC"), and the most material models require approval by the MC.

Models are independently reviewed on an annual basis and when new models have been developed or changes occur to models. In addition, a process is in place to perform post model adjustments as needed or when management applies its discretion.

Assessment of credit risk

The assessment of credit risk relies heavily on quantitative models and tools which, to a large degree, have been developed internally and are supplemented by vendor solutions. The following sections provide an overview of the aforesaid concepts and their use in the assessment of credit risk across the Group's portfolios.

Probability of default

PD measures the likelihood of a customer defaulting on its obligations within the next 12 months and is a primary component of the internal risk rating calculated for all customers. The 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 and several types of rating approaches are employed across the Group.

For communication and comparison purposes, the Group's 21 default grades ("DG"), which is the Group's internal master rating scale were mapped to the SARB 26 grade PD scale used for regulatory reporting purposes.

DG grading represents a TTC view of the distribution of the book at a specific point in time. An indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

Default grade definitions

- DG 1 –11: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BB rating and better.
- DG 12 – 19: financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies.
- DG 20 – 21: the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well defined weaknesses that exacerbate the PD. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

The following table demonstrates the neither past due and past due loans. Past due loans are further analysed in the tables to follow.

Maximum exposure to credit risk	Group 2013 Gross maximum exposure Rm	Neither past due nor impaired[1] DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 –21 Rm	Total past due loans Rm
Balances with other central banks	7 350	7 350	—	—	—
Balances with the SARB	12 417	12 417	—	—	—
Money market assets	17 711	17 711	—	—	—
Cash, cash balances and balances with central banks (refer to note 2)	37 478	37 478	—	—	—
RSA government bonds	41 536	41 536	—	—	—
Reverse repurchase agreements	—	—	—	—	—
Treasury bills	20 519	20 519	—	—	—
Statutory liquid asset portfolio (refer to note 3)	62 055	62 055	—	—	—
Other	64 201	49 527	14 664	10	—
Reverse repurchase agreements	15 770	15 770	—	—	—
Loans and advances to banks (refer to note 4)	79 971	65 297	14 664	10	—
Debt instruments	25 452	25 266	186	—	—
Derivative assets	43 603	38 506	5 095	2	—
Money market assets	4 646	2 780	1 866	—	—
Trading portfolio assets (refer to note 5)	73 701	66 552	7 147	2	—
Derivatives designated as cash flow hedging instruments	1 595	1 595	—	—	—
Derivatives designated as fair value hedging instruments	1 762	1 762	—	—	—
Hedging portfolio assets (refer to note 5)	3 357	3 357	—	—	—
Accounts receivable	10 033	7 743	290	24	1 976
Settlement accounts	3 453	3 452	1	—	—
Other assets (refer to note 6)	13 486	11 195	291	24	1 976
RBB	467 393	132 791	260 556	14 954	59 092
Retail Banking South Africa	363 076	106 306	204 015	9 516	43 239
Cheque accounts	2 102	379	1 475	4	244
Credit cards	27 078	6 800	14 806	1 223	4 249
Edcon portfolio[2]	9 856	6 848	—	—	3 008
Instalment credit agreements	64 515	12 491	47 009	946	4 069
Loans to associates and joint ventures	10 287	1 440	8 538	309	—
Mortgages	231 797	73 691	124 110	5 711	28 285
Personal and term loans	17 441	4 657	8 077	1 323	3 384
Business Banking South Africa	64 068	19 784	34 679	1 715	7 890
Cheque accounts	17 573	5 517	10 395	286	1 375
Commercial property finance	32 750	9 836	17 285	1 226	4 403
Instalment credit agreements	1 090	—	975	—	115
Term loans	12 655	4 431	6 024	203	1 997
Rest of Africa	40 249	6 701	21 862	3 723	7 963
CIBW	153 764	84 589	63 763	1 208	4 204
CIBW South Africa	132 204	76 773	52 143	1 208	2 080
CIBW Rest of Africa	21 560	7 816	11 620	—	2 124
Other and intergroup eliminations	229	95	24	—	110
Loans and advances to customers (refer to note 9)	621 386	217 475	324 343	16 162	63 406
Insurance contracts	713	713	—	—	—
Investment contracts	157	157	—	—	—
Reinsurance assets (refer to note 11)	870	870	—	—	—
Debt instruments	12 028	11 464	564	—	—
Derivative instruments	23	23	—	—	—
Money market assets	651	651	—	—	—
Investment securities (refer to note 12)	12 702	12 138	564	—	—
Total gross maximum exposure to credit risk	905 006				
Impairments raised (refer to note 10)	(16 049)				
Total net exposure to credit risk as disclosed on the statement of financial position	888 957				
Assets not subject to credit risk	70 642				
Total assets per the statement of financial position	959 599				

Notes

[1]Refer to prior page for DG bucket definitions.

[2]Subsequent to the acquisition of the Edcon portfolio, the advances details have been incorporated into our proprietary risk systems in the reporting period and graded accordingly.

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

Maximum exposure to credit risk

	Group 2012				
	Gross maximum exposure Rm	Neither past due nor impaired DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total past due loans Rm
Balances with other central banks	6 061	6 061	—	—	—
Balances with the SARB	12 339	12 339	—	—	—
Money market assets	15 285	15 282	—	3	—
Cash, cash balances and balances with central banks (refer to note 2)	33 685	33 682	—	3	—
RSA government bonds	51 853	51 853	—	—	—
Reverse repurchase agreements	3	3	—	—	—
Treasury bills	11 164	11 164	—	—	—
Statutory liquid asset portfolio (refer to note 3)	63 020	63 020	—	—	—
Other	53 288	48 641	4 647	—	—
Reverse repurchase agreements	9 223	9 223	—	—	—
Loans and advances to banks (refer to note 4)	62 511	57 864	4 647	—	—
Debt instruments	24 615	24 283	332	—	—
Derivative assets	46 800	45 134	1 666	—	—
Money market assets	8 781	8 781	—	—	—
Trading portfolio assets (refer to note 5)	80 196	78 198	1 998	—	—
Derivatives designated as cash flow hedging instruments	3 859	3 825	34	—	—
Derivatives designated as fair value hedging instruments	1 597	1 593	4	—	—
Hedging portfolio assets (refer to note 5)	5 456	5 418	38	—	—
Accounts receivable	9 343	7 145	270	—	1 928
Settlement accounts	5 981	5 607	374	—	—
Other assets (refer to note 6)	15 324	12 752	644	—	1 928
RBB	454 220	129 283	257 327	9 723	57 887
Retail Banking South Africa	355 855	99 009	207 827	7 018	42 001
Cheque accounts	1 964	335	1 295	4	330
Credit cards	23 201	8 460	8 951	1 798	3 992
Edcon portfolio	9 806	—	9 806	—	—
Instalment credit agreements	58 505	11 030	42 435	1 102	3 938
Loans to associates and joint ventures	8 393	1 175	6 966	252	—
Mortgages	237 073	73 869	129 094	2 763	31 347
Personal and term loans	16 913	4 140	9 280	1 099	2 394
Business Banking South Africa	66 076	18 475	37 293	1 384	8 924
Cheque accounts	18 430	7 517	9 112	279	1 522
Commercial property finance	33 603	6 730	20 682	1 008	5 183
Instalment credit agreements	1 750	7	1 300	—	443
Term loans	12 293	4 221	6 199	97	1 776
Rest of Africa	32 289	11 799	12 207	1 321	6 962
CIBW	127 035	83 721	40 189	1 116	2 009
CIBW South Africa	112 796	77 074	33 247	1 116	1 359
CIBW Rest of Africa	14 239	6 647	6 942	—	650
Other and intergroup eliminations	784	—	—	—	784
Loans and advances to customers (refer to note 9)	582 039	213 004	297 516	10 839	60 680
Insurance contracts	551	551	—	—	—
Investment contracts	452	452	—	—	—
Reinsurance assets (refer to note 11)	1 003	1 003	—	—	—
Debt instruments	10 525	9 653	872	—	—
Derivative instruments	41	41	—	—	—
Money market assets	554	554	—	—	—
Investment securities (refer to note 12)	11 120	10 248	872	—	—
Total gross maximum exposure to credit risk	854 354				
Impairments raised (refer to note 10)	(15 777)				
Total net exposure to credit risk as disclosed on the statement of financial position	838 577				
Assets not subject to credit risk	59 794				
Total assets per the statement of financial position	898 371				

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

Analysis of past due accounts

The following table demonstrates the financial assets gross exposure that were considered past due and possible impairments were raised against during the reporting period.

	Group					
	2013					
		Past due not impaired[1] Performing loans				
	Total past due loans Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm
Accounts receivable	1 976	1 931	—	4	—	41
Other assets (refer to note 6)	**1 976**	**1 931**	**—**	**4**	**—**	**41**
RBB	59 092	882	440	170	35	321
Retail Banking South Africa	43 239	8	2	1	6	—
Cheque accounts	244	—	—	—	—	—
Credit cards	4 249	—	—	—	—	—
Edcon portfolio	3 008	—	—	—	—	—
Instalment credit agreements	4 069	8	2	1	6	—
Loans to associates and joint ventures	—	—	—	—	—	—
Mortgages	28 285	—	—	—	—	—
Personal and term loans	3 384	—	—	—	—	—
Business Banking South Africa	7 890	874	438	169	29	321
Cheque accounts	1 375	73	29	12	7	58
Commercial property finance	4 403	628	307	105	7	131
Instalment credit agreements	115	—	—	—	—	—
Term loans	1 997	173	102	52	15	132
Rest of Africa	7 963	—	—	—	—	—
CIBW	4 204	—	—	—	—	—
CIBW South Africa	2 080	—	—	—	—	—
CIBW Rest of Africa	2 124	—	—	—	—	—
Other and intergroup eliminations	110	—	—	—	—	—
Loans and advances to customers (refer to note 9)	**63 406**	**882**	**440**	**170**	**35**	**321**

Note

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

Group							
2013							
Past due not impaired Non-performing loans					Past due and impaired		
Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Performing loans Rm	Non-performing loans Rm	Total non-performing loans Rm
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
818	599	90	417	495	29 134	25 691	28 110
5	—	—	3	6	23 646	19 562	19 576
—	—	—	—	—	148	96	96
—	—	—	—	—	2 318	1 931	1 931
—	—	—	—	—	1 905	1 103	1 103
5	—	—	3	6	2 693	1 345	1 359
—	—	—	—	—	—	—	—
—	—	—	—	—	14 744	13 541	13 541
—	—	—	—	—	1 838	1 546	1 546
165	16	24	15	235	1 079	4 525	4 980
—	—	1	2	82	333	778	863
40	—	18	—	76	381	2 710	2 844
—	—	—	—	—	—	115	115
125	16	5	13	77	365	922	1 158
648	583	66	399	254	4 409	1 604	3 554
2	—	—	—	27	3 014	1 161	1 190
—	—	—	—	27	1 293	760	787
2	—	—	—	—	1 721	401	403
—	—	—	—	—	110	—	—
820	599	90	417	522	32 258	26 852	29 300

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

Analysis of past due accounts *(continued)*

	Group 2012					
		Past due not impaired[1] Performing loans				
	Total past due loans Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm
Accounts receivable	1 928	265	274	45	—	—
Other assets (refer to note 6)	1 928	265	274	45	—	—
RBB	57 887	588	175	248	85	287
Retail Banking South Africa	42 001	11	5	1	2	2
Cheque accounts	330	—	—	—	—	—
Credit cards	3 992	—	—	—	—	—
Edcon portfolio	—	—	—	—	—	—
Instalment credit agreements	3 938	11	5	1	2	2
Loans to associates and joint ventures	—	—	—	—	—	—
Mortgages	31 347	—	—	—	—	—
Personal and term loans	2 394	—	—	—	—	—
Business Banking South Africa	8 924	577	170	247	83	285
Cheque accounts	1 522	85	36	17	22	31
Commercial property finance	5 183	375	104	206	48	174
Instalment credit agreements	443	—	—	—	—	—
Term loans	1 776	117	30	24	13	80
Rest of Africa	6 962	—	—	—	—	—
CIBW	2 009	—	—	—	—	—
CIBW South Africa	1 359	—	—	—	—	—
CIBW Rest of Africa	650	—	—	—	—	—
Other and intergroup eliminations	784	—	—	—	—	—
Loans and advances to customers (refer to note 9)	60 680	588	175	248	85	287

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

Group

2012

Past due not impaired Non-performing loans					Past due and impaired		
Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Performing loans Rm	Non-performing loans Rm	Total non-performing loans Rm
—	—	—	—	—	1 344	—	—
—	—	—	—	—	1 344	—	—
1 261	123	1 206	83	227	23 969	29 635	32 535
—	23	—	—	—	17 904	24 053	24 076
—	—	—	—	—	234	96	96
—	—	—	—	—	2 153	1 839	1 839
—	—	—	—	—	—	—	—
—	23	—	—	—	2 127	1 767	1 790
—	—	—	—	—	—	—	—
—	—	—	—	—	12 549	18 798	18 798
—	—	—	—	—	841	1 553	1 553
330	45	19	83	227	1 962	4 896	5 600
9	1	6	34	102	472	707	859
213	31	7	14	24	1 054	2 933	3 222
—	—	—	—	—	—	443	443
108	13	6	35	101	436	813	1 076
931	55	1 187	—	—	4 103	686	2 859
—	—	620	—	24	510	855	1 499
—	—	—	—	24	480	855	879
—	—	620	—	—	30	—	620
—	—	—	—	—	764	20	20
1 261	123	1 826	83	251	25 243	30 510	34 054

64. Risk management *(continued)*

64.2 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 2013				
	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	(1 145)	(290)	(3 885)	(1 996)	(7 750)
Retail Banking South Africa	(715)	(15)	(116)	(1 996)	(7 470)
Cheque accounts	(10)	—	—	(21)	(56)
Credit cards	(72)	—	—	(330)	(1 272)
Edcon portfolio	(69)	—	—	(228)	(893)
Instalment credit agreements	(141)	(15)	(116)	(130)	(513)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(364)	—	—	(963)	(3 763)
Personal and term loans	(59)	—	—	(324)	(973)
Business Banking South Africa	(254)	(124)	(2 011)	—	—
Cheque accounts	(98)	(39)	(361)	—	—
Commercial property finance	(92)	(33)	(1 235)	—	—
Instalment credit agreements	(4)	—	(102)	—	—
Term loans	(60)	(52)	(313)	—	—
Rest of Africa	(176)	(151)	(1 758)	—	(280)
CIBW	(270)	—	(603)	—	—
CIBW South Africa	(230)	—	(453)	—	—
CIBW Rest of Africa	(40)	—	(150)	—	—
Other and intergroup eliminations	—	(110)	—	—	—
Loans and advances to customers (refer to note 10)	(1 415)	(400)	(4 488)	(1 996)	(7 750)

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

Allowances for impairments on loans and advances to customers *(continued)*

	Group 2012				
	Unidentified impairment performing loans Rm	Identified individual impairment Performing loans Rm	Identified individual impairment Non-performing loans Rm	Identified collective impairment Performing loans Rm	Identified collective impairment Non-performing loans Rm
Other assets (refer to note 6)	25	—	—	—	—
RBB	(924)	(561)	(3 514)	(1 018)	(8 774)
Retail Banking South Africa	(638)	(96)	(130)	(877)	(8 416)
Cheque accounts	(4)	—	—	—	(68)
Credit cards	(35)	—	—	(289)	(1 231)
Edcon portfolio	(74)	—	—	(28)	—
Instalment credit agreements	(111)	(96)	(130)	(86)	(764)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(393)	—	—	(429)	(5 353)
Personal and term loans	(21)	—	—	(45)	(1 000)
Business Banking South Africa	(151)	(271)	(2 245)	—	—
Cheque accounts	(47)	(49)	(337)	—	—
Commercial property finance	(59)	(170)	(1 340)	—	—
Instalment credit agreements	(12)	—	(298)	—	—
Term loans	(33)	(52)	(270)	—	—
Rest of Africa	(135)	(194)	(1 139)	(141)	(358)
CIBW	(166)	(38)	(638)	—	—
CIBW South Africa	(136)	(18)	(496)	—	—
CIBW Rest of Africa	(30)	(20)	(142)	—	—
Other and intergroup eliminations	—	(124)	(20)	—	—
Loans and advances to customers (refer to note 10)	(1 090)	(723)	(4 172)	(1 018)	(8 774)

Maximum exposure to credit risk

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.

Credit exposures relating to off-statement of financial position items

	Group	
	2013 Rm	2012 Rm
Financial guarantee contracts (refer to note 53)	**243**	146
Guarantees (refer to note 55)	**21 215**	19 348
Irrevocable debt facilities (refer to note 55)	**49 609**	48 107
Letters of credit (refer to note 55)	**6 402**	7 080
Other (refer to note 55)	**5 674**	4 328
	83 143	79 009

The Group utilised credit derivatives as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit of loss. Refer to the credit risk mitigation and collateral table for more information.

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

Allowances for impairments on loans and advances to customers *(continued)*

Net present value unwind on non-performing book

The impairment allowance contains a net present value adjustment that represents the time value of money of expected cash flows. Such time value of money reduces as the point of cash flow is approached. The time-based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets.

Impairments: relevant accounting impairment policy versus expected loss regulatory policy

IFRS governs the reporting practices of banks and, in part, overlaps with the requirements of regulation 43 of the Banks Act (commonly known as Pillar 3). IFRS 7 prescribes disclosure requirements pertaining to financial instruments for accounting purposes and, as such, is based on a similar set of data used for Pillar 3 reporting purposes. Regulation 43 requires banks to disclose certain accounting definitions and information, in particular, with respect to impairments, past due loans and advances and charge-offs. The Group regularly reconciles the data used for both financial (IFRS complaint reporting) and regulatory (Pillar 3) disclosures.

Impairment methods of assessment and use of allowance accounts

The Group establishes, through charges against profit, an impairment allowance for the incurred loss inherent in the lending book. Under IFRS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition of the asset, and where these events had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. To determine if a loss event has occurred, historical economic information similar to the current economic climate, overall customer risk profile, payment record and the realisable value of any collateral, are taken into consideration.

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

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

Impairments in respect of assets that are individually significant or have been flagged as being in default, are measured individually. Where a portfolio comprises homogeneous assets and appropriate statistical techniques are available, it is measured collectively. The amount of loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows (excluding future credit losses), discounted at the financial asset's original effective interest rate. Two key aspects in the cash flow calculation are the valuation of all security and the timing of all asset realisations, after allowing for all collection and recovery costs.

For the purpose of a collective evaluation of impairment, financial assets are allocated to groups, based on similar risk characteristics, asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for such groups of assets, being indicative of the counterparty's ability to pay amounts due under the contractual terms of the assets.

Unidentified impairment allowances are raised when observable data indicates a measurable decrease in the estimated future cash flows from a group of financial assets since their original recognition, even though the decrease cannot yet be linked to individual assets in the group. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition that has already occurred, but will only be identifiable at a borrower level at a future date.

An emergence period concept is applied to ensure that only impairments that exist at the reporting date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event (unidentified impairment) and the impairment being identified at an individual account level (identified impairment). The emergence periods, based on actual experience, vary across businesses and are reviewed annually. The PD for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This PD is then applied to all exposures in respect of which no identified impairments have been recognised. Where total expected loss ("EL") of all credit risk assets exceeds total impairments, the difference is deducted from eligible capital. In the instance that total impairments exceed total EL, the difference is added to eligible capital, subject to a maximum of 0,6% of total risk weighted assets ("RWA").

The impairment allowance also takes into account the expected severity of loss at default, or the LGD, which is the amount outstanding that is written off and is therefore not recoverable.

Recovery varies by product and depends, for example, on the level of security held in relation to each loan as well as the Group's position relative to other claimants. LGD estimates are based on historical loss experience. Historical loss experience data is adjusted to add current economic conditions into the data set, which conditions did not exist at the time of loss experience and/or to remove the effects of conditions in the historical period that do not currently exist.

The replacement of IAS 39 with IFRS 9 will have a significant impact on Banks' financial statements, the biggest impact being the calculation of impairments. IFRS 9 will replace the current incurred loss model with the requirement to calculate expected losses.

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

Allowances for impairments on loans and advances to customers *(continued)*

Identified impairments on financial assets

According to the Group's credit policy, the following are key indicators of default:

- the borrower is unlikely to pay its credit obligation in full, without recourse by the Group to actions such as realising security held; and/or
- the borrower is overdue.

A retail identified impairment is triggered when a contractual payment is missed. This is not the same as the non-performing definition which applies to loans in a legal process or more than three payments in arrears. The impairment calculation is based on a roll-rate approach where the percentage of assets moving from the initial delinquency state to default is derived from statistical probabilities, based on experience. The PD is calculated within a certain outcome period. The outcome period is defined as the timeframe within which assets default. Recovery amounts and contractual interest rates are calculated using a weighted average for the relevant portfolio.

Future cash flows for a group of financial assets, which are collectively evaluated for impairment purposes, are estimated based on the contractual cash flows of the assets in the group and the historical loss experienced for assets with similar credit risk characteristics to those in the group.

In the retail portfolio, the identified impairment is calculated on a collective basis. For accounting purposes, these accounts are considered to be identified collective impairments.

In the wholesale portfolio, the identified impairment is calculated on accounts reflected on management EWLs (category 3), and accounts currently going through the legal process. An identified impairment is raised on an individual basis and is the difference between the outstanding capital and the present value of future cash flows.

Write-offs

Once an advance has been identified as impaired and an impairment allowance has been raised, circumstances may change and indicate that the prospect of further recovery does not exist. Write-offs will occur when, and to the extent that, the debt is considered irrecoverable.

A write-off policy, based on an age-driven concept, drives the timing and extent of write-offs. A write-off can also be triggered by a specific event, such as the conclusion of insolvency proceedings or other formal recovery actions making it possible to quantify the extent of the advance that is beyond a realistic prospect of recovery. Nonetheless, impaired loans and advances are reviewed at least quarterly, ensuring that irrecoverable loans and advances are written off in a timely and systematic way and in compliance with local regulations.

Assets are only written off once all necessary procedures have been completed and the amount of loss has been determined. Recoveries of amounts previously written off are reversed and accordingly decrease the amount of the reported impairment charge in the statement of comprehensive income.

Reconciliation of allowances for impairment losses on loans and advances to customers (identified and unidentified)

	Group						
	2013						
	Retail Banking South Africa Rm	**Business Banking South Africa Rm**	**RBB Rest of Africa Rm**	**CIBW Rm**	**CIBW Rest of Africa Rm**	**Other Rm**	**Total Rm**
Opening balance at the beginning of the reporting period	**10 157**	**2 667**	**1 967**	**650**	**192**	**144**	**15 777**
Net present value unwind on non-performing book	**(697)**	**(153)**	**—**	**(3)**	**—**	**2**	**(851)**
Exchange differences	**—**	**—**	**422**	**—**	**—**	**—**	**422**
Amounts written-off	**(5 197)**	**(1 171)**	**(725)**	**(108)**	**(157)**	**(46)**	**(7 404)**
Identified impairments raised	**5 962**	**939**	**645**	**49**	**149**	**10**	**7 754**
Unidentified impairments raised	**87**	**107**	**56**	**95**	**6**	**—**	**351**
Closing balance at the end of the reporting period	**10 312**	**2 389**	**2 365**	**683**	**190**	**110**	**16 049**

	2012						
	Retail Banking South Africa Rm	Business Banking South Africa Rm	RBB Rest of Africa Rm	CIBW Rm	CIBW Rest of Africa Rm	Other Rm	Total Rm
Opening balance at the beginning of the reporting period	9 327	1 923	2 167	566	163	125	14 271
Net present value unwind on non-performing book	(956)	(60)	—	(5)	—	3	(1 018)
Exchange differences	—	—	(64)	—	2	—	(62)
Amounts written-off	(5 456)	(849)	(831)	(33)	8	(3)	(7 164)
Identified impairments raised	7 068	1 688	651	108	19	19	9 553
Unidentified impairments raised/(released)	174	(35)	44	14	—	—	197
Closing balance at the end of the reporting period	10 157	2 667	1 967	650	192	144	15 777

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

IFRS disclosures in terms of credit mitigation

The financial effect and forms of collateral and credit enhancements for each class of financial instrument giving rise to credit risk are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset balance is described further in note 1.7.6 of the Group's financial statements.

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 from period to period depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount (fair value or nominal value) of this collateral and the value of this collateral is not reported.

Credit risk mitigation and collateral

Guarantees, credit insurance and credit derivatives

The Group in some cases holds guarantees and/or letters of credit from third parties that enables it to claim a settlement from them. This form of enhancement is typically held for lending to groups of companies but may be obtained in other limited circumstances for other forms of lending.

The Group makes use of credit default swaps and credit insurance to manage its overall credit risk with major counterparties. These enable the Group to claim in the event of a deterioration in the credit quality of borrowers and counterparties.

Notional value of the guarantees held by the Group, as issued by corporate and financial institutional counterparties, are disclosed in this report. In addition, the Group takes guarantees from personal customers in respect of personal loans and smaller business loans. These are not quantified in the aforesaid table.

Physical collateral

The Group has the ability to call on collateral in the event of default of the borrower or other counterparty. This collateral takes a number of forms:

- mortgages: a fixed charge over domestic property in the form of houses, flats and other dwellings;
- wholesale and corporate lending: a fixed charge over commercial property in various forms;
- reverse repurchase agreements and securities borrowing transactions: typically the highly liquid securities that have been legally transferred to the Group subject to an agreement to return them for a fixed price;
- finance lease receivables: typically the Group retains legal ownership of the leased asset and has the right to repossess the asset on the default of the borrower; and
- for finance lease receivables: the collateral value is dependent on the state of the vehicle at inception of the lease. For new vehicles, the collateral value is the cost of the new vehicle, while for used vehicles it is the retail value.

Where the required thresholds for property sales are not achieved, the Group has a property buy-in strategy. There is a clearly defined policy around collateral not easily convertible to cash and strategies are designed to achieve specific benchmark recovery rates on the portfolio. The Group has been reducing the stock of its repossessed properties portfolio over the current reporting period with differentiated strategies to manage the inflows and back-book. Although the main objective is to break even in the portfolio, sales have exceeded sales targets against valuations and buy-in amounts. This is due to an optimised strategy and business processes.

It must further be noted that **67%** (2012: 78%) of the current property in possession ("PIP") inventory, is sold pending registration. New inflows have stabilised to around **R1,4 million** (2012: R15 million) per month.

Cash collateral

The Group may hold cash as security against loans granted, or for derivative trades entered into with certain counterparties. This collateral type includes deposits from customers and ring-fenced bank accounts.

Other

This includes master netting agreements and when derivatives are capable of being net settled, reducing the Group's exposure to counter parties and derivative asset positions. The reduction in risk is the amount of the liability held.

This category includes any put options from holding companies or cessions of loan accounts.

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

IFRS disclosures in terms of credit mitigation

	Group					
	2013					
Analysis of credit risk mitigation and collateral[1]	Gross maximum exposure Rm	Guarantees credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm
Other	64 201	—	—	—	2 825	61 376
Reverse repurchase agreements	15 770	—	—	—	15 283	487
Loans and advances to banks (refer to note 4)	79 971	—	—	—	18 108	61 863
Debt instruments	25 452	—	—	—	—	25 452
Derivative assets	43 603	58	—	3 804	35 143	4 598
Money market assets	4 646	—	—	—	—	4 646
Trading portfolio assets (refer to note 5)	73 701	58	—	3 804	35 143	34 696
Accounts receivable	10 033	121	—	—	1 022	8 890
Settlement accounts	3 453	—	—	—	—	3 453
Other assets (refer to note 6)	13 486	121	—	—	1 022	12 343
RBB	467 393	2 212	306 643	1 149	—	157 389
Retail Banking South Africa	363 076	—	243 449	—	—	119 627
Cheque accounts	2 102	—	—	—	—	2 102
Credit cards	27 078	—	—	—	—	27 078
Edcon portfolio	9 856	—	—	—	—	9 856
Instalment credit agreements	64 515	—	45 158	—	—	19 357
Loans to associates and joint ventures	10 287	—	—	—	—	10 287
Mortgages	231 797	—	198 291	—	—	33 506
Personal and term loans	17 441	—	—	—	—	17 441
Business Banking South Africa	64 068	218	44 855	1 143	—	17 852
Cheque accounts	17 573	139	7 349	888	—	9 197
Commercial property finance	32 750	28	30 547	26	—	2 149
Instalment credit agreements	1 090	—	—	—	—	1 090
Term loans	12 655	51	6 959	229	—	5 416
Rest of Africa	40 249	1 994	18 339	6	—	19 910
CIBW	153 764	2 914	8 310	1 474	18 463	122 603
CIBW South Africa	132 204	1 869	8 142	1 403	1 825	118 965
CIBW Rest of Africa	21 560	1 045	168	71	16 638	3 638
Other and intergroup eliminations	229	—	—	—	—	229
Loans and advances to customers (refer to note 9)	621 386	5 126	314 953	2 623	18 463	280 221

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

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

	Group 2012					
Analysis of credit risk mitigation and collateral[1] *(continued)*	Gross maximum exposure Rm	Guarantees credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm
Other	53 288	—	—	—	2 366	50 922
Reverse repurchase agreements	9 223	—	—	—	6 523	2 700
Loans and advances to banks (refer to note 4)	62 511	—	—	—	8 889	53 622
Debt instruments	24 615	—	—	—	246	24 369
Derivative assets	46 800	23	—	3 162	39 724	3 891
Money market assets	8 781	—	—	—	10	8 771
Trading portfolio assets (refer to note 5)	80 196	23	—	3 162	39 980	37 031
Accounts receivable	9 343	560	—	—	—	8 783
Settlement accounts	5 981	—	—	—	—	5 981
Other assets (refer to note 6)	15 324	560	—	—	—	14 764
RBB	454 220	236	296 289	2 068	—	155 627
Retail Banking South Africa	355 855	—	240 212	—	—	115 643
Cheque accounts	1 964	—	—	—	—	1 964
Credit cards	23 201	—	—	—	—	23 201
Edcon portfolio	9 806	—	—	—	—	9 806
Instalment credit agreements	58 505	—	38 080	—	—	20 425
Loans to associates and joint ventures	8 393	—	—	—	—	8 393
Mortgages	237 073	—	202 132	—	—	34 941
Personal and term loans	16 913	—	—	—	—	16 913
Business Banking South Africa	66 076	236	48 750	1 945	—	15 145
Cheque accounts	18 430	146	8 194	1 537	—	8 553
Commercial property finance	1 750	—	—	—	—	1 750
Instalment credit agreements	33 603	36	33 164	49	—	354
Term loans	12 293	54	7 392	359	—	4 488
Rest of Africa	32 289	—	7 327	123	—	24 839
CIBW	127 035	2 618	7 974	1 400	15 110	99 933
CIBW South Africa	112 796	2 618	7 354	1 359	11 645	89 820
CIBW Rest of Africa	14 239	—	620	41	3 465	10 113
Other and intergroup eliminations	784	—	46	—	—	738
Loans and advances to customers (refer to note 9)	582 039	2 854	304 309	3 468	15 110	256 298

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

Enforcement of collateral

Residential properties

The carrying value of the assets held by the Group at the reporting date as a result of the enforcement of collateral is as follows:

	Group	
	2013 Rm	2012 Rm
Balance at the beginning of the reporting period	**342**	731
Acquisitions	**16**	143
Disposals	**(342)**	(532)
Balance at the end of the reporting period	**16**	342

The Group has further reduced the stock of the PIP portfolio over the last reporting period with optimised sales strategies to manage the inflow and back-book. This has resulted in a reduction of the book from R342 million in the previous reporting period to **R16 million** (including a provision for impairment). The PIP portfolio declined from R422 million in the previous reporting period to **R86 million** (pre-allowances for impairment losses). It must be noted that **67%** (2012: 87%) of the current inventory is sold pending registration. New inflows of PIPs was on average **R1,4 million** (2012: R15 million) per month.

	Group				
	2013				
Geographical concentration of risk	Asia, Americas and Australia Rm	Europe[1] Rm	Rest of Africa Rm	South Africa Rm	Total exposure Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	6	—	21 928	15 544	37 478
Statutory liquid asset portfolio	—	—	53	62 002	62 055
Loans and advances to banks	4 440	41 878	14 453	19 200	79 971
Trading portfolio assets	1 238	27 025	1 777	43 661	73 701
Hedging portfolio assets	67	1 540	—	1 750	3 357
Other assets	4	1 366	3 656	8 460	13 486
Loans and advances to customers	4 211	4 119	66 623	530 384	605 337
Reinsurance assets	175	206	247	242	870
Investment securities	—	—	7 572	5 130	12 702
Subject to credit risk	10 141	76 134	116 309	686 373	888 957
Off-statement of financial position exposures					
Financial guarantee contracts	—	—	147	96	243
Guarantees	—	24	5 353	15 838	21 215
Irrevocable debt facilities	—	4 227	2 930	42 452	49 609
Letters of credit	—	—	736	5 666	6 402
Other	—	—	5 671	3	5 674
Subject to credit risk	—	4 251	14 837	64 055	83 143

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

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

Geographical concentration of risk (continued)	Asia, Americas and Australia Rm	Europe[1] Rm	Rest of Africa Rm	South Africa Rm	Total exposure Rm
	Group 2012				
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	3	—	17 665	16 017	33 685
Statutory liquid asset portfolio	—	—	—	63 020	63 020
Loans and advances to banks	3 676	36 437	6 277	16 121	62 511
Trading portfolio assets	630	25 800	723	53 043	80 196
Hedging portfolio assets	147	2 752	—	2 557	5 456
Other assets	1 011	1 529	3 234	9 548	15 322
Loans and advances to customers	2 776	5 282	43 448	514 756	566 262
Reinsurance assets	151	197	129	526	1 003
Investment securities	—	43	5 914	5 163	11 120
Subject to credit risk	8 394	72 040	77 390	680 751	838 575
Off-statement of financial position exposures					
Financial guarantee contracts	—	37	—	109	146
Guarantees	425	—	4 124	14 799	19 348
Irrevocable debt facilities	82	3 761	1 855	42 409	48 107
Letters of credit	—	—	1 119	5 961	7 080
Other	—	—	4 322	6	4 328
Subject to credit risk	507	3 798	11 420	63 284	79 009

Note

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

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

Financial instruments designated at fair value through profit or loss

The following table represents financial instruments designated at fair value through profit or loss at the reporting date before taking into account collateral held or other credit enhancements.

	Group	
	2013 Rm	2012 Rm
Assets		
Cash, cash balances and balances with central banks (refer to note 2)	**3 210**	2 878
Statutory liquid asset portfolio (refer to note 3)	**—**	800
Loans and advances to banks (refer to note 4)	**6 140**	9 647
Other assets (refer to note 6)	**17**	17
Loans and advances to customers (refer to note 9)	**10 546**	11 942
Investment securities	**2 863**	3 637
	22 776	28 921
Liabilities		
Deposits from banks (refer to note 18)	**9 320**	11 132
Other liabilities (refer to note 20)	**36**	17
Deposits due to customers (refer to note 22)	**17 863**	19 089
Debt securities in issue (refer to note 23)	**3 543**	3 198
Liabilities under investment contracts (refer to note 24)	**19 773**	18 768
Borrowed funds (refer to note 26)	**—**	778
	50 535	52 982

The Group utilised credit derivatives as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss. Refer to the credit risk mitigation and collateral table for more information.

Contractual obligation at maturity of financial liabilities designated at fair value through profit or loss

The following table represents the carrying value of financial liabilities designated at fair value through profit or loss and the amount that the Group is contractually required to pay to the holder of the obligation at maturity.

	Group			
	2013		2012	
	Carrying value Rm	**Contractual obligation Rm**	Carrying value Rm	Contractual obligation Rm
Liabilities				
Deposits from banks (refer to note 18)	**9 320**	**14 497**	11 132	11 205
Other liabilities (refer to note 20)	**36**	**36**	17	20
Deposits due to customers (refer to note 22)	**17 863**	**18 045**	19 090	25 143
Debt securities in issue (refer to note 23)	**3 542**	**4 223**	3 198	3 371
Liabilities under investment contracts (refer to note 24)	**19 773**	**23 025**	18 768	24 827
Borrowed funds (refer to note 26)	**—**	**—**	778	768
	50 534	**59 826**	52 983	65 334

64. Risk management *(continued)*

64.2 Credit risk *(continued)*

IFRS disclosures in terms of credit mitigation *(continued)*

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

	Group	
	2013 Rm	2012 Rm
Assets		
Loans and advances to customers	**—**	1
Liabilities		
Deposits from banks	**(13)**	21

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

	Group	
	2013 Rm	2012 Rm
Assets		
Loans and advances to customers	**—**	5
Liabilities		
Deposits from banks	**20**	33

The following approaches are used in determining changes in fair value due to changes in credit risk for loans and advances designated at fair value through profit or loss:

- Internal risk grading approach: the cumulative change in fair value due to changes in credit risk is calculated by assigning each customer an internal risk grading based on the customer's PD. The risk grading determines the credit spread incorporated in the valuation curve. Changes in the risk grading will result in a change in fair value of the loan due to changes in credit risk. The change in fair value is calculated by removing the trading margin from the fixed rate instruments to determine the split between interest and credit movement.
- The disclosed fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

64.3 Equity investment risk

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book for non-trading purposes.

The 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 the CIBW and Business Banking segments. Equity and other investments held by insurance entities of the Group 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.

64. Risk management *(continued)*

64.3 Equity investment risk *(continued)*

Relevant accounting policies

IAS 39 requires all equity investments to be measured at fair value. Accounting policies relating to subsidiaries and investments in associates and joint ventures are discussed separately in note 63 of the Group's annual financial statements.

The fair value of equity investments is determined using appropriate valuation methodologies which, depending on the nature of the investment, include discounted cash flow analysis, enterprise value comparisons with similar companies and price-earnings comparisons.

Listed and unlisted investments are either designated at fair value through profit or loss or as available-for-sale. Investments in entities that form part of the venture capital and similar activities of the Group have been designated at fair value through profit or loss. The designation has been made in accordance with IAS 39, based on the scope exclusion that is provided in IFRS 11 and IAS 28. The relevant accounting policies for equity investments are discussed in note 1.7 of the Group's annual financial statements.

Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and EC requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Group has adopted the market-based simple risk weighted approach to calculate RWAs and RC for equity risk in the banking book.

According to this approach, the Group applies a 300% risk weight to listed exposures and 400% to unlisted exposures in non-financial entities subject to a prescribed scaling factor of 1,06. Investments in financial entities are treated in line with the principals embodied in Basel III and the regulations relating to Banks, whereby the risk weightings are subject to the aggregate value of the 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% – 50%) with no other significant shareholder, the Group applies a capital deduction.

Economic capital for equity investment risk in the banking book is based on investment type and portfolio risk modelling and varies from 35,2% to 100%.

Analysis of equity investment risk in the banking book

Equity sensitivity analysis – impact on pre-tax profit or loss and equity after the effect of hedges

	Group									
	2013					2012				
	Impact of a 5% reduction in fair value			Impact of a 5% increase in fair value		Impact of a 5% reduction in fair value			Impact of a 5% increase in fair value	
	Profit 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[1,2,3,4]	(42)	—	843	42	—	(39)	—	768	39	—
Listed equity investments	(39)	—	786	39	—	(36)	—	711	36	—
Unlisted equity investments	(3)	—	57	3	—	(3)	—	57	3	—
Group listed and unlisted equity investments, excluding insurance activities' investments[1,3]	(186)	(9)	3 915	186	9	(283)	(9)	5 809	283	9
Listed equity investments	(28)	(3)	622	28	3	(41)	(4)	885	41	4
Unlisted equity investments	(158)	(6)	3 293	158	6	(242)	(5)	4 924	242	5
Total Group equity investments[1]	(228)	(9)	4 758	228	9	(322)	(9)	6 577	322	9

Notes

[1]Excludes debt instruments.

[2]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.

[3]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 with between 2% and 4%. No equity hedge structures were in place as at 31 December 2013.

[4]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.

64. Risk management *(continued)*

64.4 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. It consists of:

- Traded market risk is 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 is the risk of the Group being unable to hedge the interest rate risk in the banking book, primarily in retail, business banking and corporate portfolios.
- Insurance risk is 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 arises when an adverse movement between pension assets and liabilities contributes to a pension deficit.

Traded market risk arises in the trading book to support client-trading activity, whereas non-traded market risk arises in the banking book to support customer products.

The Africa Market Risk Committee ("AMRC") meets monthly to review, challenge and make recommendations concerning the market risk profile, including risk appetite, policies, limits, risk utilisation and the effectiveness of the control environment.

The Trading Risk Committee ("TRC"), Africa Treasury Committee ("ATC") and ATC subcommittees provide oversight of specific market risk.

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;
- understand risk sensitivity and volatility, leverage stress testing and empirical analytics. Use appropriate models to measure risk;
- underwrite risks that are well diversified in terms of types of risk and the level of insured benefits;
- 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 CIBW, trading risk is measured for the trading book, as defined for regulatory purposes and certain banking books.

Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported as part of the interest rate risk in the banking book section.

Risk appetite

The risk appetite for market risk is based on:

- proposed business strategy and growth;
- targeted growth in risk;
- budgeted revenue growth;
- historical risk usage;
- statistical modelling measures; and
- risk equated to capital projection under stress.

Risk measurement

A number of techniques are used to measure and control traded market risk on a daily basis, which include:

- value at risk ("VaR") based measures (incorporating tail risk metrics) including both VaR and stressed value at risk ("sVaR");
- tail metrics;
- position and sensitivity reporting ("non-VaR");
- stress testing;
- backtesting; and
- standardised general and specific risk, as relevant.

64. Risk management *(continued)*

64.4 Market risk *(continued)*

Traded 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; and
- 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 percentile;
- VaR is based on positions as at the close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured; and
- prudent valuation practices are used in the VaR calculation when there is difficulty 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.

64. Risk management *(continued)*

64.4 Market risk *(continued)*

Traded market risk *(continued)*

Non-value at risk

Non-VaR reporting covers non-statistical measures of measuring and monitoring risk sensitivities and exposures as well as gross or notional limits where appropriate. All asset classes and product types have non-VaR reporting and limit monitoring, as required. These limits are aligned to DVaR limits, but do not bear a direct linear relationship.

Stressed value at risk

SVaR is an estimate of the potential loss arising from a 12-month period of significant financial stress. The Group's sVaR model and period selection methodology was approved by the SARB. The SARB has also assigned a sVaR model multiplier to be used for RC calculations. SVaR uses DVaR methodology based on inputs calibrated to historical data from a continuous 12-month period to replicate a period of significant stress. A regular process is applied to assess the stress period in terms of the approved methodology, which means that the stress period is subject to change.

The sVaR RC requirement is calculated daily 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 for South Africa as well as the region. In addition, the standardised rules are used to quantify general risk regulatory capital 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);
- stressed value at risk limits, as relevant;
- position and sensitivity (non-VaR) limits;
- stress testing limits, as relevant; and
- management action triggers: reporting of actual losses based on predetermined tolerance levels.

Valuation control, independent price testing and bid-offer testing are conducted by Product Control and the results are reviewed monthly by the Valuation Governance and Control Committee of CIBW.

The model validation function is responsible for validating all valuation models used for accounting and risk. The validation reviews the theoretical approach and its applicability to the product. Focus is on ensuring the implementation of the model is correct, identifying the primary risks, model limitations or uncertainties and recommending provisions to account for such uncertainties.

64. Risk management *(continued)*

64.4 Market risk *(continued)*

Risk reporting

The market risk team produces a number of detailed and summary market risk reports daily and monthly. These reports summarise the positions, risks and top stresses covering interest rate, foreign exchange, equity, commodity and credit spread risks. A risk summary is also presented at the AMRC and other governance committees, as required.

Analysis of traded market risk exposure

The following table reflects the DVaR and expected shortfall statistics for trading book activities as measured by the internal models approach ("IMA") for general trading position risk. Traded market risk exposure, as measured by average total DVaR, increased to **R20,73 million** for the reporting period, which is up 10% compared to the previous reporting period (R18,87 million). This was principally due to increased volatility in time series data given extreme market moves recorded during the period. The business model of CIB is orientated around client flow and the risk profile is maintained so that it is aligned with the near-term demands of clients. The model showed resilience in tough trading conditions. Trading revenues declined marginally compared to the previous reporting period, but a favourable risk-adjusted return was sustained for the reporting period.

Trading book DVaR summary

	Group							
	2013				2012			
	Average Rm	High[1] Rm	Low[1] Rm	As at the reporting date Rm	Average Rm	High[1] Rm	Low[1] Rm	As at the reporting date Rm
Interest rate risk	16,36	37,04	7,06	11,28	16,99	30,71	8,84	11,87
Foreign exchange risk	6,96	23,59	1,20	2,93	7,30	21,34	2,13	8,23
Equity risk	4,45	15,95	1,38	4,32	5,12	16,72	1,13	1,88
Commodity risk	1,52	4,16	0,32	0,34	0,85	2,92	0,17	1,29
Inflation risk	8,29	17,37	4,36	4,46	7,06	17,95	2,63	8,80
Credit spread risk	4,52	8,98	1,96	4,35	4,05	5,76	1,95	3,69
Diversification effect	(21,37)	n/a	n/a	(14,28)	(22,50)	n/a	n/a	(18,21)
Total DVaR[3]	20,73	37,14	10,34	13,40	18,87	34,38	12,66	17,55
Expected shortfall[3]	30,53	53,81	14,48	21,66	27,46	49,65	17,58	23,84
Regulatory VaR[2]	35,94	76,09	17,35	29,65	32,38	53,67	20,11	31,91
Regulatory sVaR[2]	51,15	91,19	23,81	29,16	44,42	93,58	27,19	40,88

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 mismatch margin stability and lower interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to the local treasury or Group Treasury, which in turn hedges material net exposures with the external market. As a result of mainly timing considerations, interest rate risk may arise when some of the net position remains with Treasury. A limits framework is in place to ensure that retained risk remains within approved risk appetite.

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.

64. Risk management *(continued)*

64.4 Market risk *(continued)*

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

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 Africa subsidiaries' 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.

Embedded customer optionality risk may also give rise to interest rate risk in the banking book. This risk arises from a customer's right to buy, sell or in some manner alter the cash flow of a financial contract. Embedded customer optionality is distinct from direct optionality, which arises through the underlying product structure (e.g. capped rate loan products). The Group's policy requires such direct option risk to be hedged explicitly.

Prepayment risk arises in relation to transactions where an early settlement option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the 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.

Recruitment risk arises when the Group commits to providing a product at a predetermined price for a period into the future. Customers have the option to take up this offer. Controls include campaign rules, pre-funding of anticipated take-up and the management of the resultant residual risk.

Risk measurement

The techniques used to measure and control interest rate risk in the banking book include repricing profiles, annual earnings at risk ("AEaR"), DVaR and tail metrics, economic value of equity ("EVE") sensitivity and stress testing.

Repricing profiles

With the repricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets based on the most likely repricing behaviour. The repricing profiles take the assumed behavioural profile of structural product balances into account.

Currently, the contractual profiles of assets are not adjusted for customer prepayment features.

Annual earnings at risk/net interest income ("NII") sensitivity

AEaR/NII sensitivity measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. AEaR is monitored against approved internal limits.

64. Risk management *(continued)*

64.4 Market risk *(continued)*

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

Daily value at risk

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 measures the sensitivity of the present value of the banking book at a specific point in time to a specified shock to the yield curve. Similar to DVaR, EVE is a present value sensitivity and is complementary to income sensitivity measures such as AEaR. EVE sensitivity is measured against regulatory guidelines and not against approved internal limits.

Stress testing

The stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. Stress testing is carried out by Group Treasury and the Group Market Risk department to supplement the DVaR and AEaR metrics. Stress testing for the African subsidiaries is carried out by the Group Market Risk department and the risk functions in each subsidiary and has been adopted as one of the primary risk metrics for African subsidiaries 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 non-DVaR triggers as well as the monthly monitoring of the risk profiles and EVE sensitivity. Limits are set at the business level and then cascaded down. The business level limits for AEaR, DVaR and stress are agreed by the AMRC. Compliance with limits is monitored by the respective business market risk team with oversight provided by Group Market Risk.

Risk reporting

DVaR and supporting metrics are reported daily by the Group Treasury department as well as the Rest of Africa with the exception of two African subsidiaries, where reporting is performed on a monthly basis. The repricing profiles, AEaR, EVE sensitivity and stress results are reported monthly by 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 domestic and African subsidiaries banking books shows that the consolidated banking book remains asset sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates. However, asset sensitivity, as represented by the cumulative 12-month interest rate gap, decreased from the previous reporting period.

64. Risk management *(continued)*

64.4 Market risk *(continued)*

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

Expected repricing profile	Group 2013 On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	105 750	(12 109)	(25 622)	(31 584)
Derivatives[2]	(102 150)	17 347	22 996	61 806
Net interest rate sensitivity gap	3 600	5 238	(2 626)	30 222
Cumulative interest rate gap	3 600	8 838	6 212	36 434
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	0,5	1,1	0,8	4,6
Foreign subsidiaries bank books				
Interest rate sensitivity gap	8 881	7 345	7 193	20 728
Derivatives[2]	232	(1)	(62)	(134)
Net interest rate sensitivity gap	9 113	7 344	7 131	20 594
Cumulative interest rate gap	9 113	16 457	23 588	44 182
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	5,4	9,8	14,0	26,3
Total				
Cumulative interest rate gap	12 713	25 295	29 800	80 616
Cumulative gap as a percentage of the Group's total assets (%)	1,3	2,6	3,1	8,4

Expected repricing profile	2012 On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	126 839	(18 329)	(30 019)	(37 694)
Derivatives[2]	(93 476)	10 633	17 189	65 654
Net interest rate sensitivity gap	33 363	(7 696)	(12 830)	27 960
Cumulative interest rate gap	33 363	25 667	12 837	40 797
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	4,4	3,4	1,7	5,3
Foreign subsidiaries bank books				
Interest rate sensitivity gap	10 620	7 627	3 626	15 832
Derivatives[2]	24	3	2	(143)
Net interest rate sensitivity gap	10 644	7 630	3 628	15 689
Cumulative interest rate gap	10 644	18 274	21 902	37 591
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	10,8	18,5	22,2	38,2
Total				
Cumulative interest rate gap	44 007	43 941	34 739	78 388
Cumulative gap as a percentage of the Group's total assets (%)	4,9	4,9	3,9	8,7

Notes

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

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

64. Risk management *(continued)*

64.4 Market risk *(continued)*

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

Impact on earnings

The following table shows the AEaR from impacts to net interest income for 100 and 200 bps up and down movements in market interest rates for the 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 **R2,04 billion** (2012: R1,88 billion). A similar increase would result in an increase in projected 12-month net interest income of **R1,85 billion** (2012: R1,88 billion). AEaR decreased by 0,1% to 6,3% of the Group's net interest income. A sensitivity analysis by major currency market interest rates indicates that earnings sensitivity to South African rand market interest rates constitutes 86% of the total earnings at risk at the reporting date (2012: 84%), therefore indicating that the Group remains primarily exposed to South African market interest rates.

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

	Group			
	2013 Change in market interest rates			
	200 bps decrease	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Domestic bank book[1] (Rm)	**(1 753)**	**(866)**	**758**	**1 562**
Foreign subsidiaries' bank books[2] (Rm)	**(283)**	**(142)**	**128**	**283**
Total (Rm)	**(2 036)**	**(1 008)**	**886**	**1 845**
Percentage of the Group's net interest income (%)	**(6,3)**	**(3,1)**	**2,7**	**5,7**
Percentage of the Group's equity (%)	**(2,4)**	**(1,2)**	**1,0**	**2,2**
	2012 Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book[1] (Rm)	(1 568)	(769)	776	1 574
Foreign subsidiaries' bank books[2] (Rm)	(307)	(154)	153	307
Total (Rm)	(1 875)	(923)	929	1 881
Percentage of the Group's net interest income (%)	(6,4)	(3,2)	3,2	6,4
Percentage of the Group's equity (%)	(2,2)	(1,1)	1,1	2,2

Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:

- higher or lower profit after tax resulting from higher or lower net interest income;
- higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments; and
- higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the tax rate for the reporting period.

The equity reserve sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios which are MTM 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 decrease in sensitivity of the available-for-sale reserves is mainly due to the decrease in net directional risk.

Note

[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.

64. Risk management *(continued)*

64.4 Market risk *(continued)*

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

Sensitivity of reserves to market interest rate movements

	Group					
	2013			2012		
	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1] Rm	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1] Rm
+100 bps parallel move in all yield curves						
Available-for-sale reserve	(883)	(1 077)	(883)	(1 099)	(1 119)	(955)
Cash flow hedging reserve	(1 756)	(1 851)	(1 737)	(1 746)	(1 799)	(1 671)
	(2 639)	(2 928)	(2 620)	(2 845)	(2 918)	(2 626)
As a percentage of Group equity (%)	(3,1)	(3,4)	(3,1)	(3,4)	(3,4)	(3,2)
– 100 bps parallel move in all yield curves						
Available-for-sale reserve	883	1 077	883	1 099	1 119	955
Cash flow hedging reserve	1 756	1 851	1 737	1 746	1 799	1 671
	2 639	2 928	2 620	2 845	2 918	2 626
As a percentage of Group equity (%)	3,1	3,4	3,1	3,4	3,4	3,2

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.

Functional foreign currency

	Group			
	2013		2012	
	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
As at reporting period				
Botswana pula	1 777	89	1 617	81
Ghana cedi	1 984	99	1 648	82
Kenya shilling	3 752	188	2 945	147
Mauritian rupee	789	39	342	17
Mozambican metical	792	40	928	46
Seychelles rupee	498	25	410	21
Sterling	2 339	117	2 150	108
Tanzanian shilling	1 388	69	642	32
Uganda shilling	1 099	55	774	39
United States dollar	1 779	89	2 667	133
Zambia kwacha	1 355	68	1 084	54
	17 552	878	15 207	760

Notes

[1]The maximum and minimum impacts for each reserve category did not necessarily occur for the same months.
[2]The number represents the maximum or minimum potential combined impact for both reserve categories in a single month (and does not equate to the sum of the minimum and maximum per month shown in footnote 1 above).

64. Risk management *(continued)*

64.4 Market risk *(continued)*

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 funding deficit. In these circumstances, the Group could be required or might choose to make additional contributions to the defined benefit plan.

Asset management risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of AEaR to reflect the sensitivity of annual earnings to shocks in market rates. Group policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises mainly in the Financial Services segment. Asset management risk was not material during the reporting period.

Insurance risk management

Insurance risk is the risk that future claims, expenses, policyholder behaviour and investment returns will exceed the allowances made in measuring policyholder liabilities and in product pricing. Within the Group, four categories of insurance risk are recognised, namely short-term insurance underwriting risk, life insurance underwriting risk, life insurance mismatch risk and life and short-term insurance investment risk. These four categories of insurance risk are managed within different entities within the Group.

Approach

The four categories of insurance risk recognised within the Group are defined as:

- Short-term insurance underwriting risk is managed through underwriting authority mandates and through referral to an Underwriting Review Committee, as and when required. Risk governance is monitored by the Governance and Control Committees, the Actuarial Review Committee and Key Risk reporting.
- 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, the Actuarial Review Committee and Key Risk reporting.
- Life insurance mismatch risk is monitored on a quarterly basis by the Investment Risk Committee. A quarterly review is conducted by the Absa Financial Services Capital and Investment Risk Committee and an annual review by the Actuarial Review Committee.
- Life and short-term insurance investment risk is monitored by the entity Investment risk committee on a quarterly basis.

Short-term insurance underwriting activities are undertaken by Absa Insurance Company, Absa Insurance Risk Management Services, Absa idirect and Absa Manx Insurance Company ("Absa Manx"). Life insurance underwriting activities are undertaken by Absa Life, Barclays Life Botswana, Barclays Life Zambia and Woolworths Financial Services, through an Absa Life cell captive. Global Alliance Mozambique underwrites both life and short- term insurance business.

Short-term insurance underwriting risk, life insurance underwriting risk, life insurance mismatch risk and investment risk 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.

Strategy

The Group's insurance risk management objectives are:

- pursuing profitable growth opportunities;
- balancing exposure between, and within, life and short-term insurance to allow for better diversification and optimal risk-adjusted returns; and
- growing risk exposures outside South Africa and leveraging off the Barclays Africa presence and infrastructure.

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 follow summarises risk management measures implemented per short-term insurance product line.

64. Risk management *(continued)*

64.4 Market risk *(continued)*

Insurance risk management *(continued)*

Risk management 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 to charge premiums matched to underlying risk. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase. Use policyholder excess payments on claims to manage moral hazard.
Personal lines, accident and travel insurance	Scientific pricing using multiple risk factors enable risk selection and to charge premiums matched to underlying risk. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase. Use policyholder excess payments 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.
Agricultural insurance	Diversification is sought across crops, seasons and geographical regions. Stop loss reinsurance is in place to protect against excessive claims. Risks are individually underwritten before being taken on. Constant assessment of crop development and adjustment of potential claims is undertaken.
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.

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 analyses of surplus 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 below summarises risk management measures implemented per life insurance product line.

Risk management per life insurance product line

Mortgage protection and complex underwritten life business	The main risks are mortality and morbidity. This is the only business that 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 policy is reassured to reduce the variability of the claims experience and the exposure to a single life. Most policies have premium guarantee terms, which can be up to 10 years. For products with an investment component the overall premium rate is guaranteed; the investment portion is not guaranteed and could be reduced at the discretion of the Company. However, it is a Company 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. Insurance and underwriting risks are monitored on a quarterly basis by the Underwriting Risk Committee which reports into the Absa Financial Service Control and Review Committee.
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 are 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 Company 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.

64. Risk management *(continued)*

64.4 Market risk *(continued)*

Insurance risk management *(continued)*

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 and short-term investment risk

Investment risk relates to the variability in the value of life and short-term shareholder assets and of assets backing non-linked policyholder liabilities. Interest rate risk relates to the change in investment value of assets due to a change in interest rates. Foreign exchange risk is the risk that a change in the exchange rate could affect the financial results of the insurance entity. A portion of the current foreign exchange exposure, in respect of short-term insurance, relates to a United States dollar denominated investment used to hedge the amount payable to a foreign supplier contracted to develop an administration system. Investment risk is mitigated through diversified asset allocations and investment mandates.

Short-term insurance underwriting risk

Reinsurance

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. Catastrophe reinsurance, particularly related to earthquake risk, is purchased to cover losses of up to R3,3 billion (2012: R3 billion).

Reinsurer credit risk

The credit risk in respect of reinsurance partners is managed by ensuring the entities only transact with reinsurers with good credit ratings. 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. Any exceptions to this policy must be approved by management as well as by the various boards of directors of the insurance businesses.

	% of premium ceded	
	2013	2012
AAA	**—**	—
AA	**9**	52
A	**91**	48

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. The proportionate sum insured for these three areas are as follow:

- Pretoria – **10,6%** as at reporting period (2012: 12,3%)
- Johannesburg – **8,7%** as at reporting period (2012: 10,3%)
- East Rand – **10,2%** as at reporting period (2012: 11,1%)

The maximum expected loss for a one in 250-year event is a loss of R3,3 billion as at 31 December 2013 (31 December 2012: R3,0 billion). Catastrophe cover is purchased to cover losses up to R3,3 billion as at 31 December 2013 (31 December 2012: R3,0 billion).

Outstanding claims reserves

Outstanding claims reserves are held for claims which have been notified, but not yet 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 at the reporting date amounted to **R818 million** as at 31 December 2013 (31 December 2012: R625 million).

Incurred but not reported claims reserves

A stochastic reserving model is applied to calculate the incurred but not reported (“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 **R162 million** (2012: R154 million).

Sensitivity analysis

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.

64. Risk management *(continued)*

64.4 Market risk *(continued)*

Insurance risk management *(continued)*

Changes in assumptions

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.

Life insurance underwriting risk

Reinsurance

A formal reinsurance policy has been approved by Absa Life's board of directors. Reinsurance is used in respect of large individual risks and in respect of risks where Absa Life 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

Reinsurer credit risk is managed by transacting solely with reinsurers in possession of a minimum international Standard & Poor's 'A' credit rating in new agreements. In existing 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.

Credit rating of reinsurance assets

	Standard and Poor's rating	Description	Parental guarantee
Treaty and facultative reinsurer, **30,5%** (2012: 23.5%) of business ceded	AA+	Very strong	Yes
Treaty and facultative reinsurer, **44,1%** (2012: 64.6%) of business ceded	AA–	Strong	No
Treaty and facultative reinsurer, **25,1%** (2012: 11.1 %) of business ceded	A-	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 (2012: 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.

	2013			
	Gross of reinsurance		**Net of reinsurance**	
Benefit band per life assured	**Total benefits assured Rm**	**%**	**Total benefits assured Rm**	**%**
0 – 250	**86 181**	**57**	**78 936**	**63**
250 – 500	**23 398**	**16**	**18 522**	**15**
500+	**40 623**	**27**	**27 806**	**22**
	150 202	**100**	**125 264**	**100**

	2012			
	Gross of reinsurance		Net of reinsurance	
Benefit band per life assured	Total benefits assured Rm	%	Total benefits assured Rm	%
0 – 250	77 530	60	71 490	67
250 – 500	16 217	13	11 343	10
500+	35 006	27	24 492	23
	128 753	100	107 325	100

In the case of the Group Life business, geographic concentration of risk exists. For Absa Life the largest concentration risk is in the Johannesburg CBD region 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.

64. Risk management *(continued)*

64.4 Market risk *(continued)*

Insurance risk management *(continued)*

Mortality and morbidity risk

The Group used 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 time with policy documentation and allowances made with 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

Absa Life 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 24 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.

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 Actuarial Society of South Africa (ASSA) or, in the absence of such guidance, generally accepted actuarial methods.

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 according to the Standard of Actuarial Practice (SAP) 104; issued by the Actuarial Society of South Africa – calculation of the value of assets, liabilities and capital adequacy requirements of long-term insurance further discretionary margins, where considered necessary by the statutory actuary.

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 liability valuation discounting methodology was changed in 2013 to use a yield curve rather than a single point on the yield curve to discount the future cash flows. This allows for a more accurate discounting of the cash flows because each cash flow is discounted at the rate applicable to its exact duration. The government bond curve is used to determine the risk free rate of return assumption 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):

64. Risk management *(continued)*

64.4 Market risk *(continued)*

Insurance risk management *(continued)*

Economic assumptions

	2013 %	2012 %
Risk-free rate of return*		
1-year term	**5,75**	5,00
5-year term	**7,41**	5,98
10-year term	**8,40**	7,02
20-year term	**10,00**	8,96
Equity return differential	**3,36**	3,36
Cash return differential	**(2)**	(2)
Overall investment return differential	**(0,44)**	(0,44)
Risk discount rate differential	**3,15**	3,25

*The 2012 risk free rates for the four terms are shown for comparison purposes. A constant rate equal to the six-year term of 6,25% was used in 2012.

The expense inflation assumption was changed from a constant differential of 2% below the risk free rate to a company specific inflation rate assumption of 7% for the first two years and the inflation rate implied by the difference between the nominal and real yield curves from year three onwards. The curve is blended between year two and three.

Additional allowances are incorporated into the liabilities to mitigate assumption risk. The compulsory margins prescribed in the SAP 104 have been applied in the valuation of liabilities.

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 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.

	Compulsory margins (SAP 104)	
Assumptions	2013 %	2012 %
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 basis points**	±25 basis points

The results of the sensitivities set out in the table below show 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 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

	Group			
	2013		2012	
	Insurance liability Rm	Change %	Insurance liability Rm	Change %
Central value (as published)	**1 800**	**—**	1 650	—
Mortality and morbidity +10%	**1 894**	**5,2**	1 766	7,1
Lapse rate +10%	**1 765**	**(1,9)**	1 592	(3,5)
Renewal and termination expenses +10%	**1 842**	**2,3**	1 687	2,2
Expense inflation +1%	**1 837**	**2,1**	1 682	2,0
Investment return -1%	**1 838**	**2,1**	1 770	7,3

64. Risk management *(continued)*

64.4 Market risk *(continued)*

Insurance risk management *(continued)*

Life insurance mismatch risk

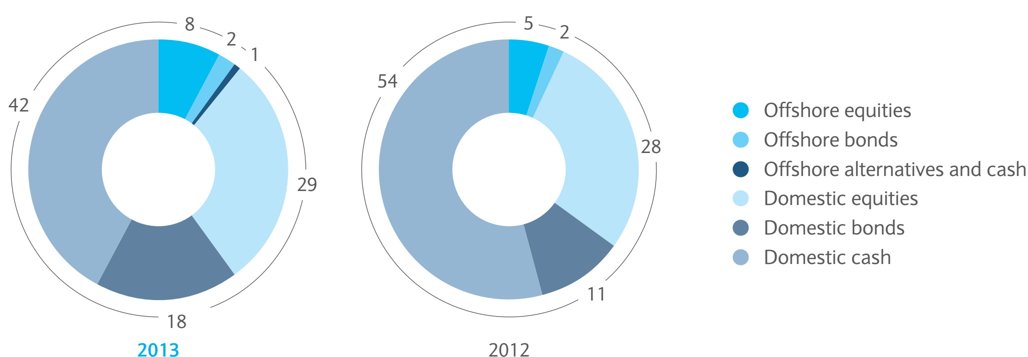
Through the use of asset-liability modelling, appropriate investment strategies for the assets backing policyholder liabilities are determined to mitigate mismatch risk as far as possible. These investment strategies are reviewed annually and the asset manager mandates amended accordingly. For guaranteed mortality, morbidity and retrenchment benefits, 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, 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 risk

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 and preference shares. The duration of interest-earning assets is monitored against a maximum effective duration.

The Absa Life insurance shareholders' funds are invested in a balanced portfolio to provide secure and stable growth over the long term. The charts below indicate the year-end 2013 and 2012 asset allocations:

Absa Life shareholder funds – actual asset allocation (%)



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 which hold a national Fitch short-term credit rating of F1 or higher or a national Fitch long-term credit rating of A+ or higher.

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.

64.5 Operational risk

Operational risk arises when there is direct and indirect loss resulting from human factors, inadequate or failed internal processes, systems or external events. The Group actively seeks to minimise the impact of losses suffered, both in the normal course of business (expected losses) and in extreme events (unexpected losses), improve effective management of the Group and strengthen its brand and external reputation.

The Group recognises the significance of operational risk and is committed to enhancing the measurement and management thereof. Within the Group's operational risk framework, qualitative and quantitative methodologies and tools are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures.

Strategy

Operational risk management objectives are:

- embed an operational risk-aware culture throughout the Group;
- implement framework and risk practices in businesses that include risk and control self-assessments, use the risk indicators, management of risk events including lessons learnt, and end-to-end risk and control reviews of specific processes, businesses or type of risks;
- enhance controls by using automated solutions, where possible;
- set and monitor the appropriate operational risk appetite, which includes assessment of potential extreme scenarios; and
- ensure investments are made in infrastructure and systems and remedial actions taken should the risk profile not be at an acceptable level.

64. Risk management *(continued)*

64.6 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequences of which may be the failure to meet obligations to repay depositors and to fulfil commitments to lend. Liquidity risk, more generally, is the risk that the Group will be unable to continue operating as a going concern due to a lack of funding.

Liquidity risk is inherent in all banking operations. Confidence in the organisation, and hence liquidity, can be affected by a range of institution specific and market-wide events including, but not limited to, market rumours, credit events, payment system disruptions, systemic shocks, terrorist attacks and even natural disasters.

The appropriate and efficient management of liquidity risk by banks is of utmost importance in maintaining confidence in the financial markets and in ensuring that banks pursue sustainable business models.

Strategy

Liquidity risk management objectives are:

- growing and diversifying the funding base to support asset growth and other strategic initiatives;
- lengthening the Group's funding profile balanced with a strategy to reduce the weighted average cost of funds;
- maintaining adequate levels of surplus liquid asset holdings in order to remain within the liquidity risk appetite; and
- realigning the Group's business models and balance sheet mix to take into account the Basel III implications.

Approach

The Group's liquidity risk position is managed in line with the board-approved liquidity risk appetite.

The Group Treasury department is responsible for implementing the liquidity risk framework and policy and for ensuring that liquidity risk is adequately managed across the Group. Group Treasury also monitors and manages the Group's liquidity position to ensure full regulatory compliance in respect of liquidity risk management and reporting. As part of this process, Group Treasury takes the contractual and business-as-usual liquidity positions, as well as the stress tested liquidity position into consideration.

Business-as-usual liquidity risk management

Business-as-usual liquidity risk management refers to the management of the cash inflows and outflows of a bank in the ordinary course of business. The business-as-usual environment tends to display fairly high probability, low severity liquidity events and involves balancing the Group's day-to-day cash needs. Group Treasury's approach to managing business-as-usual liquidity focuses on the following key areas:

- managing net anticipated cash flows (between assets and liabilities), within approved cash outflow limits;
- active daily management of the funding and liquidity profile, taking the board-approved liquidity risk metrics into consideration. These metrics were designed to ensure compliance with the Group's business-as-usual liquidity risk tolerance and to position the Group to deal with stressed liquidity events;
- maintaining a portfolio of highly liquid assets as a buffer against any unforeseen interruption to cash flow;
- participating in local money and capital markets to support the day-to-day funding requirements such as refinancing maturities, meeting customer withdrawals and supporting growth in advances;
- monitoring and managing liquidity costs; and
- conducting an ongoing assessment of the various funding sources in order to grow and diversify the Group's funding base and achieve an optimal funding profile.

Key risk metrics used in business-as-usual liquidity risk management

Risk metric	Purpose of metric
Short-, medium- and long-term funding ratios	Provides a measure of the contractual term of the funding used. For example, the long-term funding ratio shows the proportion of total funding that has a remaining contractual term in excess of six months.
Interbank funding ratio	Provides an indication of the extent to which reliance is placed on funding from other banks.
Short-term maturity cash flow mismatches (at a contractual and behavioural level)	Provides a measure of the extent to which cash flow mismatches occur in the short-term (i.e. less than one month).
Cash outflow limits	Measures expected cash outflows against predetermined limits.
Concentration of deposits	Provides a measure of the extent to which reliance is placed on funding from certain customers or market sectors.

Stress liquidity risk management

Stress liquidity risk management refers to the management of liquidity risk during times of unexpected outflows arising from Group specific or systemic stress events. Group Treasury regularly performs liquidity scenario analyses and stress tests to assess the adequacy of the Group's stress funding sources, liquidity buffers and contingency funding strategies in the event of such a stressed scenario. Scenario analysis and stress testing encompasses a range of realistic adverse events which, while remote, could have a material impact on the liquidity of the Group's operations.

64. Risk management *(continued)*

64.6 Liquidity risk *(continued)*

Approach *(continued)*

Through scenario analysis and stress testing, the Group aims to manage and mitigate liquidity risk by:

- determining, evaluating and testing the impact of adverse liquidity scenarios;
- identifying appropriate rapid and effective responses to a crisis; and
- setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk.

The Group's overall objective is to ensure that during a liquidity stress event, the Group's stress funding sources and liquidity buffers exceed the estimated stress funding requirements for a period of at least 30 days. Stress testing and scenario analysis is used to evaluate the efficiency of identified sources of stress funding along a continuum of risk scenarios and to formulate and test contingency plans.

A detailed 'contingent funding and liquidity plan' ("CFLP") has been designed to protect depositors, creditors and shareholders during adverse liquidity conditions. The plan includes early warning indicators and sets out the crisis response strategy addressing sources of stress funding, strategies for crisis avoidance/minimisation and the internal and external communication strategy. Liquidity simulation exercises are conducted regularly to test the robustness of the plan and to ensure that key stakeholders remain up to date on liquidity matters.

Analysis of liquidity risk

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

	Group				
	2013				
Discounted maturity	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	37 458	11 002	1 233	437	50 130
Statutory liquid asset portfolio	—	22 697	16 305	23 053	62 055
Loans and advances to banks	18 173	49 591	9 395	2 812	79 971
Trading portfolio assets	87 034	—	—	—	87 034
Derivative assets	43 603	—	—	—	43 603
Non-derivative assets	43 431	—	—	—	43 431
Hedging portfolio assets	13	373	1 531	1 440	3 357
Other financial assets	7 303	5 796	209	195	13 503
Loans and advances to customers	55 524	116 856	201 666	231 291	605 337
Reinsurance assets	148	442	255	25	870
Investment securities	3 304	5 651	10 159	13 968	33 082
Financial assets	208 957	212 408	240 753	273 221	935 339
Non-financial assets					24 260
Total assets					959 599
Liabilities					
Deposits from banks	19 150	47 917	1 802	195	69 064
Trading portfolio liabilities	51 477	—	—	—	51 477
Derivative liabilities	47 736	—	—	—	47 736
Non-derivative liabilities	3 741	—	—	—	3 741
Hedging portfolio liabilities	19	14	1 301	1 056	2 390
Other financial liabilities	7 734	4 731	2 960	378	15 803
Deposits due to customers	237 734	272 489	62 658	15 129	588 010
Debt securities in issue	3 791	48 955	31 189	13 894	97 829
Liabilities under investment contracts	—	3 106	5 139	11 528	19 773
Policyholder liabilities under insurance contracts	107	1 405	16	2 429	3 957
Borrowed funds	—	6 513	8 442	1 569	16 524
Financial liabilities	320 012	385 130	113 507	46 178	864 827
Non-financial liabilities					9 571
Total liabilities					874 398
Equity					85 201
Total liabilities and equity					959 599
Net liquidity position of financial instruments	(111 055)	(172 722)	127 246	227 043	70 512

64. Risk management *(continued)*

64.6 Liquidity risk *(continued)*

Analysis of liquidity risk (continued)

	Group				
	2012				
Discounted maturity	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	31 114	11 645	2 001	10	44 770
Statutory liquid asset portfolio	—	22 487	13 818	26 715	63 020
Loans and advances to banks	19 083	37 103	2 608	3 717	62 511
Trading portfolio assets	87 323	—	—	—	87 323
Derivative assets	46 800	—	—	—	46 800
Non-derivative assets	40 523	—	—	—	40 523
Hedging portfolio assets	—	392	3 961	1 103	5 456
Other financial assets	1 257	4 813	752	8 556	15 378
Loans and advances to customers	101 263	80 430	168 710	215 860	566 263
Reinsurance assets	147	802	54	—	1 003
Investment securities	—	8 462	14 600	7 852	30 914
Financial assets	240 187	166 134	206 504	263 813	876 638
Non-financial assets					21 733
Total assets					898 371
Liabilities					
Deposits from banks	14 602	23 470	1 370	1 982	41 424
Trading portfolio liabilities	51 734	—	—	—	51 734
Derivative liabilities	46 812	—	—	—	46 812
Non-derivative liabilities	4 922	—	—	—	4 922
Hedging portfolio liabilities	—	39	1 320	2 496	3 855
Other financial liabilities	779	9 748	6 164	394	17 085
Deposits due to customers	316 118	181 933	30 146	14 904	543 101
Debt securities in issue	—	47 338	44 906	14 559	106 803
Liabilities under investment contracts	5 581	6 472	6 715	—	18 768
Policyholder liabilities under insurance contracts	—	852	1 260	1 438	3 550
Borrowed funds	1 318	2 527	11 086	3 846	18 777
Financial liabilities	390 132	272 379	102 967	39 619	805 097
Non-financial liabilities					8 829
Total liabilities					813 926
Equity					84 445
Total liabilities and equity					898 371
Net liquidity position of financial instruments	(149 945)	(106 245)	103 537	224 194	71 541

The Group manages its behavioural (business-as-usual) mismatches within board-approved limits. The behavioural mismatches position over one year improved during the reporting period despite the challenging economic environment.

64. Risk management *(continued)*

64.6 Liquidity risk *(continued)*

Analysis of liquidity risk *(continued)*

Undiscounted maturity (statement of financial position value with impact of future interest)	Group 2013 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	19 150	49 360	2 245	606	(2 297)	69 064
Trading portfolio liabilities	51 477	—	—	—	—	51 477
Derivative liabilities	47 736	—	—	—	—	47 736
Non-derivative liabilities	3 741	—	—	—	—	3 741
Hedging portfolio liabilities	19	14	1 621	3 298	(2 562)	2 390
Other financial liabilities	7 734	4 919	3 686	1 181	(1 717)	15 803
Deposits due to customers	237 734	280 262	78 413	45 209	(53 608)	588 010
Debt securities in issue	3 791	50 359	38 847	43 375	(38 543)	97 829
Liabilities under investment contracts	—	3 197	6 401	35 987	(25 812)	19 773
Policyholder liabilities under insurance contracts	107	1 446	18	7 586	(5 200)	3 957
Borrowed funds	—	6 704	10 643	5 063	(5 886)	16 524
Financial liabilities	320 012	396 261	141 874	142 305	(135 625)	864 827
Non-financial liabilities						9 571
Total liabilities						874 398
Off-statement of financial position						
Financial guarantee contracts	96	—	—	—	—	96
Loan commitments[1]	5 217	37 286	6 468	908	—	49 880

Undiscounted maturity (statement of financial position value with impact of future interest)	2012 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	14 602	24 148	1 650	5 328	(4 304)	41 424
Trading portfolio liabilities	51 734	—	—	—	—	51 734
Derivative liabilities	46 812	—	—	—	—	46 812
Non-derivative liabilities	4 922	—	—	—	—	4 922
Hedging portfolio liabilities	—	39	1 590	6 718	(4 492)	3 855
Other financial liabilities	779	10 124	7 459	1 060	(2 337)	17 085
Deposits due to customers	316 118	187 298	36 496	40 103	(36 914)	543 101
Debt securities in issue	—	48 606	54 107	39 177	(35 087)	106 803
Liabilities under investment contracts	5 581	6 646	8 090	—	(1 549)	18 768
Policyholder liabilities under insurance contracts	—	874	1 514	3 824	(2 662)	3 550
Borrowed funds	1 318	2 606	13 437	10 349	(8 933)	18 777
Financial liabilities	390 132	280 341	124 343	106 559	(96 278)	805 097
Non-financial liabilities					—	8 829
Total liabilities						813 926
Off-statement of financial position						
Financial guarantee contracts	955	0	—	—	—	955
Loan commitments[1]	72 980	1 268	7	—	—	74 255

Note

[1]Includes both irrevocable debt and equity facilities granted.

64. Risk management *(continued)*

64.7 Capital management

Capital risk, which 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.

Strategy

Effective capital planning and management ensures that the Group has sufficient and appropriate capital structures to support its risk appetite, business activities, credit rating and regulatory requirements.

The capital management process includes:

- ➜ meeting capital ratios required by regulators and the target ranges approved by the board;
- ➜ maintaining an adequate level of capital resources in excess of economic capital requirements; and
- ➜ optimising returns through capital and balance sheet structuring.

65. 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.

66. Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2013 and the date of authorisation of these consolidated financial statements (as defined per IAS 10 Events after the Reporting Period ("IAS 10").

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 and Barclays Life Zambia Limited), including the value of new business written during the current reporting period in respect of these entities.

The embedded value as at 31 December 2013 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 business ("PVIF") of the covered business is the discounted value of the projected stream of future after tax shareholder profits arising in the Company's accounts from covered business in force at the valuation date. Covered business is taken to be all long-term insurance business written on the company's 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 licences 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	
	2013 Rm	2012 Rm
Free surplus[1]	**720**	628
Required capital	**747**	860
Covered business adjusted net worth ("ANW")	**1 467**	1 488
Present value of in-force business ("PVIF")	**2 591**	2 364
Cost of required capital ("CoC")	**(308)**	(467)
Total embedded value ("EV")	**3 750**	3 385
Value of new business (before CoC)	**479**	428
CoC	**(52)**	(66)
Value of new business ("VNB")	**427**	362
Present value of future premiums (net of reinsurance premiums)	**5 349**	3 824
Value of new business as a percentage of the present value of future premiums		
All business (%)	**8,0**	9,3
Excluding investment business (%)	**19,3**	18,5
Present value of future premiums (gross of reinsurance premiums)	**5 600**	3 904
Value of new business as a percentage of the present value of future premiums		
All business (%)	**7,6**	9,3
Excluding investment business (%)	**17,3**	18,2

Note

[1]A dividend of R519,5 million (2012: R410 million) was proposed for the reporting period ended 31 December 2013.

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 liability valuation discounting methodology was changed in 2013 to use a yield curve rather than a single point estimate on the yield curve to discount the future cash flows. This allows for a more accurate discounting of the cash flows because each cash flow is discounted at a rate more appropriate to its exact duration. The South African government bond curve is used to determine the risk-free rate of return assumption and the assumed returns on the other asset classes are calculated using a constant differential from the risk-free rate curve.

The risk discount rate methodology for Absa Life Limited was also updated to use a yield curve and is derived using a top-down approach in accordance with the APN 107 guidance and market practice. The risk discount rate is set equal to the risk-free rate of return plus a fixed beta percentage of 90% multiplied by the assumed equity risk premium of 3,5%. The economic assumptions used including certain representative points on the risk-free curve for Absa Life Limited are as follows (gross of tax where applicable):

	2013 Absa Life Limited Rm	2012 Absa Life Limited Rm
Risk-free rate of return:		
1-year term	**5,75**	5,00
5-year term	**7,41**	5,98
10-year term	**8,40**	7,02
20-year term	**10,00**	8,96
Equity return differential	**3,36**	9,61
Cash return differential	**(2,00)**	4,25
Overall investment return differential	**(0,44)**	5,81
Risk discount rate differential	**3,15**	9,50

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):

	2013		2012	
	Barclays Life Botswana Proprietary Limited Rm	**Barclays Life Zambia Limited Rm**	Barclays Life Botswana Proprietary Limited Rm	Barclays Life Zambia Limited Rm
Risk-free rate of return	**6,0**	**15,5**	7,0	13,0
Equity return – unhedged	**n/a**	**n/a**	n/a	n/a
Cash return	**4,0**	**12,0**	5,0	9,5
Overall investment return	**4,0**	**12,0**	7,5	13,0
Risk discount rate	**9,4**	**18,9**	10,5	16,5
Expense inflation	**4,5**	**11,5**	5,5	10,0

Note

[1]The sensitivity and movement analysis of the embedded value outlined below only pertains to the business of Absa Life Limited (South Africa).

Annexure A: Embedded value report for Life Insurance entities (unaudited)

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							
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	0,0
PVIF	(8,9)	2,7	(0,7)	0,5	4,5	2,9	4,1	0,0
CoC	9,8	4,7	0,0	(5,4)	0,4	0,0	5,9	0,0
EV	(7,0)	1,5	(0,5)	0,8	3,1	2,1	2,4	0,0
VNB	(7,3)	5,1	0,0	0,5	4,5	3,1	7,9	2,0

The development of the embedded value of Absa Life Limited (South Africa) can be analysed as follows:

	Group	
	2013 Rm	2012 Rm
Embedded value at the end of the reporting period	3 656	3 348
Dividends accrued or paid	798	655
Less: Embedded value at the beginning of the reporting period	(3 348)	(3 080)
Embedded value earnings	1 106	923
Components of embedded value earnings:		
Value of new business at point of sale	397	343
Adjustment to opening balance	—	(51)
Expected return on covered business (unwinding)	210	243
Operating experience variances	159	49
Operating assumption and model changes	252	203
Expected return on ANW	66	84
Exceptional non-recurring items	—	—
Embedded value operating return	1 084	871
Investment return variances on in-force covered business	(3)	29
Investment return variances on ANW	31	(5)
Effect of economic assumption changes	(6)	28
Embedded value earnings	1 106	923
Return on embedded value (%)	33%	30%

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.

Company statement of financial position

as at 31 December

	Note	Company 2013 Rm	2012 Rm
Assets			
Loans and advances to banks	2	**507**	708
Current tax assets	3	**—**	10
Investment securities	4	**279**	138
Subsidiaries	5	**38 041**	18 554
Total assets		**38 827**	19 410
Liabilities			
Other liabilities	7	**137**	255
Current tax liabilities	3	**15**	—
Total liabilities		**152**	255
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Ordinary share capital	8	**1 696**	1 436
Ordinary share premium	8	**23 760**	5 652
Retained earnings		**13 193**	12 002
Other reserves	9	**26**	65
Total equity		**38 675**	19 155
Total equity and liabilities		**38 827**	19 410

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2013 Rm	2012 Rm
Interest and similar income	10	**150**	8
Net interest income after impairment losses on loans and advances		**150**	8
Gains and losses from investment activities	11	**13 051**	7 391
Operating profit before operating expenditure		**13 201**	7 399
Operating expenditure		**(326)**	(222)
Operating expenses	12	**(9)**	(155)
Other impairments	13	**(311)**	(67)
Indirect taxation	14	**(6)**	—
Operating profit before income tax		**12 875**	7 177
Taxation expense	15	**(65)**	(52)
Profit for the reporting period		**12 810**	7 125
Profit and total comprehensive income for the reporting period		**12 810**	7 125
Total profit and comprehensive income attributable to:			
Ordinary equity holders		**12 810**	7 125
Earnings per share			
Basic earnings per share (cents)	16	**1 689,7**	992,1
Diluted earnings per share (cents)	16	**1 689,7**	992,1

Company statement of changes in equity

for the reporting period ended 31 December

Company

	2013					
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at the beginning of the reporting period	**718 210**	**1 436**	**5 652**	**12 002**	**65**	**19 155**
Profit and total comprehensive income for the reporting period	—	—	—	12 810	—	12 810
Dividends paid during the reporting period	—	—	—	(11 619)	—	(11 619)
Shares issued	129 540	260	18 171	—	—	18 431
Transaction costs related to shares issued on the acquisition of Barclays Africa Limited	—	—	(101)	—	—	(101)
Movement in share-based payment reserve	—	—	38	—	(39)	(1)
Transfer from share-based payment reserve	—	—	38	—	(38)	—
Value of employee services	—	—	—	—	(1)	(1)
Balance at the end of the reporting period	**847 750**	**1 696**	**23 760**	**13 193**	**26**	**38 675**
Notes		8	8		9	

	2012					
	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	718 210	1 436	5 542	9 954	169	17 101
Profit and total comprehensive income for the reporting period	—	—	—	7 125	—	7 125
Dividends paid during the reporting period	—	—	—	(5 077)	—	(5 077)
Movement in share-based payment reserve	—	—	110	—	(104)	6
Transfer from share-based payment reserve	—	—	110	—	(110)	—
Value of employee services	—	—	—	—	6	6
Balance at the end of the reporting period	718 210	1 436	5 652	12 002	65	19 155
Notes		8	8		9	

Company statement of cash flows

for the reporting period ended 31 December

	Note	Company 2013 Rm	2012 Rm
Cash flow from operating activities			
Interest and similar income		**9**	8
Cash payments to employees and suppliers		**(15)**	(155)
Dividends received from investments activities	11	**13 051**	7 391
Income taxes paid		**(40)**	(56)
Cash flow from operating activities before changes in operating assets and liabilities		**13 005**	7 188
Net increase in other liabilities		**(118)**	160
Net cash generated from operating activities		**12 887**	7 348
Cash flow from investing activities			
Investment in shares		**(1 368)**	(1 783)
Net cash utilised in investing activities		**(1 368)**	(1 783)
Cash flow from financing activities			
Dividends paid		**(11 619)**	(5 077)
Transaction costs related to shares issued on the acquisition of Barclays Africa Limited		**(101)**	—
Net cash utilised in financing activities		**(11 720)**	(5 077)
Net increase in cash and cash equivalents		**(201)**	488
Cash and cash equivalents at the beginning of the reporting period		**708**	220
Cash and cash equivalents at the end of the reporting period	2	**507**	708

Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2013 Rm	2012 Rm
1. Accounting policies		
The financial statements of Absa Group Limited ("the Company") are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Group. For detailed accounting policies, refer to the Group's financial statements.		
2. Loans and advances to banks		
Other	**507**	708
Portfolio analysis		
Loans and receivables	**507**	708
Loans with variable rates are **R507 million** (2012: R708 million) and fixed rates are **Rnil** (2012: Rnil).		
3. Current tax		
Current tax assets		
Amount due from revenue authorities	**—**	10
Current tax liabilities		
Amount due to revenue authorities	**15**	—
4. Investment securities		
Debt instruments	**279**	138
Market value of debt instruments	**279**	138
Portfolio analysis		
Available-for-sale financial assets		
Debt instruments	**279**	138
4.1 Available-for-sale financial assets		
Cost plus fair value movements at the beginning of the reporting period	**138**	138
Fair value movements and accrued interest	**141**	(0)
Cost plus fair value movements at the end of the reporting period	**279**	138

4. Investment securities *(continued)*

4.2 Fair value hierarchy disclosure

The Company holds investments in debt instruments which are measured at fair value.

The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs, and valuations based on unobservable inputs, is set out in notes 63.2 and 63.3 of the Group's financial statements.

	Company			
	2013			
	Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
Available-for-sale financial assets				
Investment securities[1]	—	279	—	279
	2012			
	Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
Available-for-sale financial assets				
Investment securities[1]	—	138	—	138

	Company	
	2013 Rm	2012 Rm
5. Subsidiaries		
Shares at cost	38 352	18 554
Movement in shares at cost		
Balance at the beginning of the reporting period	18 554	16 832
Net movement during the reporting period	19 487	1 722
Acquisition of additional shares in Absa Bank Limited	1 000	1 000
Net movements in other subsidiaries	(68)	68
Acquisition of Barclays Africa Limited	18 498	—
Acquisition of Blue Age Properties 60 Proprietary Limited	—	102
Rights issued by National Bank of Commerce (NBC) Tanzania	368	—
Impairment of investment in/rights issued by Barclays Bank Mozambique S.A.	(311)	545
Contribution from holding company	—	7
Balance at the end of the reporting period	38 041	18 554

The Company received a special dividend of R1 billion from the Bank. The Company used this dividend to purchase additional "A" ordinary shares, with a par value of R0,01 in the Bank.

Note

[1]The investment relates to notes in securitisation vehicles and the settlement of capitalised interest.

	Company	
	2013 Rm	2012 Rm
6. Deferred tax		
6.1 Reconciliation of net deferred tax asset		
Balance at the beginning of the reporting period	—	4
Deferred tax asset raised/(released) on STC credits (refer to note 6.3)	—	(4)
Balance at the end of the year	—	—
6.2 Deferred tax asset		
Deferred tax asset – STC credits (refer to note 6.3)	—	—
6.3 Secondary taxation on companies		
Accumulated STC credits	—	—
Deferred tax asset raised (refer to note 6.2)	—	—
Movement in deferred tax asset for the reporting period (refer to note 6.1)	—	(4)

In 2007, the Minister of Finance announced a two-phase approach to STC reform, which included the reduction of the STC tax rate to 10% and the replacement of STC with a new dividend withholding tax on shareholders ("DWT"). On 1 April 2012, the DWT came into effect and the tax ceased to be levied at a company level is now levied on shareholders who receive the dividends.

Unutilised STC credits at the end of 2011 were utilised against the STC payable on the final dividend declared after the 2011 reporting date. Deferred tax assets relating to unutilised STC credits up to 31 March 2012 have also been utilised.

	2013 Rm	2012 Rm
7. Other liabilities		
Creditors	**137**	255
Portfolio analysis		
Financial liabilities at amortised cost	**137**	255

	Company	
	2013 Rm	2012 Rm
8. Share capital and premium		
Ordinary share capital		
Authorised		
880 467 500 (2012: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
847 750 679 (2012: 718 210 043) ordinary shares of R2,00 each	**1 696**	1 436
Total issued capital		
Share capital	**1 696**	1 436
Share premium	**23 760**	5 652
	25 456	7 088

Authorised shares

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

Unissued shares

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

Shares issued during the year under review

An additional 129 540 636 ordinary shares were issued in the current reporting period.

Shares issued during the prior year

There were no shares issued during the previous reporting period.

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

9. Other reserves

Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. The standard requires that the expense be charged to the profit and loss component of the statement of comprehensive income, while a credit needs to be raised against equity over the vesting period (i.e. the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised, the reserve related to the specific options is transferred to share capital and/or share premium. If the options lapse after vesting, the related reserve is transferred to retained earnings. If the options lapse before vesting, the related reserve is reversed through the profit and loss component of the statement of comprehensive income. Refer to note 57 of the Group's annual financial statements for the full disclosures of IFRS 2.

	Company	
	2013 Rm	2012 Rm
10. Interest and similar income		
Interest and similar income is earned from:		
Loans and advances to banks	**1**	1
Other – interest	**149**	7
	150	8
Portfolio analysis		
Interest on financial assets held at amortised cost and available-for-sale financial assets	**150**	8
11. Gains and losses from investment activities		
Dividends received from subsidiaries	**13 051**	7 391
	13 051	7 391
12. Operating expenses		
Administrative expenses	**9**	154
13. Other impairments		
Investments in subsidiaries	**311**	67
14. Indirect taxation		
VAT net of input credits	**6**	—
15. Taxation expense		
Current		
South African current tax	**65**	18
STC	**—**	34
	65	52
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	**12 875**	7 178
	12 875	7 178
Tax calculated at a tax rate of 28%	**3 605**	2 010
Expenses not deductible for tax purposes	**(68)**	61
Income not subject to tax	**(3 654)**	(2 069)
Other	**182**	16
STC	**—**	34
	65	52

In 2007, the Minister of Finance announced a two-phase approach to STC reform, which included the reduction of the STC tax rate to 10% and the replacement of STC with a new dividend withholding tax on shareholders (DWT). On 1 April 2012, the DWT came into effect and the tax ceased to be levied at a company level, and is now levied on shareholders who receive the dividends.

Unutilised STC credits at the end of December 2011 were utilised against the STC payable on the final dividend declared in February 2012. Deferred tax assets relating to unutilised STC credits up to 31 March 2012 have been utilised.

	Company	
	2013 Rm	2012 Rm
16. Earnings per share		
Basic and diluted earnings per share		
Basic earnings per share are 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 are determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares, of which there are none.		
Basic and diluted earnings attributable to ordinary equity holders of the Company	**12 810**	7 125
Weighted average number of ordinary shares in issue (millions)	**772,5**	718,2
Issued shares at the beginning of the reporting period	**718,2**	718,2
Shares issued during the reporting period	**54,3**	—
Basic earnings per share/diluted earnings per share (cents)	**1 658,3**	992,1

The Group has acquired the entire issued share capital of Barclays Africa Limited and has issued 129 540 636 consideration Shares to Barclays Africa Group Holdings Limited (a wholly owned subsidiary of Barclays). Following this acquisition, Barclays has increased its stake to 62,3% from 55,5% in the ordinary shares of Barclays Africa Group.

	Company			
	2013		2012	
	Gross Rm	**Net[1] Rm**	Gross Rm	Net[1] Rm
17. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Company		**12 810**		7 125
Total headline earnings adjustment:		**(243)**		67
IAS 27 – Loss on disposal of subsidiary	**68**	**68**	—	—
IAS 36 – Impairment of investment in subsidiary	**(311)**	**(311)**	67	67
Headline earnings/diluted headline earnings	**—**	**12 567**	—	7 192
Headline earnings per share/diluted headline earnings per share (cents)	**—**	**1 626,8**	—	1 001,3

Note
[1]The net amount is reflected after tax.

	Company	
	2013 Rm	2012 Rm
18. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend (30 July 2013: **350 cents**) (27 July 2012: 315 cents)	**2 514**	2 262
Special dividend (30 July 2013: **708 cents**)	**5 085**	—
Final dividend (11 February 2014: **470 cents**) (12 February 2013: 369 cents)	**3 984**	2 650
	11 583	4 912
Dividends paid during the reporting period		
Dividend declared to ordinary equity holders		
Final dividend (12 February 2013: 369 cents) (10 February 2012: 392 cents)	**2 650**	2 815
Interim dividend (30 July 2013: 350 cents) (27 July 2012: 315 cents)[1]	**2 967**	2 262
Special dividend (30 July 2013: 708 cents)[1]	**6 002**	—
	11 619	5 077

19. Related parties

Refer to note 50 of the Group's financial statements for the full disclosure of related-party transactions.

19.1 Balances and transactions with subsidiaries[2]

	Company	
	2013 Rm	2012 Rm
Balances		
Loans and advances to banks	**507**	708
Investment securities	**279**	138
Other liabilities	**—**	(64)
Transactions		
Interest and similar income	**(150)**	(8)
Dividends received	**(13 051)**	(7 391)

20. Financial guarantee contracts, contingencies and commitments

Disclosure in respect of financial guarantee contracts, commitments and contingencies can be found in notes 51, 52, and 53 respectively of the Group's financial statements.

21. Financial risks

Refer to note 64 of the Group's financial statements.

22. 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.

23. Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2013 and the date of authorisation of these financial statements (as defined per IAS 10).

Notes

[1]Dividend amount is calculated on the number of shares in issue, including the shares issued on 31 July 2013 for consideration on the acquisition of Barclays Africa Limited.

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