IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE OUTSIDE OF THE UNITED STATES, AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**").

IMPORTANT: **You must read the following disclaimer before continuing.** The following applies to the prospectus following this page (the "**Prospectus**"), whether received by e-mail, accessed from an internet page or received as a result of any other electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from: (i) Barclays Africa Group Limited (the "**Issuer**"); (ii) Barclays Bank PLC, Citigroup Global Markets Limited or HSBC Bank plc as joint international bookrunners (together, the "**Joint International Bookrunners**"); or (iii) Absa Bank Limited, as local bookrunner (together with the Joint International Bookrunners, the "**Joint Bookrunners**") as a result of such access. The Prospectus has been prepared solely in connection with the proposed offering of the securities described therein to certain institutional and professional investors.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR A SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD DIRECTLY OR INDIRECTLY EXCEPT: (1) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S; OR (2) PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

The Prospectus is being distributed only to and directed only at: (i) persons who are outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Prevention) Order 2005, as amended, or (iii) persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000, as amended, does not apply (all such persons together being referred to as "**relevant persons**"). The Prospectus is only directed at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the Prospectus relates is available only to, and will be engaged in only with, relevant persons (and subject to the other restrictions referred to therein).

Prohibition of Sales to EEA Retail Investors – The Notes (as defined in the Prospectus) are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Confirmation of your Representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities, you must be outside the United States investing in the securities in an offshore transaction in reliance on Regulation S. The Prospectus is being sent at your request and by accessing, reading or making any other use of the Prospectus, you shall be deemed to have represented and warranted to the Issuer and the Joint Bookrunners that (1) you understand and agree to the terms set out herein; (2) you are outside the United States, and that any e-mail address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is not located in the United States for the purposes of Regulation S; (3) you consent to delivery by electronic transmission of the Prospectus; (4) you will not transmit the Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Bookrunners; and (5) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer or the Joint Bookrunners or any of their respective subsidiaries, nor any person who controls any of them or any director, officer, employee or agent of any of them, or any affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners. If you receive this document by e-mail, you should not reply by e-mail to this communication. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The distribution of the Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the Prospectus comes are required by the Issuer and the Joint Bookrunners to inform themselves about, and to observe, any such restrictions.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person. You may not transmit the Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Bookrunners.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Bookrunners or any affiliate of the Joint Bookrunners is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Bookrunner or such affiliate on behalf of the Issuer in such jurisdiction.

BARCLAYS AFRICA GROUP LIMITED

(incorporated under the laws of the Republic of South Africa)

U.S.$400,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2028

The issue price of the U.S.$400,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2028 (the "**Notes**") of Barclays Africa Group Limited (the "**Issuer**") is 100 % of their principal amount (the "**Issue Price**").

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Current Principal Amount (as defined herein) on 25 April 2028 (subject as provided in "*Terms and Conditions of the Notes – Payments*"). Subject to certain conditions, the Issuer may, at its option, redeem the Notes, in whole but not in part, on 25 April 2023 (the "**Call Date**") (or at any time in the event of a change in certain South African regulatory capital requirements or upon the occurrence of certain tax events as described herein) at their Current Principal Amount (as defined herein), together with any accrued but unpaid interest to (but excluding) the date fixed for redemption. See "*Terms and Conditions of the Notes - Redemption and Purchase; Substitution and Variation* ".

From (and including) 25 April 2018 (the "**Issue Date**") to (but excluding) the Call Date, the interest rate on the Notes will be 6.250 % per annum. From (and including) the Call Date, the applicable interest rate per annum will be equal to the Reset Interest Rate (as provided in "*Terms and Conditions of the Notes – Interest*"). **The interest rate following the Call Date may be less than the Initial Rate of Interest** (as provided in "*Terms and Conditions of the Notes – Interest*"*)*. Interest will be payable semi-annually in arrear on 25 April and 25 October of each year (each, an "**Interest Payment Date**"), commencing on 25 October 2018.

Payments on the Notes will be made in U.S. dollars, without deduction for or on account of taxes imposed or levied by the Republic of South Africa to the extent described under "*Terms and Conditions of the Notes - Taxation*".

As further described herein, if a Non-Viability Event (as defined herein) occurs, a Write-off (as defined herein) of all or part of the principal amount of the Notes and the relevant proportion of any accrued interest may occur. The Notes will be cancelled in proportion to the principal amount so Written-off. Such a Write-off will result in the Noteholders losing the relevant principal amount of the Notes so Written-off, and losing the right to receive any accrued or future interest relating to the principal amount Written-off. Accordingly, Noteholders should be aware that they may lose their entire investment in the Notes. See "*Terms and Conditions of the Notes - Form, Denomination and Status – Loss Absorption Following a Non-Viability Event*".

This Prospectus has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes. Applications have been made for the Notes to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**"). The Regulated Market of the London Stock Exchange is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments.

The Issuer has obtained the prior written approval of the Financial Surveillance Department (the "FSD") of the South African Reserve Bank ("SARB") and the Registrar of Banks for the issuance of the Notes.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). The Notes are being offered by the Joint Bookrunners (as defined in "*Important Notices*") outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

The Notes will be represented by a global note certificate (the "**Global Note Certificate**") in registered form, without interest coupons attached, which will be registered in the name of a nominee for and will be deposited with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") on or about the Issue Date. Individual note certificates ("**Individual Note Certificates**") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form* ".

An investment in the Notes involves certain risks. Prospective investors in the Notes are recommended to read this Prospectus, including the section entitled "*Risk Factors* " carefully.

The Notes are expected to be rated Ba2 and BB by Moody's Investors Service Inc. ("**Moody's**") and Fitch Ratings Limited ("**Fitch**") respectively. Each of Moody's and Fitch is established in the European Economic Area ("**EEA**") and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"). **A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

Global Coordinators

Barclays **Absa**

International Structuring Adviser

Barclays

Joint Bookrunners

Joint International Bookrunners

Barclays **Citigroup** **HSBC**

Local Bookrunner

Absa

23 April 2018

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IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

Information contained in this Prospectus under the heading, "*Risk Factors – South African economic conditions*" relating to the growth of the South African economy was derived from the National Treasury of South Africa Investor Roadshow Presentation dated March 2018 and information contained in this Prospectus under the heading, "*Significant Factors affecting Results of Operations and Business Conditions – Macroeconomic Environment*" has been derived from publicly available sources. The Issuer confirms that this information has been accurately reproduced, and so far as the Issuer is aware and is able to ascertain from information available from such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer has confirmed to the Joint Bookrunners that this Prospectus contains all information which is (in the context of the issue, offering and sale of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Bookrunners.

Neither the Joint Bookrunners nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus or any responsibility for any acts or omissions of the Issuer or any other person (other than the relevant Joint Bookrunner) in connection with the issue and offering of the Notes. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Bookrunners to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*".

In particular, the Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States in reliance on Regulation S.

Subject to applicable law and regulation (including, without limitation, certain restrictions referred to in "*Subscription and Sale*"), (i) Barclays Bank PLC, Citigroup Global Markets Limited and HSBC Bank plc, as joint international bookrunners (together, the "**Joint International Bookrunners**") will effect offers and sales of the Notes internationally; and (ii) Absa Bank Limited, as local bookrunner (together with the Joint International Bookrunners, the "**Joint Bookrunners**") will only effect offers and sales of the Notes within the borders of South Africa and certain African countries.

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a "**retail investor**" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance / Professional investors and ECPs only target market - Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

In connection with the issue of the Notes, Barclays Bank PLC (the "**Stabilisation Manager**") (or persons acting on behalf of the Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager (or person(s) acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

The Notes are complex financial instruments and such instruments may be purchased by investors as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. Each potential investor in the Notes should determine the suitability of such investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) understand thoroughly the terms of the Notes, such as the provisions governing a Write-off; and

(d) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Notes are legal investments for it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus.

FORWARD-LOOKING STATEMENTS

Certain information contained in this Prospectus and any documents incorporated by reference, including any information as to the Group's strategy, market position, plans or future financial or operating performance, constitutes "forward-looking statements". All statements, other than statements of historical fact, are forward-looking statements. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "project", "aim", "estimate", "may", "will", "could", "should", "seeks", "predicts", "schedule" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plan, objectives, goals, future events or intentions.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Issuer, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to: general economic and business conditions in South Africa and internationally; inflation, deflation, interest rates and policies of the SARB; fluctuations in exchange rates, stock markets and currencies; changes to the Issuer's credit ratings; changing demographic developments, including mortality and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes; natural and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies and actions of governmental or regulatory authorities in South Africa or elsewhere; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and the success of the Issuer in managing the risks of the foregoing.

Investors are cautioned that forward-looking statements are not guarantees of future performance. Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this Prospectus speak only as of the date they are made, reflect the view of the Issuer's board of directors (the "**Issuer's Board of Directors**") as of the date they are made with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, strategy, capital and leverage ratios and the availability of new funding. Investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ before making an investment decision. All of the forward-looking statements made in this Prospectus are qualified by these cautionary statements.

Except as required by the FCA, the London Stock Exchange or applicable law or regulation, the Issuer explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this Prospectus that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of it.

EXCHANGE RATE HISTORY

The following table sets out, for the periods indicated, certain information concerning the exchange rate of Rand expressed in Rand per U.S. dollar as provided by Bloomberg Finance LP. These translations should not be construed as representations that the Rand amounts actually represent U.S. dollar amounts or that the financial information appearing in this Prospectus could be converted into U.S. dollars at the rate indicated. On 20 April 2018, the exchange rate translated to R12.1075 = U.S.$1.

South African Rand per U.S. dollar exchange rates (Rand per U.S.$1.00) for the three months following 31 December 2017:

Month	Period End	Average Rate(1)	High	Low
January 2018..........................	11.8514	12.1822	12.4589	11.8514
February 2018........................	11.7957	11.8206	12.1683	11.5542
March 2018.............................	11.8408	11.8383	12.0176	11.6337

South African Rand per U.S. dollar exchange rates (Rand per U.S.$1.00) for the previous three years:

Year	Period End	Average Rate(1)	High	Low
2015...	15.4685	12.9354	15.8952	11.2708
2016...	13.7401	14.5696	16.8717	13.1866
2017...	12.3828	13.2947	14.4700	12.2684

Note:

(1) The average rate is calculated based on the rate on each business day of the month for monthly averages, and on the last business day of each month for annual averages.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Issuer's separate and consolidated annual financial results are presented in Rand and have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("**IFRS**"), interpretations issued by the IFRS Interpretations Committee ("**IFRS-IC**"), the South African Institute of Chartered Accountants' Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Johannesburg Stock Exchange ("**JSE**") Listings Requirements and the requirements of the South African Companies Act, 2008 (the "**Companies Act**"). The principal accounting policies applied are set out in the Issuer's most recent audited annual consolidated financial statements.

The Issuer's separate and consolidated audited annual financial statements for the financial year ended 31 December 2017 (the "**2017 Financial Statements**"), and for the financial year ended 31 December 2016 (the "**2016 Financial Statements**" and, together with the 2017 Financial Statements, the "**Annual Financial Statements**"), are included in this Prospectus together with the audit reports thereon of KPMG Inc. ("**KPMG**") and Ernst & Young Inc. ("**EY**") in respect of the 2017 Financial Statements (the "**Joint Auditors for 2017**") and PricewaterhouseCoopers Inc. ("**PwC**") and EY in respect of the 2016 Financial Statements ("the **Joint Auditors for 2016**" and, together with the Joint Auditors for 2017, the "**Joint Auditors**").

As a result of the separation from Barclays Bank PLC, the Issuer also reports normalised results which have been referenced in the Prospectus. The normalised results reflect the removal of certain exceptional or non-recurring items that arose as a direct consequence of, or activities that directly relate to the Issuer's Separation from Barclays Bank PLC. The Issuer presents this adjusted financial information as the Issuer believes that it more accurately reflects the Issuer's underlying performance. The adjusted financial information may not be comparable to other similarly titled measures of other companies and may have limitations as analytical tools and should not be considered in isolation or as a substitute of the Issuer's operating results under IFRS. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Normalised financial results as a consequence of Barclays Bank PLC Separation*" for further detail.

The adjusted financial information is presented for informational purposes only, and is not necessarily indicative of the results of operations that would have been realised had the Separation from Barclays Bank PLC been completed before 2017, nor is it meant to be indicative of any future results of operations that the Issuer will experience going forward.

Investors should note that certain other financial information and data set forth herein has been derived from the unaudited management accounts of the Issuer. See "*Alternative Performance Measures* " below.

The Annual Financial Statements were audited by the Joint Auditors for 2017 and the Joint Auditors for 2016, in each case in accordance with International Standards on Auditing ("**ISA**"). Each of the Joint Auditors are independent auditors in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors ("**IRBA Code**") and other independence requirements applicable to performing audits of financial statements in South Africa.

Rounding Adjustments

Certain amounts which appear in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Alternative Performance Measures

To supplement the Annual Financial Statements, the Issuer uses certain ratios and measures included in this Prospectus that might be considered to be "alternative performance measures" (each an "**APM**") as described in the ESMA Guidelines on Alternative Performance Measures (the "**ESMA Guidelines**") published by the European Securities and Markets Authority on 5 October 2015. The ESMA Guidelines provide that an APM is understood as "a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework." The ESMA Guidelines also note that they do not apply to APMs "disclosed in accordance with applicable legislation, other than the applicable financial reporting framework, that sets out specific requirements governing the determination of such measures".

The management of the Issuer believes that the APMs included in this Prospectus, when considered in conjunction with measures reported under IFRS, are useful to investors because they provide a basis for measuring the organic operating performance in the periods presented and enhance investors' overall understanding of the Group's financial performance. In addition, these measures are used in the internal management of the Group, along with financial measures reported under IFRS, in measuring the Group's performance and comparing it to the performance of its competitors. In addition, because the Issuer has historically reported certain APMs to investors, the Issuer's management believes that the inclusion of APMs in this Prospectus provides consistency in the Issuer's financial reporting and thus improves investors' ability to assess the Group's trends and performance over multiple periods. APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS. For the Issuer, measures that might be considered to be APMs in this Prospectus (and that are not defined or specified by IFRS or any other legislation applicable to the Issuer) include (without limitation) the following (such terms being used in this Prospectus as defined below):

- Non-interest income: Non-interest income consists of the following statement of comprehensive income line items: net fee and commission income, net insurance premium income, net insurance claims and benefits paid, changes in investment contracts and insurance contract liabilities, gains and losses from banking and trading activities, gains and losses from investment activities as well as other operating income.

- Net-interest income ("**NII**"): The amount of interest received or receivable on assets, net of interest paid or payable on liabilities.

- Total income: The sum of non-interest income and NII.

- Average interest-bearing assets: Average interest-bearing assets consist of all accounts that are not impaired and thus attract interest within the asset categories of cash, cash balances and balances with central banks, loans and advances to banks and customers and investment securities (including cash and short-term assets, money market assets and capital market assets).

- Net interest margin on average interest-bearing assets / Net interest margin ("**NIM**"): NII for the reporting period, divided by average interest-bearing assets (calculated on a daily weighted average basis), expressed as a percentage of average interest-bearing assets.

- Jaws: A measure used to demonstrate the extent to which the Group's total income from operations growth rate exceeds operating expenses growth rate.

- Cost-to-income ratio: Operating expenses as a percentage of total income.

- Credit loss ratio: Impairment losses on loans and advances for the reporting period, divided by total average gross loans & advances to customers and banks (calculated on a daily weighted average basis).

- Performing coverage ratio: Portfolio impairments in the statement of financial position as a percentage of gross loans and advances, excluding defaulted advances

- Non-Performing Loans ("**NPL**") coverage ratio: Net exposure, being the outstanding NPL balance, less expected recoveries and fair value of collateral, as a percentage of the total outstanding NPL balance.

- NPL ratio on loans and advances to customers and banks: NPLs as a percentage of gross loans and advances to customers and banks.

- Debt securities in issue: Short-to medium-term instruments issued by the Group, including promissory notes, bonds and negotiable certificates of deposits.

- Loans-to-deposits and debt securities ratio: Loans and advances to customers as a percentage of deposits due to customers and debt securities in issue.

- Headline earnings: Headline earnings is a measure used commonly in the South African market to measure core performance and is calculated as the profit attributable to the ordinary shareholders of the Group, excluding separately identifiable remeasurements, net of related tax and non-controlling interests.

- Return on average assets: Annualised headline earnings as a proportion of total average assets.

- Total average assets: Weighted daily average of total assets on the statement of financial position.

- Return on average equity: Annualised headline earnings as a proportion of average equity.

- Return on average regulatory capital: Measure of efficient use, by segment, of regulatory capital. Calculated as annualised headline earnings divided by regulatory capital.

- Regulatory capital: The capital that the Group holds, determined in accordance with the requirements of the Banks Act, 1990 of South Africa (the "**Banks Act**") and Regulations Relating to Banks (as defined in *"Risk Factors"*).

- Return on average risk-weighted assets ("**RoRWA**"): Annualised headline earnings as a proportion of average risk-weighted assets.

- Risk-Weighted Assets ("**RWA**"): Calculated by assigning a degree of risk, expressed as a percentage (risk weight) to an exposure, in accordance with the applicable standardised or internal ratings-based ("**IRB**") approaches rules. RWAs are determined by applying the:

    - Advanced Internal Ratings Based ("**AIRB**") approach for wholesale and retail credit; Advanced Measurement Approach ("**AMA**") for operational risk;

    - IRB market-based simple risk-weight approach for equity investment risk in the banking book; and

    - Standardised approach for all African entities (both credit and operational risk).

- Net asset value ("**NAV**") per share: Total equity attributable to ordinary equity holders divided by the number of shares in issue. The NAV per share figure excludes the noncumulative, non-redeemable preference shares issued.

- Tangible NAV per share: Total equity attributable to ordinary equity holders less goodwill and intangible assets, divided by the number of shares in issue. The tangible NAV per share figure excludes the non-cumulative, non-redeemable preference shares issued.

- Weighted Average Loss Given Default ("**LGD**"): The weighted average LGD (as defined in "*Risk Management – Credit Risk*") is calculated separately for both retail and wholesale portfolios and is calculated as the expected loss on the individual exposures given a default weighted on the portfolio exposure.

- Constant Currency: Selected line items within the prospectus for the Rest of Africa market segment are derived by translating figures from the statement of comprehensive income and statement of financial position from the respective individual entities' local currencies to Rand. The current reporting period's results are translated at the current reporting period's average rates for the statement of comprehensive income, while the closing rate is used for the statement of financial position in terms of IFRS. The percentage change based on constant currency has been presented to provide information on the impact of foreign currency movements on the local currency earnings. This is calculated for the statement of comprehensive income and statement of financial position, by translating the previous and current reporting periods' results at the exchange rate as at the prior reporting date and comparing the two outcomes.

- Dividend cover: Headline earnings per share divided by dividend per share.

- Dividend per ordinary share relating to income for the reporting period: Actual interim dividends paid and the final dividends declared for the reporting period under consideration, expressed as cents per share. Special dividend per ordinary share is a payment made by the Group that is considered separate from the typical recurring dividend cycle, expressed as cents per share.

- Normalised results: Certain of the financial results of the Issuer for the financial year ended 31 December 2017 appear in this Prospectus on a normalised basis. See "*Management's Discussion and*

Analysis of Financial Condition and Results of Operations – Normalised financial results as a consequence of Barclays Bank PLC Separation" for further detail.

Certain Definitions

As used herein, the "**Group**" refers to the Issuer and its consolidated subsidiaries and references to "**Absa**" are to Absa Bank Limited (Registration Number 1986/004794/06, a bank registered in South Africa in terms of the Banks Act, 1990) and references to Absa in its capacity as Global Coordinator or Joint Bookrunner are to Absa Bank Limited acting through its Corporate and Investment Bank, a division of Absa Bank Limited.

In this Prospectus, any reference to "**law**" shall (unless the context otherwise requires) be deemed to include legislation, regulations and other legal requirements and any reference to "**year-on-year**" refers to the change in the relevant statistic from the position as at the end of the financial year preceding the relevant financial year to the position as at the end of the relevant financial year. In this Prospectus, where "**N/A**" appears in tables of financial information, this means that the relevant number for a particular line item in that year is not available.

In this Prospectus, unless otherwise specified, references to "**U.S.$**", "**U.S. dollars**" or "**dollars**" are to United States dollars, references to "**R**", "**ZAR**" and "**Rand**" refer to South African rand and references to "**billions**" are to thousands of millions and references to "**Rm**" are to one million Rand. In this Prospectus, references to "**constant currency basis**" are to such amounts with the effects of exchange rate fluctuations eliminated.

References herein to the "Group's management" are to the management of the Issuer and references to the Group's beliefs or expectations are to the beliefs and expectations of the management of the Issuer.

Third-Party Information Regarding the Company's Market and Industry

In the case of the statistical information, presented herein (See "*Significant Factors Affecting Results of Operations and Business Conditions – Macroeconomic Environment*"), similar statistics might be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, might vary from source to source. Where information has been sourced from a third party, such publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed.

Information in this Prospectus regarding the Issuer's shareholders has been based upon public filings, disclosure and announcements by such shareholders.

OVERVIEW

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole.

Words and expressions defined in the "*Terms and Conditions of the Notes*" or elsewhere in this Prospectus have the same meanings in this overview.

The Issuer:	Barclays Africa Group Limited, incorporated under the laws of the Republic of South Africa. Barclays Africa Group Limited is a diversified financial services provider offering an integrated set of products and services across retail and business banking, corporate and investment banking, wealth investment management and insurance.
Global Coordinators:	Barclays Bank PLC and Absa Bank Limited.
International Structuring Adviser:	Barclays Bank PLC.
Joint Bookrunners:	*Joint International Bookrunners*: Barclays Bank PLC, Citigroup Global Markets Limited and HSBC Bank plc. *Local Bookrunner*: Absa Bank Limited
Trustee:	Deutsche Trustee Company Limited.
Principal Paying Agent and Calculation Agent:	Deutsche Bank AG, London Branch.
Registrar and Transfer Agent:	Deutsche Bank Luxembourg S.A.
The Notes:	U.S.$400,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2028.
Issue Price:	100 % of the principal amount of the Notes.
Issue Date:	Expected to be on or about 25 April 2018.
Use of Proceeds:	The net proceeds of the issue of the Notes will be used by the Issuer for its general corporate purposes and to further strengthen the Issuer's regulatory capital base, and will not be on-lent to the general public of the Republic of South Africa. See "*Use of Proceeds* ".
Interest:	From (and including) the Issue Date to (but excluding) 25 April 2023 (the "**Call Date**"), the interest rate on the Notes will be 6.250% per annum. From (and including) the Call Date, the applicable per annum interest rate will be equal to the Reset Interest Rate as described in "*Terms and Conditions of the Notes – Interest*". Interest will be payable semi-annually in arrear on 25 April and 25 October of each year, commencing on 25 October 2018.
Status:	The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and (save for the claims of those

creditors that have been accorded preferential rights by law):

(a) *pari passu* with Other Tier 2 Securities;

(b) senior to Common Equity Tier 1 Capital Securities and the obligations of the Issuer under any Junior Securities; and

(c) junior to the present and/or future claims of Senior Creditors,

as further described in "*Terms and Conditions of the Notes – Form, Denomination and Status* ".

Form and Denomination:	The Notes will be issued in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by the Global Note Certificate, which will be registered in the name of a nominee for, and will be deposited with a common depositary for, Euroclear and Clearstream, Luxembourg on or about the Issue Date. Individual Note Certificates evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form*".
Maturity Date:	25 April 2028.
Optional Redemption:	Subject as provided in "*Terms and Conditions of the Notes – Redemption at the option of the Issuer*" and "*Terms and Conditions of the Notes – Conditions to Redemption, Purchase, Modification, Substitution or Variation*", the Notes may be redeemed at the option of the Issuer on the Call Date, in whole but not in part, at their Current Principal Amount together with any accrued but unpaid interest to (but excluding) the Call Date.
Tax Redemption:	Subject as provided in "*Terms and Conditions of the Notes – Redemption for tax reasons*" and "*Terms and Conditions of the Notes – Conditions to Redemption, Purchase, Modification, Substitution or Variation*", if at any time a Tax Event occurs, the Notes may be redeemed at the option of the Issuer, in whole but not in part, at their Current Principal Amount together with any accrued but unpaid interest to (but excluding) the date of redemption.
Capital Disqualification Event Redemption:	Subject as provided in "*Terms and Conditions of the Notes – Capital Disqualification Event Redemption*" and "*Terms and Conditions of the Notes – Conditions to Redemption, Purchase, Modification, Substitution or Variation*", if at any time a Capital Disqualification Event occurs, the Notes may be redeemed at the option of the Issuer, in whole but not in part, at their Current Principal Amount together with any accrued but unpaid interest to (but excluding) the date of redemption.
Substitution or Variation:	If a Capital Disqualification Event or a Tax Event has occurred, then the Issuer may, subject to "*Terms and Conditions of the Notes – Conditions to Redemption, Purchase, Modification, Substitution or Variation*" and/or as directed or approved by the Relevant Regulator and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Noteholders (which notice shall be irrevocable) but without any requirement for the consent or approval of the Noteholders, at any time either substitute all (but not some only) of the Notes for, or

vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities.

Events of Default and Enforcement: If default shall be made in the payment of any principal or interest due on the Notes for a period of seven days or more after any date on which the payment of principal is due or 14 days or more after any date on which the payment of interest is due, then the Trustee at its discretion may and, if so requested in writing by Noteholders of at least one quarter of the aggregate Current Principal Amount of the outstanding Notes, shall, institute proceedings for the winding-up of the Issuer and/or prove in any winding-up of the Issuer (provided that no action may be taken by the Trustee if the Issuer withholds or refuses to make any such payment in order to comply with any law or regulation of any relevant jurisdiction or to comply with any order by a court of competent jurisdiction). If an order is made or an effective resolution is passed for the winding-up of the Issuer (other than pursuant to a Solvent Reconstruction), then the Trustee at its discretion may, and, if so requested in writing by Noteholders of at least one quarter of the aggregate Current Principal Amount of the outstanding Notes, shall, declare the Notes to be forthwith due and payable. There is no other right of acceleration in the case of non-payment of principal or interest on the Notes or of the Issuer's failure to perform any of its obligations under or in respect of the Notes. See "*Terms and Conditions of the Notes – Events of Default*".

Non-Viability Event: If a Non-Viability Event occurs, then the Issuer shall, in accordance with the Capital Regulations, Write-off the Notes by such amount as the Relevant Regulator shall require, all as more fully described herein under "*Terms and Conditions of the Notes - Form, Denomination and Status – Loss Absorption Following a Non-Viability Event*".

Rating: The Notes are expected to be rated Ba2 by Moody's and BB by Fitch.

Withholding Tax: All payments of principal and interest in respect of the Notes by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Republic of South Africa or any political subdivision thereof or any authority thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer will, save in certain limited circumstances, pay additional amounts to cover the amounts so withheld or deducted, all as described in "*Terms and Conditions of the Notes - Taxation*".

Governing Law: The Notes, the Trust Deed, the Agency Agreement and the Subscription Agreement will be governed by English law, save that "*Terms and Conditions of the Notes – Form, Denomination and Status - Status of the Notes, - Subordination, - Set-off, - Loss Absorption Following a Non-Viability Event and - Disapplication of the Non-Viability Loss Absorption Condition*" and related provisions contained in the Trust Deed (as specified therein), which will be governed by South African law.

Listing and Trading: Applications have been made for the Notes to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange.

Clearing Systems:	Euroclear and Clearstream, Luxembourg.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of offering material, including in the United States of America, the United Kingdom, the EEA, South Africa, Hong Kong, Singapore and Switzerland, see "*Subscription and Sale*".
Risk Factors:	Investing in the Notes involves risks. See "*Risk Factors*".

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with any investment in the Notes, the business of the Issuer and the industries in which it operates together with all other information contained in this Prospectus, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this section.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Issuer that are not currently known to the Issuer or that it currently deems immaterial may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and, if any such risk should occur, the value of the Notes may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Prospectus and their personal circumstances.

Risks relating to the Issuer

The investments, business, profitability and results of operations of the Issuer may be adversely affected as a result of the global economic conditions and political, social and economic risks in South Africa

The Group's operations are predominantly concentrated in South Africa, with the majority of its revenues deriving from operations in South Africa. The Issuer is therefore highly exposed to South African macroeconomic conditions and, as a result of their impact on the South African economy, global economic conditions. Any material deterioration in global or South African macroeconomic conditions could lead to a reduction in business activity, higher impairment charges, increased funding costs and reduced profitability and revenues.

Global economic conditions

The South African economy is exposed to the global economy through the current and capital accounts of the balance of payments. South Africa's exports are impacted by economic activity of some of the world's largest economies including China, the United States and Europe. Commodity prices and the Rand exchange rate also have a material impact on South African exports. The South African economy is also reliant on foreign capital flows into the country and has been a recipient of foreign capital through the domestic bond and equity markets over the last few years.

Relatively strong global growth and demand for emerging market financial assets are currently supportive of domestic exports and capital flows into the country. If these conditions deteriorate materially, then this is likely to have a negative impact on macroeconomic conditions in South Africa.

The main contributor towards demand for emerging market assets is an on-going, synchronised and above-trend growth in world economic activity. Growth in Europe and the United States is currently above average levels witnessed in recent years, and emerging market activity continues to improve as well. Certain major central banks have recently indicated that they remain firmly set on normalising interest rate policy over time.

Should major central banks (such as the United States Federal Reserve, the European Central Bank and the Bank of Japan) increase interest rates, or shrink their balance sheets, faster than currently envisioned by global financial markets, it could jeopardise foreign capital inflows into South Africa's bond and equity markets. A sharp slowdown of foreign flows to South Africa could result in currency weakness, higher interest rates, an increase in bond yields and weaker economic growth.

Furthermore, the introduction of global trade impediments (including tariffs) could impact global demand for goods from South Africa and global risk appetite more generally. For example, the recent announcement by the United States President proposing an increase in the tariff on steel exports to the United States has increased concerns about the impact of such trade impediments.

In addition, a sharp fall in precious metals prices and/or base metal prices could also result in a deterioration in the value of the Rand, higher interest rates and bond yields.

South African economic conditions

The South African economy grew by 1.3% in 2017 and is forecast to grow by 1.5% in 2018, by 1.8% in 2019 and 2.1% in 2020. The South African macroeconomic environment is characterised by low private sector investment growth, weak employment growth and pressure on domestic demand. The global environment remains supportive of South Africa's macroeconomic position while political changes and attempts to stabilise state finances have boosted global and domestic confidence towards the economy and have strengthened the Rand significantly since December 2017. Increases in the rates of value added tax will offset the positive inflationary impact of the strengthened Rand, while the Minister of Finance's recent tax proposals will impact household disposable income growth.

However, the recovery in South Africa's economic growth is not yet broad-based. Much depends on continued improvements in political and policy certainty (see *"South African political conditions"* below), and a supportive global environment. Talks on a new public-service wage agreement are in progress between the South African Government and public sector trade unions. An agreement locking in salary increases that exceed consumer price index inflation would make the South African Government's expenditure limits difficult to achieve. While decisive action has been taken by the South African Government to strengthen governance at Eskom SOC Ltd ("**Eskom**"), the state owned power utility and several other large state owned entities pose risks to the South African economy. The South African Government announced a policy of providing free higher education in South Africa during December 2017. The costs associated with fee-free higher education are uncertain and it remains unclear how this initiative will be financed.

South African political conditions

Historically, the South African political environment has been characterised by a high level of uncertainty and concerns about the strength and independence of the country's institutions and the risk of political and social instability has increased as a result of accusations that members of a prominent South African family and their associates have used the government to further their interests and the interests of their associates in a form of political corruption known as state capture. These accusations have resulted in the appointment of a commission of enquiry into potential state capture in January 2018. If these accusations, as well as the perception of significant private corruption, significantly undermine business confidence, or if they result in formal proceedings, they could have a further adverse impact on the political and social environment in South Africa.

In December 2017, the African National Congress ("**ANC**"), South Africa's governing party, elected then Deputy President Cyril Ramaphosa as party leader on a reformist and anti-corruption platform that seeks to return business confidence and growth to South Africa. On 15 February 2018, following the resignation of President Jacob Zuma, South Africa's parliament elected Mr. Ramaphosa as President of South Africa. The Rand strengthened following the election of President Ramaphosa, reflecting an improvement in economic and political sentiment. On 26 February 2018 President Ramaphosa announced the appointment of a new Cabinet. On 23 March 2018, Moody's maintained South Africa's investment grade rating and changed the outlook to stable citing the beginning of reform under President Rampahosa as one of the principal reasons for the change. The election of Cyril Ramaphosa as President of South Africa, the appointment of a new cabinet and changes to the composition of the board of directors of Eskom have contributed to reduced political uncertainty and this has boosted global and domestic confidence towards the South African economy. However, the Issuer currently anticipates that there will be very strong political debates in respect of various sensitive issues relating to the transformation of the South African economy in order to address the challenges of poverty, inequality and unemployment (including the issue of land expropriation without compensation which, depending on the outcome of the deliberations on this issue, may impact on the Group's real estate lending activities in South Africa). Ongoing political developments may impact private sector investment and the Issuer will continue to monitor the political and policy landscape carefully.

Domestic financial markets could be adversely affected by any outcome that may result in heightened political uncertainty. Although political uncertainty has subsided in recent years, the Issuer believes that potential for increased political risk may become apparent again as the country approaches its next general election, which is scheduled to take place by the second quarter of 2019. The high unemployment rate and unequal wealth and income distribution may fuel socio-economic pressure and encourage government to change its current macroeconomic policies.

South African socio-economic conditions

Some socio-economic challenges in South Africa are more acute than in many similarly rated emerging markets. Serious public health system deficiencies and a poor public education system are reflected in South Africa's low United Nations Human Development ranking at 119 out of 188 countries. South Africa's Gini coefficient index representing income inequality is one of the most extreme globally. Unemployment has been rising in recent years and reached 26.7% at the end of 2017, its highest rate since the first quarter of 2004. These persistent socio-economic challenges adversely impact South Africa's creditworthiness and give rise to long term expenditure needs, heightened social pressures and constrained growth.

South African conditions specific to the banking sector

The South African banking sector remains well capitalised, funded, regulated and managed. The South African financial sector is widely regarded as one of the country’s key pillars of economic strength. The banking sector is, however, highly exposed to South African macroeconomic conditions and will be impacted by negative macroeconomic developments.

The Issuer believes that, following recent political developments in South Africa (as outlined in "*South African political conditions*" above), the macroeconomic environment in South Africa has improved. The Issuer currently anticipates that this may lead to a gradual improvement in assets growth in the sector and also arrest the negative sovereign rating trend that has characterised the economic environment over the last few years.

Although household and corporate affordability conditions are currently benefiting from historically lower inflation and low interest rates, a marked slowdown in foreign capital flows may reduce the value of the Rand and lead to higher interest rates which, in turn, is likely to have a significant impact on household and corporate affordability conditions. A deterioration in the strength and organisation of the country’s institutions, especially the independence of the SARB and policy conduct at the National Treasury of South Africa (the "**National Treasury**"), can also have a negative impact on the banking sector.

The Issuer's financial performance has been and is likely to remain linked to the performance of the South African economy.

Any deterioration in economic or business conditions, in policy predictability, in political and/or security stability and in social conditions in South Africa or the other countries in which the Issuer operates, could materially adversely affect the Issuer's borrowers and contractual counterparties which, in turn, could have a material adverse impact on the Issuer's business, results, financial condition or prospects.

There are a number of risks inherent in the banking industry which may impact the performance of the Issuer

The Issuer, in common with other banks in South Africa and elsewhere, is exposed to a variety of risks arising in the ordinary course of its business, the most significant of which are credit risk, credit concentration risk, market risk, liquidity risk and operational risk, with credit risk constituting the largest risk.

Whilst the Issuer believes that it has implemented appropriate standards, policies, systems and processes to control and mitigate these risks, investors should note that any failure to manage these risks adequately could have a material adverse effect on the financial condition and reputation of the Issuer.

Credit Risk

The Issuer's businesses are subject to inherent risks regarding borrower credit quality and the recoverability of loans and amounts due from counterparties. Changes in the credit quality of the Issuer's borrowers and counterparties or arising from systemic risk in the financial systems could reduce the value of the Issuer's assets, and require increased provisions for bad and doubtful debts. In addition, changes in economic conditions may result in deterioration in the value of security held against lending exposures and increase the risk of loss in the event of borrower default.

Credit Concentration Risk

Credit concentration risk is the risk of loss arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity.

Due to the Issuer's position and role in the South African economy, natural concentrations exist in areas where it is largely unavoidable, namely:

- Private household clients, and specifically the home loans asset class, due to the Issuer's position as a major retail bank in the South African market;
- Sovereign exposure that is largely due to the Issuer's liquid asset portfolio holdings;
- South Africa geographic exposure due to the Issuer's being headquartered in South Africa; and
- Banks due to the Issuer's funding and hedging activities.

Market Risk

Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, which is caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables. The Issuer's key market risks are trading book market risk, interest rate risk in the banking book, equity risk in the banking book and foreign currency risk.

Trading book market risk is represented by financial instruments, including commodities, held in the Issuer's trading book arising out of normal global market trading activity. Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

Equity risk is defined as the risk of loss arising from a decline in the value of equity or an equity-type instrument held in the banking book, whether caused by a deterioration in the underlying operating asset performance, NAV, enterprise value of the issuing entity, or by a decline in the market price of the equity or instrument itself.

The Issuer's primary non-trading related exposures to foreign currency risk arise as a result of the translation effect on the Group's net assets in foreign operations, intragroup foreign-denominated debt and foreign-denominated cash exposures and accruals.

Although the Issuer has implemented risk management methods, including stress testing, to seek to mitigate and control these and other market risks to which it is exposed and these exposures are constantly measured and monitored, there can be no assurance that these risk management methods will be effective, particularly in unusual or extreme market conditions.

Liquidity Risk

Liquidity risk is the risk that a bank will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, wholesale and overnight funding), credit rating downgrades or market-wide stress scenarios such as market dislocation and major disasters. During the height of the financial crisis in 2008, wholesale funding providers were unwilling to lend to banks and this had a material adverse effect on global banks' ability to raise funding in both the public and private markets. This resulted in severe liquidity problems for financial institutions which forced governments and central banks to provide unprecedented financial assistance to enable financial markets to continue to operate. Although financial markets have stabilised considerably since then, they remain subject to periods of volatility. In addition, although funding spreads have tightened substantially since 2012 reflecting additional liquidity provided to the market by central banks and more stable financial markets, accommodative monetary policies may not continue.

An inability on the Issuer's part to access funds or to access the markets from which the Issuer raises funds may lead to the Issuer being unable to meet its obligations as they fall due, which in turn could have a material adverse impact on the Issuer's reputation, liquidity positions, solvency position, business, results, or prospects. The underlying operations of the Issuer and the rest of the Group takes deposits with maturities which are contractually shorter than loans made by the Issuer. This exposes the Issuer to the risk that depositors could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, thus causing liquidity strains. Additionally, the Issuer's ability to raise or access funds may be impaired by factors that are not specific to the Issuer, such as general market conditions, severe disruption of the financial markets or negative views about the prospects for the Issuer, or the industries or regions in which the Issuer operates. In addition, the Issuer's borrowing costs and access to funds may be adversely affected by any credit rating downgrade. The Issuer has developed and implemented risk management policies, procedures and processes designed to reduce this risk through proactive monitoring, management and reporting of the Issuer's liquidity risk position, however there is no assurance that such measures will adequately address all liquidity risks that the Issuer may face.

The Issuer is reliant on both retail deposits and wholesale funding. Although the Issuer believes that its level of access to domestic and international inter-bank and capital markets and its prudent liquidity risk management will continue to allow the Issuer to meet its short-term and long-term liquidity needs, any severe liquidity stress events could have a material adverse impact on the Issuer's liquidity and solvency position results or prospects. During a liquidity stress event the Issuer is likely to obtain additional sources of funds at an increased cost which could adversely affect the financial position of the Issuer.

Operational Risk

Similar to other financial institutions, the Issuer is susceptible to direct or indirect loss resulting from human errors/failures, inadequate or failed internal processes, systems or external events. The Issuer is also subject, from time to time, to service interruptions of third party services such as telecommunications, which are beyond the Issuer's control. Such interruptions may result in interruption to services to the Issuer's branches and/or impact customer service. Given the Issuer's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult for any bank to detect quickly or at all. While the Issuer maintains a system of controls designed to monitor and control operational risk, there can be no assurance that the Issuer will not suffer losses from such risks. Losses from the failure of the Issuer's system of internal controls to discover and rectify such matters could have a material adverse impact on the Issuer's business, results, financial condition or prospects.

Terrorist acts, and other acts of war or hostility and responses to those acts, may create economic and political uncertainties, which could have a negative impact on the Issuer's markets, and international economic conditions generally, and more specifically on the Issuer's business and results of operations in ways that cannot be predicted.

The Issuer's risk management policies and procedures may not have identified or anticipated all potential risk exposures

The Issuer has devoted significant resources to developing its risk management policies and procedures, particularly in connection with credit, market, liquidity, interest rate and operational risks, and expects to continue to do so in the future. Nonetheless, its risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of the Issuer's methods of managing risk are based upon its use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be greater than indicated by historical measures. Other risk management methods depend upon evaluation of information regarding the markets in which the Issuer operates, its clients or other matters that are publicly available or otherwise accessible by the Issuer. This information may not be accurate in all cases, complete, up-to-date or properly evaluated. Any failure arising out of the Issuer's risk management techniques may have an adverse effect on its results of operations and financial condition.

Legal Proceedings

The Group has been party to proceedings against it during the financial year ending 31 December 2017, including the following material cases:

- Five plaintiffs, including Pinnacle Point Holdings Proprietary Limited, New Port Finance Company and the trustees of the Winifred Trust allege that a local bank conducted itself unlawfully and that Absa was privy to such conduct. The plaintiffs instituted proceedings against Absa for damages in an amount of R1,387 million. Although Pinnacle Point Holdings Property Limited's claim has been withdrawn, claims of the remaining four plaintiffs remain outstanding and will proceed to trial. The date of the trial has not been set as at the date of this Prospectus.

- Absa Capital Investor Services was the trustee of the Ayanda Collective Investment Scheme (the "**Scheme**"), in which Corporate Money Managers ("**CMM**") managed a portfolio of assets within the

Scheme. The joint curators of the CMM group of companies and the Altron Pension Fund (an investor in the Scheme) allege that the defendants, which include Absa, caused them losses as a result of their alleged failure to meet their obligations under the trust deed and alleged failure to comply with their statutory obligations set out in the Collective Investment Scheme Act. The joint curators of the CMM group of companies and the Altron Pension Fund are seeking damages in an amount of R1,157 million.

In addition, the Group is engaged in various legal, competition and regulatory matters both in South Africa and a number of other jurisdictions. It is involved in legal proceedings which arise in the ordinary course of business from time to time, including (but not limited to) disputes in relation to contracts, securities, debt collection, consumer credit, fraud, trusts, client assets, competition, data protection, money laundering, employment, environmental and other statutory and common law issues. On 19 April 2018 Absa published a statement which noted press reports that VEB (the Dutch Investors Association) had notified Absa and two other banks that VEB is seeking to hold them liable for losses incurred by Steinhoff shareholders and which further noted that Absa had not received any formal notification of the commencement of legal proceedings from VEB in this regard.

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

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

The Group does not disclose contingent liabilities associated with specific matters where they cannot reasonably be estimated or where such disclosure could be prejudicial to the outcome of the matter. The Group does, however, report its contingent liabilities on an aggregated basis. Provision is made for all liabilities which are expected to materialise.

The Group may suffer losses as a result of fraudulent activity

Similar to other financial institutions, the Issuer is susceptible to losses as a result of fraudulent activity. The main contributor of fraudulent loss to the Issuer’s business is card fraud. During 2017, card fraud amounted to 54% of total losses experienced by the Issuer as a result of fraudulent activity. The Issuer has implemented a number of strategies aimed at reducing the ability of persons to utilise counterfeit cards at the Issuer's ATMs, however there is no assurance that such strategies will be effective in eliminating card fraud entirely.

Online banking fraud is the second highest contributor to losses as a result of fraudulent activity driven by an increase in the level of online fraud attempts. Fraudsters are using increasingly sophisticated social engineering techniques to secure account numbers, personal identification numbers and passwords from customers.

Other illegal activities such as market abuse, market manipulation, rogue trading and increasing trends of syndicate fraud with potential staff involvement as a result of the recent economic downturns are also factors which the Issuer considers could also have a material adverse effect on the operations of the Issuer.

The Issuer may suffer a failure or interruption in or breach of its information technology systems and its businesses are subject to its ability to quickly adapt to disruptions while maintaining continuous business operations

Information technology ("**IT**") risk encompasses both IT and IT change risk. The Issuer's IT risk refers to the risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Issuer. IT change risk refers to the risk arising from changes, updates or alterations made to the IT infrastructure, systems or applications of the Issuer that could affect service reliability and availability.

The Issuer's main IT risks include the failure or interruption of critical systems, cybercrime and the unauthorised access to systems each of which may result in the inability of the Issuer to serve its customers' needs in a timely manner.

The Issuer has a high dependency on its own IT systems and operations infrastructure in addition to those of third party service providers to conduct its business. The Issuer regards these systems as critical to improving productivity and ensuring the Group and the Issuer remain competitive in the market.

Any failure, interruption or breach in security of these systems could result in failures or interruptions in the Issuer's risk management, general ledger, deposit servicing, loan servicing, debt recovery, payment custody and/or other important systems. If the Issuer's information systems fail, even for a short period of time, it could be unable to serve some or all customers' needs on a timely basis which could result in a loss of business. In addition, a temporary shutdown of the Issuer's information systems could result in costs that are required for information retrieval and verification.

The occurrence of any such failures or interruptions in the Issuer's IT systems, operations infrastructure and those of third party service providers could cause a failure in the continuity of the Issuer's operations and services and consequently, could have a materially adverse effect on the Issuer's business, financial condition and/or results of operations.

A downgrade in the Issuer's credit ratings or the credit rating of South Africa could have an adverse effect on the Issuer's access to liquidity sources and funding costs

The Issuer's credit ratings affect the cost and other terms upon which the Issuer is able to obtain funding. Rating agencies regularly evaluate the Issuer and their ratings of its long-term debt are based on a number of factors, including capital adequacy levels, quality of earnings, credit exposure, the risk management framework and funding diversification. These parameters and their possible impact on the Issuer's credit rating are monitored closely and incorporated into its liquidity risk management and contingency planning considerations.

The Issuer's long-term foreign currency rating is Ba1 (stable outlook) by Moody’s and the Issuer’s long-term foreign currency default rating is BB+ (stable outlook) by Fitch.

The Issuer's credit ratings and credit outlook are subject to change at any time and the Issuer's credit ratings could be downgraded or the credit outlook changed as a result of many factors, including the failure to successfully implement the Issuer's strategies, the general downgrading of the credit ratings of financial institutions in the South African banking sector or a downgrade in the South African sovereign rating, which could negatively impact the ratings of the Issuer due to the Issuer's sizeable exposure to government securities, effectively linking its creditworthiness to that of the national government. A downgrade or potential downgrade of the South African sovereign rating or a change in rating agency methodologies relating to systemic support provided by the South African sovereign could also negatively affect the credit rating of the Issuer. A downgrade of the Issuer's credit ratings, or being placed on a negative ratings watch, may increase its cost of borrowing, adversely affect its liquidity and competitive position, limit its ability to raise capital, result in reputational damage and could lead to a loss of clients which could have a material adverse impact on its business, results, financial condition or prospects.

There can also be no assurance that the rating agencies will maintain the Issuer's current ratings or outlooks or those of South Africa. Ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently of any other rating.

In addition to any direct losses that the Issuer might incur, a default, or the perception of increased risk of default on obligations, and any further downgrade in South Africa's credit rating would likely have a significant negative impact on the South African banking sector generally and could have a material adverse impact on the Issuer's business, results, financial condition, prospects or rating.

Inappropriate management and execution of the Issuer’s separation from Barclays Bank PLC could result in an elevation in conduct, operational and funding risks

Separation from Barclays Bank PLC (the "**Separation**") is one of the Issuer's most important strategic deliverables (see further "*Description of the Group’s Business - Barclays Sell down and Separation*"). The Issuer intends to complete the majority of the activities relating to the Separation by June 2020. As is common with large scale change initiatives, the Separation is susceptible to a number of risks which may cause an impact on the wider Group and may impact the Issuer’s ability to implement the Separation within the agreed timeline and budget. This could in turn, have a material adverse impact on the Group’s business results, financial conditions and prospects. The risks to the Group in connection with the Separation include, among others:

Discontinued use of the Barclays brand and replacement with the Absa brand

The replacement of the Barclays brand with the Absa brand (which will be implemented from June 2018 in South Africa and the rest of Africa from June 2020) could potentially lead to a decline in brand warmth in geographies where Absa has historically not been used or in South African service lines where Barclays has previously carried higher prestige. This could lead to customer and client attrition and associated reductions in revenue and loss of deposits.

The fundamental change in the relationship between the Issuer and Barclays Bank PLC from parent to a material outsourced supplier of services

As a result of the Separation, Barclays Bank PLC has changed from being a parent company of the Issuer to being an outsourced service supplier to the Issuer. This change increases the Issuer's concentration in supplier risk which could result in a failure in service provision impacting the Issuer's processes and customer service. Whilst the Issuer has implemented processes to monitor and manage the services being provided so as to ensure there is no disruption in the provision of services, there can be no assurance that such measures will mitigate such supplier concentration risk.

High levels of connectedness of technology platforms between the Issuer and Barclays Bank PLC

Decoupling the large and interconnected technology estate between the Issuer and Barclays Bank PLC could increase the complexity of executing the separation of activities of the Issuer and Barclays Bank PLC and increase the likelihood of change-related system failure and service outage.

Additional exposure to cyber-attack and fraud attempts

The changes resulting from the Separation including changes in personnel, process and systems could result in the Issuer being perceived as more vulnerable and therefore more susceptible to targeted attack. The volume of cyber and fraud attacks may increase leading to system and service outage or the compromise of customer data.

Access to sensitive information and data

During the execution of the Separation Programme (as defined in "*Description of the Group's Business - Barclays Sell down and Separation*") both Barclays Bank PLC and additional third party service providers will have access to sensitive information and data as necessary to implement the Separation. As a result, there is an increased risk in unauthorised access to such data/the misuse of such data.

Competition between the Separation and revenue growth agendas

The Separation shall require significant amounts of time and resources which will divert resources away from the other strategic objectives of the Issuer and the Group. This may result in a loss of organisational focus, business disruption, competitive disadvantage or loss of momentum over the life of the Separation project.

Increasing staff attrition and loss of key skills / personnel

The Issuer's ability to execute the Separation Programme as well as the successful delivery of the Issuer's sustainability objectives relies on an engaged workforce. Heightened levels of change and adoption of new strategies may result in the loss of staff and the consequent loss of skills and expertise from the Issuer.

Increased cost due to local capability build-out

The Separation means that the Issuer will need to build out its local capability in order to operate as a standalone pan African bank. This may result in higher costs for the Issuer, which may in turn impact the Issuer's financial performance.

Insufficient availability of skilled resources

Given the scale of the Separation and the associated timelines, the volume of change to be executed by the Issuer is significantly higher than previously undertaken. As a result, internal execution resources may be insufficient to achieve the successful completion of the majority of the Separation activities within the approximate 3 year period agreed for completion of such activities. Strategies continue to be executed through the central programme management office to try to ensure a holistic approach to resources is achieved. In addition, the Issuer has implemented both retention and targeted recruiting initiatives. There can, however, be no assurance that such initiatives will be adequate to retain the level of resources required to successfully implement the Separation.

Regulatory engagement and approval

Due to the complex nature of the regulation to which the Issuer is subject and the need to pro-actively engage regulators across the African continent, delays in the Separation Programme may be experienced, for instance where new technologies or regulatory requirements require discussion and agreement with regulators.

Competitive landscape

The Issuer is subject to significant competition from other major banks operating in South Africa, including but not limited to, the other large local banks, such as Standard Bank Group, FirstRand Group and Nedbank Group, as well as international banks that may have greater financial and other resources, particularly in the corporate and investment banking market. Many of these banks operating in the Issuer's markets compete for substantially the same customers as the Issuer. The Issuer also faces competition from other non-bank entities that increasingly provide similar services to those offered by banks, including entities such as retailers, mobile telephone companies, fintech companies, insurers and entities in the shadow banking industry. Increased competition from non-bank entities in the money markets and capital markets could impact the Issuer's ability to attract customers or other sources of funding. Competition may increase in some or all of the Issuer's principal markets and may have an adverse effect on its financial condition and results of operations.

The Issuer may not achieve its strategic goals

The Issuer announced a new corporate strategy in March 2018 (see "*Description of the Group's Business – Strategy*"). This strategy, or the implementation of it, may not achieve some or all of the Issuer's objectives. If the strategy is not successful, the Issuer's financial prospects and results of operations may not develop in the way it expects. The Issuer may not be able to achieve all or some of its strategic objectives, including as a result of internal and external factors, such as management's ability to implement the strategic priorities, economic conditions, competition, and changes in government policy, laws and regulations. Failure by the Issuer to achieve its strategic objectives could have an adverse impact on the Issuer's competitive position and its results.

The Issuer is subject to capital and liquidity requirements that could affect its operations

The Issuer is subject to capital adequacy requirements specified by the SARB, which provide for a minimum Common Equity Tier 1 ("**CET 1**"), tier 1 and total Capital Adequacy Ratio ("**CAR**").

The amended Regulations relating to Banks (as further amended on 20 May 2016) (the "**Regulations Relating to Banks**") effective 1 January 2013 are based on the Basel III framework and provide the minimum risk based capital ratios. Basel III (otherwise known as the Third Basel Accord or Basel Standards) is a global, voluntary regulatory framework on bank capital adequacy, stress testing and market liquidity risk. The SARB minimum ratios will be phased in for the period 2013 to 2019 in line with Basel III requirements. The minimum CET 1 ratio for 2017 was 7.25% increasing to 7.375% in 2018 and to 7.5% in 2019. The minimum tier 1 ratio for 2017 was 8.5% increasing to 8.875% in 2018 and to 9.25% in 2019. The minimum total capital adequacy ratio for 2017 was 10.75% increasing to 11.125% in 2018 and to 11.5% in 2019. These minimum regulatory capital requirements include the capital conservation buffer but exclude the bank-specific individual capital requirement ("**Pillar 2b add-on**") and the Domestic Systemically Important Bank ("**D-SIB**") add-on.

The Basel III capital buffers continue to make it more challenging for banks to comply with minimum capital ratios. Failure by the Issuer to meet certain of these buffers, for example the capital conservation and counter-cyclicality buffers, could result in restrictions being placed on distributions, including dividends and discretionary payments, and any failure by the Issuer to maintain its capital ratios may result in action taken in respect of the Issuer, which may in turn impact on its ability to fulfil its obligations under the Notes.

In addition, Basel III prescribes two minimum liquidity standards for funding liquidity. The first is the liquidity coverage ratio ("**LCR**") which became effective on 1 January 2015 and aims to ensure that banks maintain an adequate level of high-quality liquid assets to meet liquidity needs for a 30 calendar day period under a severe stress scenario. The second is the Net Stable Funding Ratio ("**NSFR**"), which became effective 1 January 2018, and aims to promote medium and long-term funding of banks' assets and activities.

South Africa, as a G20 and Basel Committee on Banking Supervision ("**Basel Committee**") member country, commenced the phasing-in of the Basel III framework on 1 January 2013 and will continue to implement the accord up to 1 January 2019 in line with timelines determined by the Basel Committee. The Issuer reported a three month average LCR of 107.5% as at 31 December 2017, exceeding the SARB's 2017 minimum phase-in requirement of 80%.

The SARB has approved the 2018 committed liquidity facility ("**CLF**") which will be available to banks to assist them in meeting the LCR. The SARB's approach to the CLF is detailed in, *inter alia*, Guidance Note 6 of 2016 (Provision of a committed liquidity facility by the SARB).

Given the structural funding profile of South Africa's financial sector, the South African banking sector (including the Issuer), based on the current funding profile, was expected to experience difficulty in complying with the Basel III NSFR requirement. The Issuer therefore supports the amended framework issued by the SARB in August 2017, whereby funding received from financial corporates, excluding banks, maturing within six months receives an available stable funding factor of 35%. The Issuer, together with the local banking industry, is expected be compliant with the NSFR requirement from the implementation date of 1 January 2018. The Issuer will report publicly on its compliance with the NSFR requirement for the first time post May 2018.

The impact of any future change in law or regulation on the Issuer's business is uncertain

In general there is a transparent and consultative relationship between the Issuer and policy makers and regulators and ample opportunity is provided for individual organisations, including the Issuer, and industry bodies, e.g. the Banking Association of South Africa, to comment on proposed legislation and regulation, to highlight concerns and to make suggestions or recommendations. In general regulators are focused on balancing the interests of the country in which they function, its citizens and ensuring a sustainable and viable financial services sector that maintains stability. An example of this would be the introduction of the NSFR requirement, one of the reforms introduced under Basel III following the global financial sector crisis to strengthen liquidity management in banks. South Africa was expected to experience difficulty in complying with the regulations introduced under Basel III due to structural impediments in the local market. In considering the risks to the economy and sector the SARB applied national discretions that enabled banks to meet the requirements without creating systemic risks to the economy.

Notable regulatory interventions in South Africa over the last few years have included numerous pieces of legislation such as the Financial Intelligence Centre ("**FIC**") Amendment Act, 2017 (which provides for anti-money laundering regulations and has been approved by the President and will come into effect on a date set by the President), the Financial Advisory and Intermediary Services Act, 2002 (which regulates financial intermediary accreditation and discipline); the Financial Markets Act 2012 (the "**Financial Markets Act**") (which regulates financial markets) and the National Credit Amendment Act, 2014 (which regulates the provision of consumer credit).

The Issuer has prioritised ensuring its readiness for the implementation of the FIC Amendment Bill, the US Foreign Account Tax Compliance Tax Act ("**FATCA**") and the Protection of Personal Information Act, 2013 (which, although signed into law in late 2013, will only take effect on a date to be determined by the President).

The Financial Markets Act, which took effect on 3 June 2013, has modernised South Africa's securities services legislation in line with international best practice and regulatory principles and provides an enabling framework for the regulation of over-the-counter derivatives and new provisions relating to market abuse. The first phase in regulating over-the-counter derivatives is mandatory reporting of over-the-counter derivatives trades to a trade repository. A programme is in place to streamline the compliance with local regulations as well as the requirements of extra-territorial regulation which includes FATCA, the Dodd Frank Act and the European Market Infrastructure Regulation ("**EMIR**").

On 21 August 2017, the Financial Sector Regulation Act, 2017 (the "**FSR Act**") was assented to by the South African Parliament giving effect to the "twin peaks" approach to financial sector regulation, similar to the system implemented in the UK on 1 April 2013, that will align its regulatory oversight structures closely to global best practice. Under the "twin peaks" model the risks of regulatory arbitrage will be reduced, the SARB will have clear accountability for macro-prudential stability, the Prudential Regulatory Authority (which was established on 1 April 2018) will have oversight responsibility for all financial sector organisations (banks and non-banks) and will be able to more effectively detect and manage contagion risks within the financial sector. A new entity, the Financial Sector Conduct Authority ("**FSCA**") (also established on 1 April 2018) will be focused on the dealings between financial sector organizations and their clients. This new authority is likely to introduce new regulations (e.g. Conduct of Financial Institutions Bill) that will increase the rigor of supervision and oversight of market conduct practices within the financial sector that could increase costs and place continued pressure on fees and rates. See "*The Banking Sector in South Africa – South African Government Policy Priorities* ".

Consumer credit regulation has been tightened to provide stronger consumer protection under the National Credit Act, 2005 (the "**National Credit Act**"). New Affordability Assessment Regulations came into effect in 2015 and are used when assessing applications for unsecured loans. The Review of Fees and Interest Rates, which capped consumer credit interest rates, administration fees and initiation fees was enacted on 6 May 2016, and the cap on level of consumer credit insurance which can be charged came into effect in February 2017. The National Credit Act was amended in March 2014, and additional amendments have been proposed in the Draft National Credit Amendment Bill, 2018. This bill, *inter alia*, seeks to provide for debt intervention for low income earners within the Republic of South Africa (earning less or equal to R7500.00). Parliament has held public hearings on this bill and is currently deliberating on all comments received from the public. The combined impact of these reforms will be to increase the cost of credit for consumers as well as restrict access to credit from formal credit providers for the lower income market. The Issuer continues to engage with the relevant policy-makers on this issue.

In addition to direct regulation impacting banks, new domestic legislation may also affect the sustainability of bank earnings in the long term. For example, as at the date of this Prospectus, legislation pertaining to land reform (for example, the Expropriation Bill and Regulation of Agricultural Land Holdings Bill) continues to be under discussion/engagement. This legislation is still in a consultative phase however risks exist as to how expropriation values will be determined and whether these will be aligned to market values. Any deviation from market values could impact risk appetite of the financial sector in the agricultural sector and the value of collateral held by banks as security against exposure to the sector.

In the 2018 South African budget speech, the Minister of Finance announced that the "twin peaks" model of financial regulation will be implemented on or about 1 April 2018. On 29 March 2018, the National Treasury published a notice by way of a government gazette, confirming the commencement date of majority of the provisions of the FSR Act is 1 April 2018.

Nevertheless, the pace and scale of regulatory change continues to be a major challenge, and the Issuer's focus is on managing the costs and resource requirements of compliance as carefully as possible. Notwithstanding this focus, the Issuer may incur losses in people and financial resources if the changes in law and regulation are not adequately managed by it. See also "*Regulatory Environment*".

In accordance with its Basel III and G20 commitments, the SARB is developing a resolution framework. The framework has not yet been published or finalised and only once finalised will banks be in a better position to fully assess the potential impact of the resolution framework on the South African banking market

During May 2017, the SARB's Financial Stability Department released a discussion paper on designing a deposit insurance scheme ("**DIS**") for South Africa. As a member of the G20, South Africa has agreed to adopt the Financial Stability Board's "*Key Attributes of Effective Resolution Regimes for Financial Institutions*", one of which requires jurisdictions to have a privately-funded depositor protection and/or a resolution fund in place. The paper advocates the need for an explicit, privately-funded DIS for South Africa, the main objective being the protection of less financially sophisticated depositors in the event of a bank failure. It presents proposals on the key design features of such a DIS and aims to solicit views on these proposals. The paper also refers to the discussion paper titled "*Strengthening South Africa's Resolution Framework for Financial Institutions*", published by the National Treasury on 13 August 2015. The May 2017 discussion paper was open to public comment until 31 August 2017 however no further communication regarding next steps has been made. Together, the proposed resolution framework and the DIS are expected to form the comprehensive regulatory architecture for reducing the social and economic cost of failing financial institutions and will be captured by the Resolution Bill which shall provide for the establishment of a framework for the resolution of important non-bank financial institutions and holding companies of banks or systemically important non-bank financial institutions to ensure that the impacts and potential impacts of a failure of a branch or a systematically important financial institution on financial stability are managed appropriately. No timelines around the Resolution Bill have been formally communicated although it is understood that the Resolution Bill will contain high-level principles of the DIS, with the actual mechanics to be captured in supplemental regulations or directives once designed and agreed. Only once finalised will banks be in a position to fully assess the potential impact of a DIS in South Africa. There is no assurance that the introduction of the DIS will not have a negative impact on the operations of the Issuer which may in turn have a material adverse impact of the Issuer's business results, financial conditions and prospects.

The Issuer may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose the Issuer to additional liability and have a material adverse effect on the Issuer

The Issuer is required to comply with applicable anti-money laundering and anti-terrorism laws in South Africa. The Financial Intelligence Centre Act, 2001 ("**FICA**") and the Money Laundering and Terrorist Financing Regulations require the Issuer, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and unusual transactions to the applicable regulatory authorities. While the Issuer has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering and terrorist financing activity, such policies and procedures may not completely eliminate instances in which the Issuer may be used by other parties to engage in money laundering or other illegal or improper activities.

By way of example, Barclays Bank Mozambique ("**BBM**"), a subsidiary of the Issuer, received a contravention notice from the Bank of Mozambique in October 2017 for contravention of an applicable anti-money laundering regulation, although, there were no suspicious activities noted by BBM on the client's account.

To the extent that the Issuer or any other member of the Group may fail to fully comply with applicable laws and regulations, various regulatory authorities to which it or they report have the authority to impose fines and other penalties. In addition, the Issuer could suffer reputational harm if clients are found to have used it for money laundering or illegal purposes.

The Issuer may be unable to recruit, retain and motivate key personnel

An engaged workforce is a critical factor in the successful delivery of the Issuer's sustainability objectives. The Issuer's performance is dependent on the talents and efforts of key personnel, some of whom may have been employed by the Issuer for a substantial period of time and have developed with the business. Loss of key staff could have a financial and operational impact on the Issuer.

The Issuer's continued ability to compete effectively and further develop its businesses also depends on its ability to attract new employees. In relation to the development and training of new staff, the Issuer is reliant on the continued development of the educational sector within South Africa, including access to facilities and educational programmes by its future employees.

Risk relating to emerging markets

Whilst the Issuer is headquartered in South Africa, the Group also has a presence in 11 other African countries (see "*Description of the Group's Business - Overview*"). South Africa and the other African countries in which the Group operates are generally considered by international investors to be emerging market countries. Investors in emerging markets such as South Africa should be aware that these markets may be subject to greater risk than more developed markets. These risks include economic instability as well as, in some cases, significant legal and political risks.

Due to its liquidity and use as a proxy for emerging market trades, the Rand is particularly exposed to changes in investor sentiment and resulting periods of volatility. In addition to this, economic instability in South Africa and in other emerging market countries is caused by many different factors, including the following:

- labour unrest;
- policy uncertainty;
- a wide current account deficit;
- currency volatility;
- falling commodity prices;
- changes in economic and tax policies;

- high levels of interest rates;
- high levels of inflation;
- perceived or actual security issues;
- capital outflows; and
- a general decline in domestic demand.

Any of these factors, as well as volatility in the markets for securities similar to the Notes, may adversely affect the value or liquidity of the Notes.

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in developing markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and prospective investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Investors should also note that emerging markets, such as South Africa, are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly.

Risk Relating to the Notes

The Notes are subordinated to most of the Issuer's liabilities

The Notes constitute unsecured and subordinated obligations of the Issuer and the payment obligations of the Issuer under the Notes will rank behind Senior Creditors. See "*Terms and Conditions of the Notes – Form, Denomination and Status*". In the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or is wound-up (in each case, other than pursuant to a Solvent Reconstruction), the Issuer will be required to pay or discharge claims of Senior Creditors in full before it can make any payments in respect of the Notes. If this occurs, and the assets of the Issuer are insufficient to enable the Issuer to repay the claims of Senior Creditors in full, the holders of the Notes will lose their entire investment in the Notes. If there are sufficient assets to enable the Issuer to pay the claims of Senior Creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Notes and all other claims that rank *pari passu* with the Notes, holders of the Notes will lose some (which may be substantially all) of their investment in the Notes.

No restrictions on the issuance of securities or indebtedness which ranks senior to, or pari passu with, the Notes

There is no restriction on the amount of securities or indebtedness which the Issuer may issue or incur which rank senior to, or *pari passu* with, the Notes. The issue of any such securities or indebtedness may reduce the amount recoverable by Noteholders on a winding-up or liquidation of the Issuer or in the event of the occurrence of a Non-Viability Event (as defined in the "*Terms and Conditions of the Notes*").

Holders of the Notes will have limited remedies

Payment of principal and accrued but unpaid interest on the Notes may be accelerated only in the event that an order is made or an effective resolution is passed for the winding up of the Issuer (other than pursuant to a Solvent Reconstruction). There is no other right of acceleration in the case of non-payment of principal or interest on the Notes or of the Issuer's failure to perform any of its obligations under or in respect of the Notes.

The sole remedy against the Issuer available for recovery of amounts owing in respect of any non-payment of any amount that has become due and payable under the Notes is, subject to certain conditions and to the provisions set forth in "*Terms and Conditions of the Notes – Events of Default*", for the Trustee to institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer.

If the Issuer breaches any of its obligations under the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including, without limitation, payment of any principal or interest) then the Trustee at its discretion may and, if so requested in writing by Noteholders of at least one quarter of the aggregate Current Principal Amount of the outstanding Notes, shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction) without further notice, bring such proceedings as it may think fit to enforce the obligation in question provided that the Issuer shall not, as a result of the bringing of any such proceedings, be obliged to pay any sum or satisfy any payment obligation in relation to the Notes sooner than the same would otherwise have been payable by it.

The remedies under the Notes are more limited than those typically available to the Issuer's unsubordinated creditors.

The Issuer is a holding company

The Notes are the obligation of the Issuer only. The Issuer is a holding company and conducts substantially all of its operations through its subsidiaries, and accordingly the claims of the Noteholders under the Notes will be structurally subordinated to the claims of creditors of the Issuer's subsidiaries. The Issuer's rights to participate in the assets of any subsidiary if such subsidiary is liquidated will be subject to the prior claims of such subsidiary's creditors and any preference shareholders, except in the limited circumstance where the Issuer is a creditor of such subsidiary with claims that are recognised to be ranked ahead of or *pari passu* with such claims. The Issuer's subsidiaries are separate and distinct legal entities, and have no obligation to pay any amounts due or to provide the Issuer with funds to meet any of the Issuer's payment obligations under the Notes.

As well as the risk of losses in the event of a subsidiary's insolvency, the Issuer may suffer losses if any of its loans to, and investments in, a subsidiary (including but not limited to Absa) are subject to contractual or statutory write down and conversion powers or if the subsidiary is otherwise subject to bank resolution proceedings. The Issuer intends to make a loan to Absa with the proceeds of the Notes issued by it. Such loan is intended to have a legal ranking in the insolvency of Absa that corresponds to the legal ranking of the Notes in the insolvency of the Issuer. However, the Issuer retains its absolute discretion to restructure such loan at any time and for any purpose including, without limitation, in order to provide different amounts or types of capital or funding to Absa or other subsidiaries of the Issuer, or otherwise as part of meeting regulatory requirements. A restructuring of such loan could include changes to any or all of their features, including their legal or regulatory form and how they would rank in the insolvency hierarchy as a claim in the liquidation or administration of Absa. Any restructuring of such loan may be implemented by the Issuer without prior notification to, or consent of, the holders of Notes.

If one of the Issuer's subsidiaries were to be wound up, liquidated or dissolved, (i) the holders of the Notes would have no right to proceed against the assets of such subsidiary, and (ii) the Issuer would only recover any amounts (directly, or indirectly through its holdings of other subsidiaries) in the winding-up, liquidation or dissolution of that subsidiary in respect of its direct or indirect holding of ordinary shares in such subsidiary, if and to the extent that any surplus assets remain following payment in full of the claims of the creditors (which includes the Issuer) and preference shareholders (if any and which may include the Issuer) of that subsidiary. Similarly, if Absa or any other of the Issuer's subsidiaries were subject to any resolution proceedings (a) the holders of the Notes issued by the Issuer would have no direct recourse against Absa or such other subsidiary, and (b) holders of the Notes themselves may also be exposed to losses pursuant to the exercise by the relevant resolution authority of the stabilisation powers or pursuant to the exercise of any contractual write-down powers.

Statutory Loss Absorption at the Point of Non-Viability of the Issuer

Basel III requires the implementation of certain non-viability requirements as set out in the section of the press release dated 13 January 2011 of the Basel Committee entitled "*Minimum requirements to ensure loss absorbency at the point of non-viability*" (the "**Basel III Non-Viability Requirements**"). The Basel III Non-Viability Requirements represent part of the broader package of guidance issued by the Basel Committee on 16 December 2010 and 13 January 2011 in relation to Basel III.

Under the Basel III Non-Viability Requirements, the terms and conditions of all Additional Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written-off or converted into common equity upon the occurrence of a trigger event (described below) unless:

(a) the governing jurisdiction of the bank has in place laws that (i) require such Additional Tier 1 and Tier 2 instruments to be written-off upon such event, or (ii) otherwise require such instruments to fully absorb losses before taxpayers are exposed to loss (a "**Statutory Loss Absorption Regime**" or "**SLAR**");

(b) a peer group review confirms that the jurisdiction conforms with paragraph (a) above; and

(c) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under paragraph (a) above.

The trigger event is the earlier of: (i) a decision that a write-off, without which the issuing bank would become non-viable, is necessary, as determined by the relevant authority; and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the issuing bank would have become non-viable, as determined by the relevant authority.

Regulation 38(12) of the Regulations Relating to Banks refers to the need for the Basel III Non-Viability Requirements to be reflected in the terms and conditions of a Tier 2 instrument unless a duly enforceable SLAR is in place.

The SARB has provided some clarity on the loss absorbency requirements contemplated in the Regulations Relating to Banks in Guidance Note 2 of 2012 (*Matters related to the implementation of Basel III*), Guidance Note 6 of 2017 (*Loss absorbency requirements for Additional Tier 1 and Tier 2 capital instruments*) ("**Guidance Note 6**"), Circular 6 of 2013 (*Matters related to conditions for the issue of instruments or shares, the proceeds of which rank as Tier 2 capital*) and Circular 6 of 2014 (*Interpretation of specified conditions for the issuing of instruments or shares which rank as additional tier 1 capital and tier 2 capital*), and has indicated that it, together with the National Treasury, is in the process of drafting legislation that will provide for a detailed SLAR. No official statement has however been made as to when the SLAR will be implemented in South Africa. The SARB has also provided detail in relation to its approach to bank recovery and outlined the phased-in approach to be followed in relation to the development of bank resolution plans in Guidance Note 4 of 2012 (*Further guidance on the development of recovery and resolution plans by South African banks*). The SARB has provided further guidance on the minimum requirements for the recovery plans of banks, branches of foreign banks and controlling companies in Directive 1 of 2015 (*Minimum requirements for the recovery plans of banks, controlling companies and branches of foreign institutions*). These Guidance Notes are broadly drafted and require further refinement, and market participants continue to discuss the Regulations Relating to Banks and the Guidance Notes with the SARB. Paragraph 1.3 of Guidance Note 6 provides that the SARB will continue to monitor international developments around loss absorbency requirements, and if necessary, will issue further guidance.

Guidance Note 6 requires banks to indicate, in the contractual terms and conditions of any Tier 2 capital instruments issued, whether such instruments would be either written-off or converted into the most subordinated form of equity of the bank and/or its controlling company (such conversion, "**Conversion**") at the occurrence of a trigger event determined at the Registrar of Bank's discretion, as envisaged in Regulation 38(12)(a)(i) of the Regulations Relating to Banks. To the extent that any Tier 2 instruments are issued prior to the commencement of the SLAR, such Tier 2 instruments will have to contractually provide for write-off or Conversion (at the discretion of the Registrar of Banks at the occurrence of a Trigger Event) in order to qualify as Tier 2 Capital. The terms and conditions of the Notes accordingly provide for the write-off of the Notes (or a part thereof), in accordance with the Capital Regulations, as the Relevant Regulator may require upon the occurrence of a Non-Viability Event. See "*Terms and Conditions of the Notes – Form, Denomination and Status – Loss Absorption Following a Non-Viability Event* ".

Under the Capital Regulations in force at the Issue Date, Junior Securities are likely to be converted or written-off prior to any write-off of the Notes. The instruments to be converted or written-off will be determined by the Relevant Regulator, and any calculation in this respect will be based on the book value of the instruments reflected in the Issuer's financial statements or management accounts at the time the determination is made.

Notwithstanding the requirement to provide for write-off and/or Conversion in the contractual terms and conditions of a Tier 2 instrument, paragraph 6.3 of Guidance Note 6 provides that banks have the option to elect, upon the commencement of the SLAR, that the existing contractual write-off/Conversion provisions of any Tier 2 instruments issued prior to the implementation of the SLAR shall cease to apply and the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR will instead apply. The Terms and Conditions of the Notes accordingly provide that the Issuer shall, subject to certain specific requirements and conditions (see "*Terms and Conditions of the Notes – Form, Denomination and Status – Disapplication of the Non-Viability Loss Absorption Condition*") have the option (the "**Amendment Option**"), upon the commencement of the SLAR, to elect that the Non-Viability Loss Absorption Condition shall cease to apply, and that the Statutory Loss Absorption Regime will instead apply, to the Notes. If the Amendment Option is not exercised by the Issuer (provided that the SLAR is not applied mandatorily to the Notes under Applicable Law), then the Notes will not be subject to the Statutory Loss Absorption Regime and the Non-Viability Loss Absorption Condition will continue to apply to the Notes.

Pursuant to the Terms and Conditions of the Notes, if the exercise or non-exercise of the Amendment Option by the Issuer results in a Capital Disqualification Event, the Issuer shall not be entitled to redeem the Notes early on account of such Capital Disqualification Event. If, however, the SLAR is mandatorily applied to the Notes under Applicable Law and this results in a Capital Disqualification Event, the Issuer would have the option to redeem the Notes early on account of such Capital Disqualification Event.

Whether pursuant to the terms of the Notes in the Non-Viability Loss Absorption Condition or in the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR, the possibility of write-off means that Noteholders may lose some or all of their investment. The exercise of any such power by the Relevant Regulator or any suggestion of such exercise could materially adversely affect the price or value of a Noteholder's investment in Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

Despite the above, whether regulated by the terms of the Notes in the Non-Viability Loss Absorption Condition or in the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR, clause 2.6 of Guidance Note 6 provides that write-off or Conversion of Tier 2 instruments will only occur to the extent deemed by the Registrar of Banks as necessary to ensure that the bank is viable, as specified in writing by the Registrar of Banks. Accordingly, any write-off or Conversion of the Notes will generally be effected to ensure compliance with these minimum requirements only. Any write-offs or Conversions will also be subject to any restrictions on holding shares in a bank and/or a controlling company of a bank under South African law.

Payment of any amounts of principal and interest in respect of the Notes will be cancelled or written-off upon the occurrence of a Non-Viability Event

Upon the occurrence of a Non-Viability Event, in accordance with the Capital Regulations and as determined by the Relevant Regulator, the Notes will be cancelled (in the case of a write-off in whole) or written-off in part on a *pro rata* basis (in the case of a write-off in part), subject to and in accordance with the Non-Viability Loss Absorption Condition. Further to such cancellation or write-off, Noteholders will no longer have any rights against the Issuer with respect to amounts cancelled or written-off and the Issuer shall not be obliged to pay compensation in any form to Noteholders. Furthermore, any such cancellation or write-off will not constitute an Event of Default or any other breach of the Issuer's obligations under the Terms and Conditions of the Notes.

Substitution or Variation of the Notes upon the occurrence of a Capital Disqualification Event or Tax Event

If a Capital Disqualification Event or Tax Event has occurred, the Issuer may, subject as provided in "*Terms and Conditions of the Notes – Redemption and Purchase; Substitution and Variation – Conditions to Redemption, Purchase, Modification, Substitution or Variation*" and/or as directed or approved by the Relevant Regulator, and without the need for any consent of the Noteholders, substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities.

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Notes to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

The Notes may be redeemed prior to maturity

Upon the occurrence of a Tax Event or Capital Disqualification Event, the Issuer may redeem all outstanding Notes subject to and in accordance with the Conditions. A Tax Event shall occur if, as a result of a Tax Law Change (i) the Issuer has paid or will or would on the next Interest Payment Date be required to pay Additional Amounts; or (ii) in respect of the Issuer's obligation to make any payment of interest on the next Interest Payment Date or any subsequent Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in South Africa, or such entitlement is materially reduced, and in each case the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it. A Capital Disqualification Event shall occur if, as a result of a Regulatory Change, the Notes are fully or, to the extent permitted by the Capital Regulations, partially excluded from the Tier 2 Capital of the Issuer on a solo and/or consolidated basis (save where such exclusion is only as a result of any applicable limitation on the amount of such capital or any amortisation of recognition as Tier 2 Capital under the Capital Regulations in the final five years prior to maturity of the Notes).

In addition, the Conditions provide that the Notes are redeemable at the Issuer's option on the Call Date and accordingly the Issuer may choose to redeem the Notes at a time when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

Any redemption of the Notes prior to the Maturity Date is subject to certain conditions as described in "*Terms and Conditions of the Notes – Redemption and Purchase; Substitution and Variation - Conditions to Redemption, Purchase, Modification, Substitution or Variation*" including, if required by the Capital Regulations, the consent of the Relevant Regulator.

Furthermore, Noteholders will have no right to request the redemption of the Notes and should not invest in the Notes in the expectation that the Issuer would exercise its option to redeem the Notes. Any decision by the Issuer as to whether it will exercise its option to redeem the Notes will be taken at the discretion of the Issuer with regard to factors such as, but not limited to, the economic impact of exercising such option to redeem the Notes, any tax consequences, regulatory capital requirements and prevailing market conditions. Noteholders should be aware that they may be required to bear the financial risks of an investment in the Notes until maturity.

The interest rate on the Notes will reset on the Call Date, which can be expected to affect the interest payment on the Notes and could affect the market value of the Notes

The Notes will initially bear interest at the Initial Rate of Interest until (but excluding) the Call Date. On the Call Date, the interest rate will be reset to the Reset Interest Rate as described in "*Terms and Conditions of the Notes – Interest*". The Reset Interest Rate could be less than the Initial Rate of Interest and could affect the market value of an investment in the Notes.

Waiver of set-off

Noteholders waive any right of set-off in relation to the Notes insofar as permitted by applicable law. Therefore, Noteholders will not be entitled (subject to Applicable Laws) to set-off the Issuer's obligations under the Notes against obligations owed by them to the Issuer. See "*Terms and Conditions of the Notes – Form, Denomination and Status – Set-off*".

Investors to rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer

The Notes will be represented by the Global Note Certificate except in certain limited circumstances described in the Global Note Certificate. The Global Note Certificate will be registered in the name of a nominee for, and deposited with the common depositary for Euroclear and Clearstream, Luxembourg. Individual Note Certificates evidencing holdings of Notes will only be available in certain limited circumstances. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Note Certificate. While the Notes are represented by the Global Note Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by the Global Note Certificate, the Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Note Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate.

Holders of beneficial interests in the Global Note Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Minimum Denomination

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of U.S.$200,000 (or its equivalent) that are not integral multiples of U.S.$200,000 (or its equivalent). In such case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive an Individual Note Certificate in respect of such holding (should Individual Note Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

Changes in law may adversely affect the rights of Noteholders

Changes in law after the date hereof may affect the rights of Noteholders as well as the market value of the Notes. The Conditions are based on English and South African law in effect as at the date hereof. No assurance can be given as to the impact of any possible judicial decision or change to English or South African law or administrative practice after such date. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, which may have an adverse effect on an investment in the Notes.

In addition, any change in law or regulation that triggers a Capital Disqualification Event or a Tax Event could entitle the Issuer, at its option, to redeem the Notes or substitute the Notes for, or vary the terms of the Notes so that they remain or become, Qualifying Tier 2 Securities. See "*The Notes may be redeemed prior to maturity*" and "*Substitution or Variation of the Notes upon the occurrence of a Capital Disqualification Event or Tax Event*" above.

Such legislative and regulatory uncertainty could also affect an investor's ability to accurately value the Notes and, therefore, affect the trading price of the Notes, given the extent and impact on the Notes that one or more regulatory or legislative changes, including those described above, could have on the Notes.

Modification, waivers and substitution

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of the Noteholders, agree to any modification of, or waiver or authorisation of any breach or proposed breach of, any of the Conditions or the Trust Deed which, in each case, in the opinion of the Trustee is not materially prejudicial to the interests of the Noteholders or, in the case of a modification, in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Conditions also provide for the substitution of another entity in place of the Issuer without the consent of the Noteholders (subject to certain conditions as referred to therein).

Any such modification, waiver or substitution is subject to the Issuer obtaining the consent of the Relevant Regulator (if and to the extent that such consent is required by the Capital Regulations).

Exchange rate risks

The Issuer will pay principal and interest on the Notes in U.S. dollars (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes. Similarly, the Issuer may be exposed to potential losses if the Specified Currency were to depreciate against key currencies in which the Issuer's revenues are based, which may have an adverse effect on its financial condition and results of operations.

The investment in, and disposal or write-off of, the Notes may have tax consequences for the Noteholders, the Issuer or both

The investment in, and disposal or write-off upon the occurrence of a Non-Viability Event of, the Notes, may have considerable tax consequences for the Noteholders, the Issuer or both. As any such potential consequences depend on various factors, prospective investors in the Notes are strongly advised to consult their own professional advisers as to the tax consequences of investing in the Notes, and particularly as to whether a disposal or write-off of the Notes will result in an income tax liability. See "*Taxation – South Africa* ".

Credit Rating

The Notes are expected to be assigned a rating of Ba2 by Moody's and BB by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in these Risk Factors and other factors that may affect the liquidity or market value of the Notes. Any rating assigned to the Issuer or the Notes may be withdrawn entirely by a credit rating agency, may be suspended or may be lowered, if, in that credit rating agency's judgment, circumstances relating to the basis of the rating so warrant. Ratings may be impacted by a number of factors which can change over time, including the credit rating agency's assessment of: the Issuer's strategy and management's capability; the Issuer's financial condition including in respect of capital, funding and liquidity; competitive and economic conditions in the Issuer's key markets; the level of political support for the industries in which the Issuer operates; and legal and regulatory frameworks affecting the Issuer's legal structure, business activities and the rights of its creditors. The credit rating agencies may also revise the ratings methodologies applicable to issuers within a particular industry or political or economic region. If credit rating agencies perceive there to be adverse changes in the factors affecting an issuer's credit rating, including by virtue of change to applicable ratings methodologies, the credit rating agencies may downgrade, suspend or withdraw the ratings assigned to an issuer and/or its securities. Revisions to ratings methodologies and actions on the Issuer's ratings by the credit rating agencies may occur in the future.

If the Issuer determines to no longer maintain one or more ratings, or if any credit rating agency withdraws, suspends or downgrades the credit ratings of the Issuer or the Notes, or if such a withdrawal, suspension or downgrade is anticipated (or any credit rating agency places the credit ratings of the Issuer or the Notes on "credit watch" status in contemplation of a downgrade, suspension or withdrawal), whether as a result of the factors described above or otherwise, such event could adversely affect the liquidity or market value of the Notes.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:

The U.S.$400,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2028 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (Further Issues) and forming a single series therewith) of Barclays Africa Group Limited (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 25 April 2018 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Deutsche Trustee Company Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 25 April 2018 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Deutsche Bank Luxembourg S.A. as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank AG, London Branch as principal paying agent (the "**Principal Paying Agent**" (which expression includes any successor principal paying agent appointed from time to time in connection with the Notes) and, together with any further or other paying agents appointed from time to time in respect of the Notes, the "**Paying Agents**") and calculation agent (the "**Calculation Agent**", which expression includes any successor calculation agent appointed from time to time in connection with the Notes), the transfer agent named therein (the "**Transfer Agent**", which expression includes any successor or additional transfer agent appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agent and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of the Principal Paying Agent, whose initial Specified Office is set out below.

1. **Interpretation**

(a) *Definitions*

In these Conditions, the following expressions have the following meanings:

"**Additional Amounts**" has the meaning given to such term in Condition 7 (*Taxation*).

"**Additional Tier 1 Capital**" means "additional tier 1 capital" as defined in section 1(1) of the Banks Act.

"**Applicable Laws**" means, in relation to a party, all and any:

(a) statutes and subordinate legislation and common law;

(b) regulations;

(c) ordinances and by-laws;

(d) directives, codes of practice, circulars, guidance notices, judgments and decisions of any competent authority, or any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation; and

(e) other similar provisions,

from time to time, compliance with which is mandatory for that party.

"**Authorised Denomination**" has the meaning given to such term in Condition 2(a) (*Form and denomination*).

"**Authorised Signatories**" has the meaning given to it in the Trust Deed.

"**Banks Act**" means the Banks Act, 1990 of South Africa.

"**Bloomberg Screen**" means page H15T5Y on the Bloomberg L.P. service or any successor service or such other page as may replace that page on that service for the purpose of displaying, "treasury constant maturities" as reported in H.15(519).

"**Calculation Amount**" means U.S.$1,000.

"**Call Date**" means 25 April 2023.

"**Capital Disqualification Event**" means an event which has, or will be deemed to have, occurred with respect to the Notes if, as a result of a Regulatory Change, the Notes are fully or, to the extent permitted by the Capital Regulations, partially excluded from the Tier 2 Capital of the Issuer on a solo and/or consolidated basis (save where such exclusion is only as a result of any applicable limitation on the amount of such capital or any amortisation of recognition as Tier 2 Capital under the Capital Regulations in the final five years prior to maturity of the Notes).

"**Capital Regulations**" means, at any time, any capital adequacy rules, legislation, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in South Africa and applicable to the Issuer in relation to banks registered under the Banks Act and licensed to conduct the business of a bank in South Africa (and, where relevant, the rules applicable to the Issuer as the controlling company of a bank registered under the Banks Act) as applied by the Relevant Regulator.

"**Common Equity Tier 1 Capital**" means "common equity tier 1 capital" as defined in section 1(1) of the Banks Act.

"**Common Equity Tier 1 Capital Securities**" means securities of the Issuer which rank, or are expressed to rank, equally with Common Equity Tier 1 Capital (including, without limitation, the Issuer Ordinary Shares).

"**Conditions**" means these terms and conditions of the Notes.

"**CMT Rate**" means, in relation to the Reset Determination Date, the rate determined by the Calculation Agent and expressed as a percentage equal to:

(a) the yield for United States Treasury Securities at "constant maturity" for a designated maturity of five years, as published in the H.15(519) under the caption "treasury constant maturities (nominal)", as that yield is displayed on the Reset Determination Date, on the Bloomberg Screen; or

(b) if the yield referred to in paragraph (a) above is not published by 4:00 p.m. (New York City time) on the Bloomberg Screen on the Reset Determination Date, the yield for the United States Treasury Securities at "constant maturity" for a designated maturity of five years as published in the H.15(519) under the caption "treasury constant maturities (nominal)" on the Reset Determination Date; or

(c) if the yield referred to in paragraph (b) above is not published by 4:30 p.m. (New York City time) on the Reset Determination Date, the Reset Reference Dealer Rate on the Reset Determination Date; or

(d) if fewer than three Reference Dealers selected by the Issuer (following consultation with an independent financial adviser of international repute with experience in the international debt capital markets) provide bid prices for the purposes of determining the Reset Reference Dealer Rate referred to in paragraph (c) above, 2.727%.

"**Current Principal Amount**" means:

(a) with respect to the Notes or a Note (as the context requires), the principal amount thereof, calculated on the basis of the Original Principal Amount, as such amount may be reduced, on one or more occasions, pursuant to a Write-off following the occurrence of a Non-Viability Event; or

(b) with respect to any other Loss Absorbing Instrument, the principal amount thereof (or amount analogous to a principal amount), calculated on an analogous basis to the calculation of the Current Principal Amount of the Notes.

"**Day Count Fraction**" means the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed).

"**Event of Default**" means (a) if an order is made or an effective resolution is passed for the winding-up of the Issuer (other than pursuant to a Solvent Reconstruction) as described in Condition 8(b), or (b) (*Events of Default)* the failure of the Issuer to pay any amount that has become due and payable under the Notes as provided in Condition 8(a) (*Events of Default)*.

"**Extraordinary Resolution**" has the meaning given to such term in the Trust Deed.

"**H.15(519)**" means the weekly statistical release designated as H.15(519), or any successor publication, published by the board of governors of the Federal Reserve System at http://www.federalreserve.gov/releases/H15 or any successor site or publication.

"**Initial Rate of Interest**" has the meaning given to such term in Condition 4(b) (*Rate of interest*).

"**Interest Payment Date**" has the meaning given to such term in Condition 4(c) (*Interest Payment Dates*).

"**Issue Date**" means 25 April 2018.

"**Issuer Ordinary Shares**" means ordinary shares in the share capital of the Issuer.

"**Junior Securities**" means, in relation to the Notes:

(a) any securities issued by the Issuer which rank, or are expressed to rank, equally with Common Equity Tier 1 Capital;

(b) any securities issued by the Issuer which rank, or are expressed to rank, equally with Additional Tier 1 Capital; and

(c) any securities issued by, or any other obligations of the Issuer which rank, or are expressed to rank, junior to the Notes on liquidation, winding-up or bankruptcy of the Issuer.

"**Loss Absorbing Instrument**" means, at any time, any Other Tier 2 Securities which may have all or some of its principal amount Written-off (whether on a permanent or temporary basis) or converted (in each case in accordance with its conditions or otherwise) on the occurrence or as a result of a Non-Viability Event.

"**Maturity Date**" has the meaning given to such term in Condition 5(a) (*Scheduled redemption*).

A "**Non-Viability Event**" shall occur when a "trigger event" specified in a notice in writing by the Relevant Regulator to the Issuer in accordance with the Capital Regulations has occurred; provided that, as a minimum, the aforesaid "trigger event" shall be the earlier of:

(a) a decision that a Write-off, without which the Issuer (on a consolidated basis or as required by the Capital Regulations) would become non-viable, is necessary as determined by the Relevant Regulator; or

(b) a decision to make a public sector injection of capital, or equivalent support, without which the Issuer (on a consolidated basis or as required by the Capital Regulations) would have become non-viable as determined by the Relevant Regulator.

"**Non-Viability Event Notice**" has the meaning given to such term in Condition 2(e) (*Loss Absorption Following a Non-Viability Event*:).

"**Non-Viability Loss Absorption Condition**" has the meaning given to such term in Condition 2(e) (*Loss Absorption Following a Non-Viability Event*:).

"**Note Certificate**" has the meaning given to such term in Condition 3(a) (*Register, Title and Transfers – Register*).

"**Noteholder**" and "**Holder**" have the meaning given to such terms in Condition 3(a) (*Register*).

"**Original Principal Amount**" means the principal amount (which, for these purposes, is equal to the nominal amount) of the Notes at the Issue Date without having regard to any subsequent Write-off.

"**Other Tier 2 Securities**" means any obligations or securities of the Issuer (other than the Notes):

(a) which rank, or are expressed to rank, as Tier 2 Capital; or

(b) which otherwise rank or are expressed to rank on a liquidation, bankruptcy or winding-up of the Issuer *pari passu* with the Notes or with other obligations or securities falling within paragraph (a) above.

"**Payment Business Day**" means any weekday, other than one on which banking institutions are authorised or obligated by law or executive order to close in New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

a "**person**" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) or other legal entity.

"**Qualifying Tier 2 Securities**" means securities issued by the Issuer that:

(a) have terms not materially less favourable to an investor than the terms of the Notes being substituted or varied (as reasonably determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which in either case is independent of the Issuer), and provided that a certification to such effect by two Authorised Signatories of the Issuer shall have been delivered to the Trustee prior to the issue or, as appropriate, variation of the relevant securities), and, subject thereto, which:

    (i) contain terms which comply with the then current minimum requirements of the Relevant Regulator in relation to Tier 2 Capital, required to ensure that such Qualifying Tier 2 Securities qualify as Tier 2 Capital;

    (ii) include terms which provide for the same Rate of Interest or rate of return from time to time applying to the Notes, and preserve the Interest Payment Dates;

    (iii) rank senior to, or *pari passu* with, the ranking of the Notes;

    (iv) preserve any existing rights under the Conditions to any accrued interest or other amounts which have not been paid;

    (v) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption;

    (vi) have the same currency as the Notes;

(vii) have a solicited published rating ascribed to them or expected to be ascribed to them if the Notes had a solicited published rating from a rating agency immediately prior to such substitution or variation; and

(viii) to the extent that such securities are issued indirectly, benefit from a subordinated guarantee from the Issuer which ranks at least *pari passu* with the Notes and the Other Tier 2 Securities; and

(b) if the Notes are listed on the regulated market of the London Stock Exchange (i) are listed on the regulated market of the London Stock Exchange, or (ii) listed on such other international stock exchange at that time as selected by the Issuer.

"**Rate of Interest**" shall mean the Initial Rate of Interest and/or the Reset Interest Rate, as the case may be.

"**Record Date**" has the meaning given to such term in Condition 6(f) (*Record date*).

"**Regulatory Change**" means a change in, or amendment to, the Capital Regulations and/or any change in the application of, or the guidance notes and/or directives published by the Relevant Regulator pursuant to section 6 of the Banks Act in relation to the Capital Regulations, or the interpretation of the Capital Regulations, which change or amendment becomes effective on or after the Issue Date (including, without limitation, any mandatory application of the Statutory Loss Absorption Regime to the Notes under Applicable Law which results in the Notes being fully or partially excluded from the Tier 2 Capital of the Issuer on a solo and/or consolidated basis).

"**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in New York by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

"**Relevant Regulator**" means the Registrar of Banks in terms of the Banks Act and any successor or replacement thereto, or other authority having primary responsibility for the prudential oversight and supervision of the Issuer.

"**Register**" has the meaning given to such term in Condition 3(a) (*Register*).

"**Reset Determination Date**" means the second Payment Business Day immediately preceding the Call Date.

"**Reset Interest Rate**" means a rate per annum equal to the then applicable Reset Rate plus the Reset Margin.

"**Reset Margin**" means 3.523 % per annum.

"**Reset Rate**" means the prevailing CMT Rate on the Reset Determination Date.

"**Reset Reference Dealer Rate**" means, on the Reset Determination Date, the rate calculated by the Calculation Agent as being a yield-to-maturity based on the arithmetic mean of the secondary market bid prices for Reset United States Treasury Securities at approximately 4:30 p.m. (New York City time) on the Reset Determination Date, of leading primary United States government securities dealers in New York City (each, a "**Reference Dealer**"). The Issuer (following consultation with an independent financial adviser of international repute with experience in the international debt capital markets) will select five Reference Dealers to provide such bid prices and will eliminate the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest); provided, however, that, if fewer than five but more than two such bid prices are provided, then neither the highest nor the lowest of those quotations will be eliminated prior to calculating the arithmetic mean of such bid prices.

"**Reset United States Treasury Securities**" means, on the Reset Determination Date United States Treasury Securities with an original maturity equal to five years, a remaining term to maturity of no more than one year shorter than five years and in a principal amount equal to an amount that is representative for a single transaction in such United States Treasury Securities in the New York City market. If two United States Treasury Securities have remaining terms to maturity equally close to five years, the United States Treasury Security with the shorter remaining term to maturity will be used.

"**Senior Creditors**" means creditors of the Issuer:

(a) who are unsubordinated creditors of the Issuer; and

(b) (other than the holders of Junior Securities, Tier 2 Capital Securities or Other Tier 2 Securities) whose claims are, or are expressed to be, subordinated (whether in the event of a dissolution, liquidation or winding-up of the Issuer or otherwise) to the claims of unsubordinated creditors of the Issuer.

"**Solvent Reconstruction**" means the event where an order is made or an effective resolution is passed for the winding-up of the Issuer (other than under or in connection with a scheme of amalgamation or reconstruction involving a bankruptcy, insolvency, curatorship, resolution, business rescue, or analogous proceedings) where the obligations of the Issuer in relation to the outstanding Notes are assumed by the successor entity to which all, or substantially all, of the property, assets and undertaking of the Issuer are transferred or where an arrangement with similar effect not involving bankruptcy or insolvency is implemented.

"**Statutory Loss Absorption Regime**" means any legal, statutory or regulatory regime or requirement implemented in South Africa which provides the Relevant Regulator with the power to implement principal loss absorption measures in respect of capital instruments (such as the Notes), including, but not limited to, any such regime or requirement which is implemented pursuant to Basel III.

"**Subsidiary**" means, in relation to any person (the "**first person**") at any particular time, any other person whose financial statements are, in accordance with Applicable Laws and generally accepted accounting principles, consolidated with those of the first person.

"**Tax Event**" means an event where as a result of a Tax Law Change:

(a) the Issuer has paid or will or would on the next Interest Payment Date be required to pay Additional Amounts; or

(b) in respect of the Issuer's obligation to make any payment of interest on the next Interest Payment Date or any subsequent Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in South Africa, or such entitlement is materially reduced,

and in each case the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it (such reasonable measures to exclude any requirement to instigate litigation in respect of any decision or determination of the South African Revenue Service that any such interest does not constitute a tax deductible expense).

"**Tax Law Change**" means a change or proposed change in, or amendment or proposed amendment to, the tax laws or regulations of South Africa, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such tax laws or regulations (including a judgment by a court of competent jurisdiction), whether or not having retrospective effect, which actual or proposed change or amendment is announced or becomes effective on or after the Issue Date.

"**Tier 2 Capital**" means "tier 2 capital" as defined in section 1(1) of the Banks Act.

"**Tier 2 Capital Securities**" means any obligations or securities of the Issuer which rank, or are expressed to rank, equally with Tier 2 Capital.

"**United States Treasury Securities**" means securities that are direct obligations of the United States Treasury, issued other than on a discount rate basis.

"**US$**", "**U.S. dollars**" or "**dollars**" means the lawful currency for the time being of the United States of America.

"**Write-off**" means, in respect of the Notes and in accordance with the Capital Regulations (including the Non-Viability Loss Absorption Condition) and as determined by the Relevant Regulator:

(a) the Notes shall be cancelled (in the case of a Write-off in whole) or written-off in part on a *pro rata* basis (in the case of a Write-off in part);

(b) the Notes shall be written-off on a *pro rata* basis with Loss Absorbing Instruments; and

(c) all rights of any Noteholder for payment of any amounts under or in respect of the Notes (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default) shall, as the case may be, be cancelled or written-off *pro rata* among the Noteholders and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event Notice and even if the Non-Viability Event has ceased,

and the term "**Written-off**" shall be construed accordingly.

"**Written-Off Amount**" has the meaning given to such term in Condition 2(e) (*Loss Absorption Following a Non-Viability Event*:).

(b) *Construction of certain references*

In these Conditions, unless otherwise specified or unless the context otherwise requires:

(i) references to Notes being "outstanding" shall be construed in accordance with the Trust Deed;

(ii) references to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment; and

(iii) headings and sub-headings are for ease of reference only and shall not affect the construction of these Conditions.

2. **Form, Denomination and Status**

(a) *Form and denomination*: The Notes are in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status of the Notes*: The Notes constitute direct, unsecured and, in accordance with Condition 2(c) (*Subordination*), subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and (save for the claims of those creditors that have been accorded preferential rights by law):

(i) *pari passu* with Other Tier 2 Securities;

(ii) senior to Common Equity Tier 1 Capital Securities and the obligations of the Issuer under any Junior Securities; and

(iii) junior to the present and/or future claims of Senior Creditors.

(c) *Subordination*: The claims of the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed) and the Noteholders entitled to be paid amounts due in respect of the Notes (including any damages or other amounts (if payable)) are subordinated to the claims of Senior Creditors and, accordingly, in the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or is wound-up (in each case other than pursuant to a Solvent Reconstruction):

(i) notwithstanding that any Noteholder shall have proved a claim for any amount in respect of the Notes in the event of the dissolution, liquidation or winding-up of the Issuer, no such amount shall be paid to that Noteholder; and

(ii) no amount due under the Notes shall be eligible for set-off, counterclaim, abatement or other similar remedy which a Noteholder might otherwise have under the laws of any jurisdiction in respect of the Notes nor shall any amount due under the Notes be payable to any Noteholder,

in each case, until the claims of all Senior Creditors which are admissible in any such dissolution, liquidation or winding-up have been paid or discharged in full.

(d) *Set-off*: Subject to Applicable Laws, no Noteholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer under or in connection with the Notes and each Noteholder shall, by virtue of being the holder of any Notes, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence if any of the amounts owing to any Noteholder by the Issuer is discharged by set-off (whether by operation of law or otherwise), such Noteholder shall, unless such payment is prohibited by law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up or administration, the liquidator or administrator, as appropriate, of the Issuer for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator or administrator, as appropriate, of the Issuer (as the case may be), for payment to the Senior Creditors in respect of amounts owing to them by the Issuer and accordingly any such discharge shall be deemed not to have taken place.

(e) *Loss Absorption Following a Non-Viability Event*:

(i) If a Non-Viability Event occurs, then the Issuer shall, in accordance with the Capital Regulations, Write-off the Notes in accordance with this Condition 2(e) (*Loss Absorption Following a Non-Viability Event*:).

(ii) Upon the occurrence of a Non-Viability Event, the Issuer will, as soon as practicable after the occurrence of that Non-Viability Event, irrevocably notify (a "**Non-Viability Event Notice**") the Trustee, the Principal Paying Agent, the Registrar and the Noteholders (in accordance with Condition 14 (*Notices*)) and subsequently Write-off the Current Principal Amount of the Notes, in accordance with the Capital Regulations, by such amount (the "**Written-off Amount**") as the Relevant Regulator shall require, *provided that*:

(A) a Write-off of the Notes need only occur up until the point where the Issuer is deemed by the Relevant Regulator to be viable again, as specified in writing by the Relevant Regulator; and

(B) the Notes shall be Written-off in whole, or in part, on a *pro rata* basis with other Loss Absorbing Instruments (for the avoidance of doubt, including Loss Absorbing Instruments that can absorb losses through conversion),

(the "**Non-Viability Loss Absorption Condition**").

(iii) The Noteholders acknowledge and agree that under the Capital Regulations in force at the Issue Date (i) Junior Securities are likely to be converted or written-off prior to any Write-off of the Notes and (ii) the instruments to be converted or written-off will be determined by the Relevant Regulator, and any calculation in this respect will be based on the book value of the instruments reflected in the Issuer's financial statements or management accounts at the time such determination is made.

(iv) Any Write-off required by the Relevant Regulator following a Non-Viability Event shall take place on such date selected by the Issuer in consultation with the Relevant Regulator (the "**Write-off Date**") but no later than 30 days following the occurrence of the Non-Viability Event unless in accordance with the Capital Regulations, the Relevant Regulator has agreed with the Issuer in writing that the Current Principal Amount of the Notes may be reduced after a longer period, in which case, the Write-off shall take place on such date as agreed with the Relevant Regulator.

(v) A Write-off may occur on more than one occasion following the occurrence of a Non-Viability Event and the Notes may be Written-off on more than one occasion.

(vi) To the extent that the write-off or conversion of any Loss Absorbing Instruments is not effective for any reason (a) the ineffectiveness of any such write-off or conversion shall not prejudice the requirement to effect a Write-off of the Notes and (b) the write-off or conversion of any Loss Absorbing Instrument which is not effective shall not be taken into account in determining the Written-off Amount of the Notes.

(vii) For the avoidance of doubt, following any Write-off of the Notes, the Issuer shall not be obliged to pay compensation in any form to the Noteholders.

(viii) Any Write-off of the Notes upon the occurrence of a Non-Viability Event will not constitute an Event of Default or any other breach of the Issuer's obligations, or a failure to perform by the Issuer, under these Conditions and shall not entitle the Noteholders to petition or apply for the liquidation, winding-up, business rescue or dissolution of the Issuer.

(ix) Once a Write-off of all or part of the Current Principal Amount of the Notes has occurred, no Written-off Amount shall be restored under any circumstances (including, without limitation, where the Non-Viability Event ceases to continue) and the Noteholders will automatically irrevocably lose their rights to receive, and no longer have any rights against the Issuer with respect to, interest accrued on the Written-off Amount of the Notes prior to the Write-off Date and repayment of the Written-off Amount; provided that, if the Notes are Written-off in part, interest will continue to accrue on the Current Principal Amount.

(f) *Disapplication of the Non-Viability Loss Absorption Condition*

(i) If a Statutory Loss Absorption Regime is implemented in South Africa and the Notes are subject to such Statutory Loss Absorption Regime upon the occurrence of a Non-Viability Event, then the Issuer shall have the option at any time by written notice (the "**Amendment Notice**") to the Trustee and the Noteholders (in accordance with Condition 14 (*Notices*)), to elect that the Non-Viability Loss Absorption Condition shall cease to apply and that the Statutory Loss Absorption Regime will apply to the Notes from the date specified in the Amendment Notice (the "**Amendment Date**"), being a date no earlier than the date on which the Statutory Loss Absorption Regime takes effect (the "**Amendment Option**") *provided that*:

(A) if the Issuer does not exercise the Amendment Option or does so exercise the Amendment Option, and, in each case, this exercise or non-exercise results in the Notes being fully or partially excluded from the Tier 2 Capital of the Issuer on a solo and/or consolidated basis, then such exclusion shall not constitute a Capital Disqualification Event giving rise to the right to redeem the Notes early (although this limited exclusion is without prejudice to any other rights the Issuer may have should a different Capital Disqualification Event occur or should the exclusion apply regardless of the exercise or non-exercise of the Amendment Option); and

(B) a mandatory application of the Statutory Loss Absorption Regime to the Notes under Applicable Law which results in the Notes being fully or partially excluded from the Tier 2 Capital of the Issuer on a solo and/or consolidated basis shall be a Capital Disqualification Event.

(ii) If:

(A) the Issuer exercises the Amendment Option; or

(B) the Statutory Loss Absorption Regime is applied mandatorily to the Notes under Applicable Law,

the Non-Viability Loss Absorption Condition will (in the case of (B) above, only to the extent required by the Statutory Loss Absorption Regime) cease to apply and the Notes will be subject to such minimum requirements of the Statutory Loss Absorption Regime required to ensure that the Notes continue to qualify as Tier 2 Capital with effect from (in the case of (A) above) the Amendment Date and (in the case of (B) above) the date on which the Statutory Loss Absorption Regime takes effect. If the Amendment Option is not exercised by the Issuer, (provided that the Statutory Loss Absorption Regime is not applied mandatorily to the Notes) then the Notes will not be subject to the Statutory Loss Absorption Regime and the Non-Viability Loss Absorption Condition will continue to apply to the Notes.

(iii) For the avoidance of doubt, if a Non-Viability Event occurs on or after such date on which the Non-Viability Loss Absorption Condition has been dis-applied, the Relevant Regulator or the Issuer, following instructions from the Relevant Regulator, may take such action in respect of the Notes as is required or permitted by such Statutory Loss Absorption Regime.

3. **Register, Title and Transfers**

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to Conditions 3(f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*), a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or (as the case may be) the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with Condition 3(c) (*Transfers*), the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **Interest**

(a) *Interest accrual*

The Notes bear interest on their Current Principal Amount at the applicable Rate of Interest from (and including) the Issue Date and the amount of such interest will (subject to Condition 6 (*Payments*)) be payable on each Interest Payment Date, in accordance with the provisions of this Condition 4 (*Interest*). Each Note will cease to bear interest from the date fixed for redemption (if any) unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest in accordance with, and subject to, the Conditions (both before and after judgment) until the day on which such principal is received by or on behalf of the relevant Holder.

(b) *Rate of interest*

(i) The rate of interest in respect of the period from (and including) the Issue Date to (but excluding) the Call Date will be 6.250% per annum (the "**Initial Rate of Interest**").

(ii) The rate of interest in respect of the period from (and including) the Call Date to (but excluding) the date on which the Notes are fully redeemed in accordance with these Conditions shall be the Reset Interest Rate.

(c) *Interest Payment Dates*

Interest will be payable semi-annually in arrear on 25 April and 25 October of each year (each, an "**Interest Payment Date**"), commencing on 25 October 2018.

(d) *Calculation of interest amount*

Subject to Condition 6 (*Payments*), the amount of interest payable in respect of each Note shall be calculated by applying the relevant Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Current Principal Amount of such Note divided by the Calculation Amount.

(e) *Determination of Reset Interest Rate*

The Reset Interest Rate shall be determined by the Calculation Agent on the Reset Determination Date.

(f) *Publication*

The Calculation Agent will cause the Reset Interest Rate determined by it to be notified to the Issuer, the Paying Agents, the Trustee and any competent authority and/or stock exchange by which the Notes have then been admitted to listing and/or trading as soon as possible after such determination but in any event not later than the Call Date. Notice thereof shall also be given to the Holders by the Calculation Agent in accordance with Condition 14 (*Notices*) as soon as possible after the determination thereof.

(g) *Notifications etc.*

All notifications, opinions, communications, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 (*Interest*) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Trustee, the Paying Agents and the Holders. No Holder shall be entitled to proceed against the Calculation Agent, the Trustee, the Paying Agents or any of them in connection with the exercise or non-exercise by them of their powers, duties and discretions hereunder, including without limitation in respect of any notification, opinion, determination, certificate, calculation, quotation or decision given, expressed or made for the purposes of this Condition 4 (*Interest*). The Calculation Agent shall not be responsible to the Issuer, the Holders or any third party for any failure of the Reference Dealers to provide quotations as requested of them or as a result of the Calculation Agent having acted on any quotation or other information given by any Reference Dealers which subsequently may be found to be incorrect or inaccurate in any way.

(h) *Determination by the Trustee*

If the Calculation Agent does not at any time for any reason determine the Reset Interest Rate, the Trustee, or an agent on its behalf appointed at the expense of the Issuer, may (but shall not be obliged to) do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee or its agent shall apply the foregoing provisions of this Condition 4 (*Interest*), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

5. Redemption and Purchase; Substitution and Variation

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Current Principal Amount on 25 April 2028 (the "**Maturity Date**"), subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: Subject to the provisions of Condition 5(f) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation*), upon the occurrence of a Tax Event, the Issuer may, at its option at any time having given not less than 30 (thirty) nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Noteholders (in accordance with Condition 14 (*Notices*)), which notice shall be irrevocable, redeem the Notes in whole, but not in part, at their Current Principal Amount together with unpaid interest accrued thereon to the date of redemption, *provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (i) would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due or (ii) would not be entitled (or such entitlement is materially reduced) to claim a deduction in respect of computing its taxation liabilities. Upon the expiry of any such notice as is referred to in this Condition 5(b) (*Redemption for tax reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b) (*Redemption for tax reasons*).

(c) *Redemption following the occurrence of a Capital Disqualification Event*: Subject to the provisions of Condition 2(f) (*Disapplication of the Non-Viability Loss Absorption Condition*) and Condition 5(f) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation*), upon the occurrence of a Capital Disqualification Event, the Issuer may, at its option at any time having given not less than 30 (thirty) nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Noteholders (in accordance with Condition 14 (*Notices*)), which notice shall be irrevocable, redeem the Notes in whole, but not in part, at their Current Principal Amount together with unpaid interest accrued thereon to the date of redemption. Upon the expiry of any such notice as is referred to in this Condition 5(c) (*Redemption following the occurrence of a Capital Disqualification Event*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(c) (*Redemption following the occurrence of a Capital Disqualification Event*).

(d) *Redemption at the option of the Issuer*: Subject to Condition 5(f) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation*), the Notes may be redeemed at the option of the Issuer in whole, but not in part on the Call Date at their Current Principal Amount on the Issuer giving not less than 30 (thirty) nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Noteholders (in accordance with Condition 14 (*Notices*)) (which notice shall be irrevocable) and shall oblige the Issuer to redeem the Notes on the Call Date at their Current Principal Amount together with unpaid interest accrued thereon to the date of redemption.

(e) *Substitution or Variation*: If a Capital Disqualification Event or a Tax Event has occurred, then the Issuer may, subject to Condition 5(f) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation*) and/or as directed or approved by the Relevant Regulator and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Noteholders (in accordance with Condition 14 (*Notices*)) (which notice shall be irrevocable) but without any requirement for the consent or approval of the Noteholders, at any time either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities.

(f) *Conditions to Redemption, Purchase, Modification, Substitution or Variation*: The Notes may be redeemed, purchased, modified, substituted, varied or cancelled (as applicable) prior to the Maturity Date only at the option of the Issuer, and only if:

(i) subject to the applicable Capital Regulations and for so long as is, and to the extent, required by the Capital Regulations:

(A) with respect to any redemption of the Notes pursuant to Conditions 5(b) (*Redemption for tax reasons*), 5(c) (*Redemption following the occurrence of a Capital Disqualification Event*) or 5(d) (*Redemption at the option of the Issuer*), if:

(1) the Issuer concurrently replaces the Notes with capital of a similar or better quality and the replacement of capital is done on conditions that are sustainable for the income capacity of the Issuer; or

(2) the Relevant Regulator determines that the Issuer will be duly capitalised above the minimum capital requirements set out in the Capital Regulations after redemption of the Notes pursuant to the exercise of the Issuer's option to redeem the Notes;

(B) the Issuer has notified the Relevant Regulator of, and the Relevant Regulator has consented in writing to, such redemption, purchase, modification, substitution, variation or cancellation (as applicable);

(C) such redemption, purchase, modification, substitution, variation or cancellation of the Notes (as applicable) is effected in accordance with conditions (if any) specific by the Relevant Regulator in writing; and

(D) such redemption, purchase, modification, substitution, variation or cancellation of the Notes is not prohibited by the Capital Regulations; and

(ii) other than with respect to any redemption of the Notes pursuant to Condition 5(d) (*Redemption at the option of the Issuer*), prior to the publication of any notice of redemption, purchase, modification, substitution, variation or cancellation pursuant to this Condition 5 (*Redemption and Purchase; Substitution and Variation*), the Issuer shall deliver to the Trustee (A) a certificate signed by two Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem, purchase, modify, substitute, vary or, as appropriate, cancel is satisfied and, in the case of a substitution or variation, that the relevant Qualifying Tier 2 Securities have terms not materially less favourable to an investor than the terms of the Notes and will as from the date of such substitution or variation otherwise meet the requirements for Qualifying Tier 2 Securities, (B) in the case of a redemption upon the occurrence of a Tax Event in accordance with Condition 5(b), an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the relevant Tax Event has occurred and (C) in the case of a redemption upon the occurrence of a Capital Disqualification Event in accordance with Condition 5(c) (*Redemption following the occurrence of a Capital Disqualification Event*), unless the Relevant Regulator has confirmed to the Issuer that a Capital Disqualification Event has occurred (or been deemed to have occurred) in respect of the Notes (and the Issuer has certified to the Trustee that the Relevant Regulator has provided such confirmation), an opinion of independent legal advisers of recognised standing in form and substance satisfactory to the Trustee to the effect that a Capital Disqualification Event has occurred (or been deemed to have occurred).

For the avoidance of doubt, no consent of the Noteholders shall be required for a redemption, purchase, modification, substitution, variation or cancellation of the Notes in accordance with this Condition 5 (*Redemption and Purchase; Substitution and Variation*) and the Trustee shall be obliged to effect such matters provided it would not impose, in the Trustee's opinion, more onerous obligations on it.

(g) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 5(a) (*Scheduled redemption*) to (d) (*Redemption at the option of the Issuer*).

(h) *Purchase*: Subject to the applicable Capital Regulations and Condition 5(f) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation*), the Issuer or any of its Subsidiaries may at any time purchase any outstanding Notes in the open market or otherwise and at any price.

(i) *Cancellation*: All Notes so purchased by the Issuer or any of its Subsidiaries may (subject to the Capital Regulations) at the option of the Issuer be held, re-issued, re-sold or surrendered to the Principal Paying Agent for cancellation.

6. **Payments**

(a) *Principal*: Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail.

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Registrar shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7. **Taxation**

(a) All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of South Africa or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In such event, the Issuer will pay such additional amounts ("**Additional Amounts**") as shall be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, as the case may be, in the absence of such withholding or deduction except that no such Additional Amounts shall be payable with respect to any Note:

(i) held by or on behalf of a Noteholder, who is liable for such taxes or duties in respect of such Note by reason of his having some connection with South Africa other than the mere holding of such Note or the receipt of principal or interest in respect thereof;

(ii) presented for payment by or on behalf of, or held by, a Noteholder who could lawfully avoid (but has not so avoided) such withholding or deduction by complying with any statutory requirements in force at the present time or in the future by making a declaration of non-residency or other similar claim or filing for exemption to which it is entitled to the relevant tax authority, the Issuer or the Principal Paying Agent (the effect of which is not to require the disclosure of the identity of the relevant Noteholder); or

(iii) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days; or

(iv) if such withholding or deduction arises through the exercise by revenue authorities of special powers in respect of Noteholders being disputers or alleged tax defaulters.

(b) Notwithstanding any other provision in these Conditions, the Issuer, the Trustee and the Paying Agents shall be permitted to withhold or deduct any amounts required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto ("**FATCA withholding**"). The Issuer will have no obligations to pay Additional Amounts or otherwise indemnify a holder for any FATCA withholding deducted or withheld by the Issuer, the Trustee or a Paying Agent or any other party as a result of any person (other than an agent of the Issuer) not being entitled to receive payments free of FATCA withholding.

(c) Any reference in these Conditions to principal or interest shall be deemed to include any Additional Amounts which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

(d) If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of South Africa, references in these Conditions to the Republic of South Africa shall be construed as references to the Republic of South Africa and/or such other jurisdiction.

(e) Save as described in Condition 7(a) (*Taxation*), a Noteholder whose Notes are redeemed shall pay all taxes payable in connection with the payment of interest, or the redemption of such Notes and/or the payment of the Current Principal Amount as a result of such redemption. The Issuer is not liable for or otherwise obliged to pay any taxes that may arise as a result of the ownership, transfer, redemption or enforcement of any Note.

8. **Events of Default**

(a) The right to institute winding-up proceedings is limited to circumstances where payment of principal or interest (as the case may be) has become due and payable in respect of the Notes. If default shall be made in the payment of any principal or interest due on the Notes for a period of seven days or more after any date on which the payment of principal is due or fourteen days or more after any date on which the payment of interest is due (as the case may be), then the Trustee at its discretion may and, if so requested in writing by Noteholders of at least one quarter of the aggregate Current Principal Amount of the outstanding Notes, shall, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction and Conditions 2(c) (*Subordination*), 8(b) and 8(c), without further notice, institute proceedings for the winding-up of the Issuer and/or prove in any winding-up of the Issuer, but take no other action in respect of that default; *provided that* no action may be taken by the Trustee if the Issuer withholds or refuses to make any such payment in order to comply with any law or regulation of any relevant jurisdiction or to comply with any order of a court of competent jurisdiction. Where there is doubt as to the validity or applicability of any such law, regulation or order, the Issuer will not be in default if it acts on the advice given to it during such seven day period or fourteen day period (as the case may be) by independent legal advisers approved by the Trustee.

(b) If an order is made by a competent court with jurisdiction over the Issuer or an effective resolution is passed for the winding-up of the Issuer (other than pursuant to a Solvent Reconstruction), then the Trustee at its discretion may, and, if so requested in writing by Noteholders of at least one quarter of the aggregate Current Principal Amount of the outstanding Notes, shall (subject to the Trustee having been indemnified and/or secured and/or prefunded to its satisfaction), by written notice to the Issuer, declare the Notes to be forthwith due and payable. Upon receipt of the notice by the Issuer, the Notes shall (subject to Condition 2(c) (*Subordination*) and the Capital Regulations) be forthwith due and payable at the Current Principal Amount together with accrued interest (if any) to the date of payment without further action or formality.

(c) Without prejudice to Conditions 8(a) and 8(b) (*Events of Default)*, if the Issuer breaches any of its obligations under the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including, without limitation, payment of any principal or interest) then the Trustee at its discretion may and, if so requested in writing by Noteholders of at least one quarter of the aggregate Current Principal Amount of the outstanding Notes, shall (subject to the Trustee having been indemnified and/or secured and/or prefunded to its satisfaction) without further notice, bring such proceedings as it may think fit to enforce the obligation in question provided that the Issuer shall not, as a result of the bringing of any such proceedings, be obliged to pay any sum or satisfy any payment obligation in relation to the Notes sooner than the same would otherwise have been payable by it.

(d) No Holder of any Notes shall be entitled to institute any of the proceedings or take the steps or actions referred to in Conditions 8(a), (b) or (c) (*Events of Default)* or to prove in the winding up of the Issuer except that if the Trustee, having become bound to proceed against the Issuer and/or prove in any winding-up of the Issuer as aforesaid, fails to do so within a reasonable period, and in each such case such failure shall be continuing, then any such Holder may itself institute such proceedings or take such steps or actions and/or prove in such winding up to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of its Notes. No remedy against the Issuer other than the institution of the proceedings referred to in Conditions 8(a), (b) or (c) (*Events of Default)* or proving in the winding up of the Issuer, shall be available to the Trustee or the holders of such Notes whether for the recovery of amounts owing in respect of such Notes or under the Trust Deed in relation thereto or in respect of any breach by the Issuer of any of its other obligations under or in respect of such Notes or under the Trust Deed in relation thereto.

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all Applicable Laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee (to be given in accordance with the terms of the Trust Deed)) at any time to vary or terminate the appointment of any Agent or the calculation agent and to appoint a successor registrar, principal paying agent or calculation agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer shall at all times maintain a principal paying agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. **Meetings of Noteholders; Modification and Waiver; Substitution**

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate Current Principal Amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than 50% of the aggregate Current Principal Amount of the outstanding Notes or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the Current Principal Amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to modify the provisions of Condition 2 (*Form, Denomination and Status*) (save for Condition 2(a) (*Form and denomination*)) or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons holding or representing not less than 75% or, at any adjourned meeting, 25% of the aggregate Current Principal Amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders, who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed, holding not less than 75% in aggregate Current Principal Amount of the Notes outstanding, will take effect as if it were an Extraordinary Resolution, other than in respect of the appointment of a new Trustee or co-trustee (which may only be effected at a meeting of Noteholders). Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders, agree to any modification of the Notes or the Trust Deed (other than in respect of a Reserved Matter) if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby. Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

(c) *Consent*: Any modification of or waiver in respect of the Notes in accordance with this Condition 12 (*Meetings of Noteholders; Modification and Waiver; Substitution*) is subject to the Issuer obtaining the consent of the Relevant Regulator (if and to the extent that such consent is required by the Capital Regulations) pursuant to Condition 5(f) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation*).

(d) *Substitution*: The Trustee may, without the consent of the Noteholders, agree with the Issuer (the "**Current Issuer**") to the substitution in place of the Current Issuer (or of any previous substitute under this Condition 12(d) (*Substitution*)) of any of the Current Issuer's Subsidiaries (the "**Substitute Issuer**") as the principal debtor under the Notes and the Trust Deed, subject to:

(i) the Notes being unconditionally and irrevocably guaranteed by the Current Issuer to the satisfaction of the Trustee (on a subordinated basis to the extent required in order for the Notes to qualify as Tier 2 Capital of the Issuer);

(ii) the Current Issuer not being in default in respect of any amounts payable under the Notes at the time of such substitution;

(iii) the Trustee being satisfied that such substitution is not materially prejudicial to the interests of the Noteholders;

(iv) confirmation being received by the Issuer from any rating agency then rating the Notes that there is no adverse change to the credit rating granted by such rating agency in respect of the Notes (provided that, if no rating agency is currently rating the Notes, two Authorised Signatories of the Current Issuer shall certify to the Trustee that it has used its reasonable endeavours to procure a rating for the purposes of such confirmation, to be assessed against the most recent equivalent rating granted to the Notes prior to such proposed substitution (and the Trustee shall rely absolutely on such certification without further enquiry and without liability to any person));

(v) the consent of the Relevant Regulator (if and to the extent that such consent is then required by the Capital Regulations);

(vi) two Authorised Signatories of the Current Issuer shall certify to the Trustee that no Capital Disqualification Event or Tax Event shall arise as a result of such substitution and the Trustee shall rely absolutely on such certification without further enquiry and without liability to any person;

(vii) the Current Issuer and the Substitute Issuer have entered into such documents (the "**Substitution Documents**") as are necessary to give effect to such substitution and pursuant to which the Substitute Issuer has (A) undertaken in favour of each Noteholder to be bound by these terms and conditions as the principal debtor (on a subordinated basis corresponding to Condition 2(b) (*Form, Denomination and Status - Subordination*)) under the Notes in place of the Current Issuer and (B) assumed the obligations of the Current Issuer under the Trust Deed, and procured that all actions, conditions and things required to be taken, fulfilled and done (including, without limitation, the obtaining of any necessary consents) to ensure that the Substitution Documents represent valid, legally binding and enforceable obligations of the Substitute Issuer have been taken, fulfilled and done and are in full force and effect;

(viii) if the Substitute Issuer is resident for tax purposes in a jurisdiction (the "**New Residence**") other than that in which the Current Issuer prior to such substitution was resident for tax purposes (the "**Former Residence**"), the Substitution Documents contain an undertaking by the Substitute Issuer and/or such other provisions as may be necessary to ensure that each Noteholder has the benefit of an undertaking in terms corresponding to the provisions of Condition 7(a) (*Taxation*) in relation to the payment of all amounts due and payable under, or in respect of, the Notes, with the substitution of references to the Former Residence with references to the New Residence, and an undertaking by the Substitute Issuer to indemnify each Noteholder against any tax that is imposed on it by (or by any authority in or of) the New Residence and, if different, the jurisdiction of the Substitute Issuer's organisation with respect to any Note and that would not have been so imposed had the substitution not been made, as well as against any tax, and any cost or expense, relating to such substitution; and

(ix) compliance with certain other conditions set out in the Trust Deed.

13. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

14. **Notices**

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

15. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by English law, save that Conditions 2(b) (*Status of the Notes*), 2(c) (*Subordination*), 2(d) (*Set-off*), 2(e) (*Loss Absorption Following a Non-Viability Event*:) and 2(f) (*Disapplication of the Non-Viability Loss Absorption Condition*) and related provisions of the Trust Deed (as specified therein) are governed by South African law.

(b) *Jurisdiction*: The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) designated a person in England to accept service of any process on its behalf. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Registrar, the Transfer Agent and the Principal Paying Agent as set out at the end of this Prospectus.

SIGNED on behalf of **BARCLAYS AFRICA GROUP LIMITED:**

Name: Jason Quinn

Designation: Group Financial Director

Date: 23 April 2018

Name: Maria Ramos

Designation: CEO, Executive Director

Date: 23 April 2018

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will be represented by a Global Note Certificate which will be registered in the name of a nominee for, and deposited with, the common depositary for Euroclear and Clearstream, Luxembourg.

The Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs; or (c) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Global Note Certificate in definitive form.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate and/or Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Note Certificate will contain provisions that modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note Certificate will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes.

Payments on business days: In the case of all payments made in respect of the Global Note Certificate, "**Payment Business Day**" means any day which is a day on which banks are open for general business (including dealings in foreign currencies) in New York City.

Payment Record Date: Each payment in respect of the Global Note Certificate will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Notices: Notwithstanding "*Terms and Conditions of the Notes – Notices*", while all the Notes are represented by the Global Note Certificate and such Global Note Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with "*Terms and Conditions of the Notes – Notices*" on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Write-off

For so long as the Notes are represented by the Global Note Certificate, any Write-off (as defined in the "*Terms and Conditions*") will be effected in Euroclear and Clearstream, Luxembourg in accordance with their operating procedures by way of a reduction in the pool factor.

Written Resolution and Electronic Consent

For so long as the Notes are represented by the Global Note Certificate, then:

Electronic Consent: where the terms of the resolution proposed by the Issuer or the Trustee (as the case may be) have been notified to the Noteholders through the relevant clearing system(s) (subject to and in accordance with the provisions of the Trust Deed), each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75% in Current Principal Amount of the Notes outstanding ("**Electronic Consent**") by close of business on the relevant time and date for the blocking of their accounts in the relevant clearing system(s).

Written Resolution: where Electronic Consent is not being sought, for the purpose of determining whether a written resolution has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, (a) by accountholders in the clearing system(s) with entitlements to such Global Note Certificate and/or (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held.

THE BANKING SECTOR IN SOUTH AFRICA

The South African banking system is well developed and effectively regulated, comprising a central bank, several large, financially strong banks and investment institutions, and a number of smaller banks. Many foreign banks and investment institutions have also established operations in South Africa over the past decade. South African banks are regulated by the SARB. The South African Government (the "**Government**") has adopted a four-pillar policy of having four large, locally owned banks regulated by the SARB in the interests of prudential and systemic stability, in order to avoid the spread of risk and to promote reliance on a broader platform of institutions.

The National Payment System Act, 1998 was introduced to bring the South African financial settlement system in line with international practice and systematic risk management procedures. The Payment Association of South Africa, under the supervision of the SARB National Payments System Department ("**NPSD**"), has facilitated the introduction of payment clearing house agreements. It has also introduced agreements pertaining to settlement, clearing and netting agreements, and rules to create certainty and reduce systemic and other risks in inter-bank settlement. These developments have brought South Africa in line with international inter-bank settlement practice. Electronic banking facilities are extensive, with a nationwide network of automatic teller machines and internet banking being available.

Regulation

South Africa is a member of the G20 and an active participant on various international standard setting bodies and forums and as such financial regulation in South Africa aims to comply with, as far as possible, international best practice and standards through the accords of international bodies such as the Bank of International Settlements ("**BIS**"); the International Organization of Securities Commissions; and the International Association of Insurance Supervisors, Financial Action Task Force and International Accounting Standards Board. As a member of the G20, South Africa is an early adopter of standards and regulations developed by the various G20 standard setting bodies. In addition, independent authorities such as the World Bank, the International Monetary Fund ("**IMF**") and the Financial Action Task Force on Money Laundering ("**FATF**") also conduct assessments of compliance on a regular basis. South Africa is compelled to participate in these assessments as part of its G20 membership commitments. Banks in South Africa are governed by various acts and legislation, most significantly the Banks Act, which is primarily based on similar legislation in the United Kingdom, Australia and Canada.

South Africa has implemented the Basel III framework through amendments to the Regulations Relating to Banks which became effective on 1 January 2013 and as amended thereafter. South Africa is a member of the International Liaison Group of the Basel Committee. The South African banking regulator actively participates in international regulatory and supervisory standard-setting forums at which it is represented and provides input into the continued refinement of the supervisory framework in terms of Basel III.

South African Government Policy Priorities

Although the financial sector in South Africa was resilient through the period of the 2008 global financial crisis, the Government issued a policy paper on 1 February 2013 titled, "*Implementing a "twin peaks" model of financial regulation in South Africa*", which follows the original policy paper issued on 23 February 2011, "*A Safer Financial Sector to Serve South Africa Better*", taking into account the lessons learnt from the global financial crisis.

These documents enunciate the Government's strategic regulatory objectives. The documents identify four policy priorities to reform the financial sector, namely: financial stability; consumer protection and market conduct; expanding access of financial services through inclusion; and combating financial crime. Achieving these objectives will evidently necessitate a change in the South African regulatory landscape from both a structural and a policy perspective including the introduction of a "twin peaks" approach to financial sector regulation in terms of which macro prudential regulation will be mandated separately from market conduct and consumer protection regulation.

The "twin peaks" approach to financial sector regulation is primarily aimed at the enhancement of systemic stability, improving market conduct regulation, sound micro and macro prudential regulation and the strengthening of the operational independence, governance and accountability of regulators. The perimeters of regulation will continue to be expanded to cover all sources of systemic risk, the regulation of all private pools of capital (for example, hedge funds and over-the-counter derivatives), in respect of which final regulations were published under the Financial Markets Act (the Financial Markets Act Regulations on 9 February 2018) and unregulated financial activities such as the functioning of credit rating agencies (now regulated by the Credit Rating Services Act, 2012).

To pave the way for the phasing-in of the "twin peaks" model, the South African Parliament enacted the Financial Services Laws General Amendment Act, 2013 (the "**Amendment Act**"). The Amendment Act took effect for the most part on 28 February 2014, with all of the provisions of the Amendment Act becoming effective on 1 January 2018. The Amendment Act contains amendments to 11 key pieces of financial sector legislation, and seeks to ensure that South Africa continues to have a sound and well regulated financial services industry which promotes financial stability by strengthening the financial sector regulatory framework, enhancing the supervisory powers of the regulators and enhancing the powers of the Government to address potential risks to the financial system even during the transition to the "twin peaks" system. The explanatory memorandum published together with the Amendment Act states that the Amendment Act does not cover the more fundamental reforms envisaged in the shift towards a "twin peaks" model of financial regulation, but rather addressed the more urgent legislative gaps and the removal of inconsistencies in current legislation.

The FSR Act was assented to on 21 August 2017 and came into effect on 1 April 2018 (with the exception of a few provisions relating to the Ombud Council which is yet to be established). The FSR Act is the first in a series of acts that will give effect to the Government's decision to implement the "twin peaks" model of financial regulation (discussed above) with a view to ensuring that the sector is safer and more effective.

The FSR Act reflects the Government's undertaking to eliminate lending malpractices, protect customers and reduce systemic risk through increased market conduct regulation. A new financial market conduct regulator (referred to as the FSCA in the FSR Act) has been appointed with a purview over the full range of financial services related matters, such as the regulation of banking charges. The FSCA has been mandated to protect customers of financial service providers, improve the way in which financial service providers conduct their business, ensure that the integrity and efficiency of the financial markets is maintained, and promote effective financial consumer education.

The objective of the Prudential Authority is to promote and enhance the safety and soundness of financial institutions that provide financial products, market infrastructures and payment systems to protect financial customers, including depositors, against the risk that those financial institutions may fail to meet their obligations.

The current legislative framework that underpins market conduct and consumer protection includes the following legislation: the FSR Act, the Financial Markets Act, 2012, the Financial Advisory and Intermediary Services Act, 2002, the Consumer Protection Act, 2008, the National Credit Amendment Act, 2014, the Retail Distribution Review, 2014 as well as a comprehensive set of principles relating to Treating Customers Fairly ("**TCF**") as released by the National Treasury in the form of a discussion paper in December 2014.

The Government seeks to ensure financial stability through macro-prudential regulation in line with international standards and measures including: improving the quality of capital; reducing pro-cyclicality; setting leverage and liquidity ratios; and issuing compensation guidelines. It further requires swift regulatory action to prevent contagion and proposes a more intense, intrusive and effective form of regulation. The Government has commenced with the process of implementing regulations that will eventually be expanded to cover all sources of systemic risk including the regulation of all private pools of capital, for example, over-the-counter derivatives (which are regulated in terms of the Financial Markets Act) and other unregulated financial activities. The Financial Markets Act Regulations cover the registration of over-the counter derivatives providers with the regulator, the licensing of local and external central counterparties, and the requirement to clear trades via central counterparties and report trades to trade repositories. Further, consequential amendments to the Financial Markets Act came into effect on 9 February 2018 which give effect to certain content in the Financial Markets Act Regulations, all of which moves South Africa closer to fulfilling its G20 commitments.

Anti-money laundering regulations

The Government has identified the combating of financial crime as a policy priority. As a result thereof, South Africa has a well-established anti-money laundering ("**AML**") / Combating the Financing of Terrorism ("**CFT**") legislative framework which includes but is not limited to the FICA and the Protection of Constitutional Democracy Against Terrorist and Related Activities Act, 2004. The Mutual Evaluation Report issued by the FATF, (an inter-governmental AML policy-making and standards setting body) in 2009 confirmed that South

Africa has demonstrated a strong commitment to implementing AML/CFT systems facilitated by close cooperation and coordination amongst a variety of government departments and agencies. The Mutual Evaluation Report also stated that the South African authorities have sought to construct a system which uses, as its reference, the relevant United Nations Security Council Conventions and the international standards as set out by the FATF, and that the South African government also recognises the importance of being able to effectively respond to international instruments such as sanctions resolutions.

The Bank Supervision Department of the SARB (the "**BSD**") strives to maintain an effective compliance framework and operational capacity to supervise compliance by banks with AML/CFT standards. The BSD regularly conducts FICA compliance inspections of the accountable institutions that it supervises, and the scope of these visits would include the assessment of compliance with FICA guidance notes, directives and circulars. The SARB is empowered to conduct these inspections and perform other supervisory duties by virtue of section 45 of FICA.

Flowing from these responsibilities, in April 2013, the SARB conducted AML/CFT inspections to assess whether all of the major banks in the South African market had adopted appropriate measures to ensure compliance with the requirements of FICA.

As a result thereof, the SARB imposed administrative sanctions and directives to implement remedial action on a number of banks, including Absa. The sanction imposed on Absa relates to the failure by Absa to ensure that appropriate measures were in place to comply fully with the provisions of FICA. The sanction was in the form of a fine.

The SARB noted in its press release that the "administrative sanctions are not an indication that the banks in question have in any way facilitated transactions involving money laundering and the financing of terrorism".

In December 2016, the SARB imposed further administrative sanctions and directives, in the form of a fine, to implement remedial action on Absa. The sanction imposed on Absa relates to certain weaknesses in its controls and working methods pertaining to transaction monitoring.

Absa has a remediation plan in place and has made significant progress in executing the plan. Regular updates are provided to the BSD, FIC and the Issuer's Board of Directors.

The Issuer is committed to and supports global efforts to combat money laundering and terrorist financing.

Consequently the Issuer has established and adopted policies and procedures to assist it to comply with money laundering and terrorist financing control requirements in each jurisdiction in which it operates and to ensure the recognition, investigation and reporting of suspicious activity to the relevant authorities. It also continues to take measures to effect enhancements to its processes in order to address global AML/CFT risks.

SOUTH AFRICAN RESERVE BANK (SARB)

The SARB is responsible for bank regulation and supervision in South Africa with the purpose of achieving a sound, efficient banking system in the interest of the depositors of banks and the economy as a whole. The SARB holds various international memberships including the G-20, the IMF, the BIS and the Committee of Central Bank Governors in the Southern African Development Community. The SARB serves on various BIS committees including the Basel Committee and the Committee on Payments and Settlement Systems. The SARB performs its function of bank regulation and supervision through the BSD, which issues banking licences to institutions and monitors their activities under the applicable legislation. The Registrar of Banks is an officer of the SARB and is primarily responsible for overseeing banks. The Registrar of Banks has extensive regulatory and supervisory powers. Every bank is obliged to furnish certain prescribed returns to the BSD in order to enable the banking regulator to monitor compliance with the formal, prudential and other requirements imposed on banks in terms of, *inter alia*, the Banks Act and the Regulations Relating to Banks. Such regulations may be, and are, amended from time to time in order to provide for amendments and additions to the prescribed returns, and the frequency of submission thereof. The Registrar of Banks independently executes his duties, but has to report annually to the Minister of Finance, who in turn has to table this report in Parliament.

In terms of the Banks Act, the BSD, among other things, supervises banking groups on a consolidated basis from the bank controlling company downwards. In this regard, controlling companies of banks are required to submit, on a quarterly basis, a consolidated supervision return which includes information on all of the entities within that banking group that potentially constitute a material or significant risk to that banking group. The return covers issues such as group capital adequacy, group concentration risk, intra-group exposures and group currency risk. Moreover, a bank controlling company is also required to furnish the regulator, on a quarterly basis, with bank consolidated and group consolidated information which includes a detailed balance sheet, an off-balance sheet activities return and an income statement.

A banking group is required to satisfy the regulator's requirements in respect of the adequacy and effectiveness of its management systems for monitoring and controlling risks, including those in its offshore operations, and the integrity of its accounting records and systems. Banking groups are required to comply with the provisions of the Banks Act as well as with all financial and prudential requirements, including minimum capital and liquidity requirements, which are actively monitored by the banking regulator. In addition, banking groups have to satisfy the banking regulator's requirements pertaining to issues such as overall financial soundness worldwide, including the quality of its loan assets and the adequacy of its provisioning policy. As part of its supervisory process, the banking regulator undertakes on-site and off-site examinations. The banking supervisor seeks to apply the Core Principles for Effective Banking Supervision as issued by the Basel Committee.

The Issuer, as a banking group, is supportive of the SARB's objectives and endorses improvements in risk management and governance practices as an active participant in the new regulatory landscape. The same approach is also applied in respect of the Issuer's cooperation with other regulatory authorities and much effort and resources are dedicated in a cost efficient manner in order to reap maximum benefits emanating from the implementation of best practice and the resultant enablement of its global business activities.

Currently the banking industry works within a three tiered framework:

- the Banks Act (effecting changes to the Banks Act requires Parliamentary approval);
- the Regulations Relating to Banks (changes to the Regulations Relating to Banks require the approval of the South African Minister of Finance); and
- Banks Act circulars, directives and guidance notes.

Circulars may be issued by the Registrar of Banks to furnish banks with guidelines regarding the application and interpretation of the provisions of the Banks Act; guidance notes may be issued by the Registrar of Banks in respect of market practices or market and industry developments; and directives may be issued by the Registrar of Banks, after consultation with the affected parties, to prescribe certain processes or procedures to be followed by banks with regard to certain processes or procedures necessary in the administration of the Banks Act. It is obligatory for banks to comply with its prescriptions.

The Banks Act, Regulations Relating to Banks, circulars, directives and guidance notes issued by the Registrar of Banks set out the framework governing the formal relationship between South African banks and the BSD. Pursuant to this legislation, the Issuer and representatives of the Registrar of Banks meet at regular bilateral meetings (between the Issuer's senior management and the BSD), annual trilateral meetings (between the Issuer's audit committee, the BSD and the Issuer's internal and external auditors) and prudential meetings (which usually include meetings with risk management executives and the heads of each of the Issuer's business divisions). The Issuer also engages in frequent on-site reviews with the Registrar of Banks' supervisory team which cover a range of topics including an assessment of the Issuer's performance against its peer group.

The prudential regulation and supervision of banks furthermore assists the SARB in its pursuit of financial system stability. Similar to other central banks, the SARB is placing increased emphasis on macro-prudential aspects of financial stability.

In response to fundamental weaknesses in international financial markets, revealed by the recent global financial crisis, a large volume of new regulatory and supervisory standards and requirements were issued by international standard-setting bodies such as the Basel Committee. The incorporation of the changes and enhancements into the domestic regulatory framework requires an ongoing review of South African banking legislation and regulatory requirements in order to ensure the appropriate alignment of the regulatory framework with international standards. In this regard, both the Banks Act and the Regulations Relating to Banks are amended from time to time. As an example, the implementation of Basel III (which commenced on 1 January 2013 and will continue up to the end of 2018 in line with the timelines determined by the Basel Committee), necessitated, and will require certain further amendments to the legal framework for the regulation and supervision of banks in South Africa.

The Issuer views its relationship with the Registrar of Banks as being of the utmost importance and it is committed to fostering sound banking principles for the industry as a whole. In this regard, the Issuer is a member of the Banking Association of South Africa, whose role is to establish and maintain the best possible platform on which banking groups can engage regulatory bodies, government departments and policy making institutions on new and amended regulatory and legislative requirements.

REGULATORY ENVIRONMENT

Regulatory changes continue to impact the Group's operations, earnings and balance sheet. The principal regulatory change factors that have impacted the Group's results of operations and financial position (including liquidity and capital) are set out below. Where the impact of regulatory changes is known it is also set out below and where the impact is unknown, work is currently underway to determine the impact and as such the Issuer is not currently in a position to quantify such impact until completion of the relevant assessment(s).

South Africa

Current

- *National Credit Act, 2005.* The National Credit Regulator introduced lower retail lending interest rate caps in South Africa effective from May 2016, which reduced the Group's margins in personal loans and credit cards.

- *Basel 3 Liquidity requirements.* The Basel Committee introduced two new liquidity metrics in 2013, the Liquidity Coverage Ratio ("**LCR**") minimum requirement which is being phased in from 1 January 2015 (60%) to 1 January 2019 (100%) and the NSFR which became effective on 1 January 2018 with a minimum requirement of 100%. The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets ("**HQLA**") that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario. The LCR will improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spill over from the financial sector to the real economy. The NSFR supplements the LCR and has a time horizon of one year. It has been developed to provide a sustainable maturity structure of assets and liabilities.

- *Basel 3 capital requirements.* As per Directive 5/2013 and its replacement, Directive 6/2016, South Africa is implementing Basel III capital supply requirements. The minimum Basel III capital supply requirements have been implemented, together with a systemic risk add-on ("**Pillar 2A**") with a range of 0.5% to 2.0% as well as a bank-specific individual capital requirement add-on ("**Pillar 2B**"). The Pillar 2A requirements will be adjusted to cater for the D-SIB buffer as it is phased in. The D-SIB (min 0% - max 2.5%), conservation (min 0% -2.5%) and countercyclical (min 0% - max 2.5%) buffers began being phased in on 1 January 2016, with full implementation due on 1 January 2019, in line with Basel III requirements. South Africa has also implemented a leverage ratio with a requirement of 4%, 1% above the current minimum Basel requirement.

- *Introduction of twin peaks.* The FSR Act which was assented to on 21 August 2017 and which came into effect on April 1 2018 introduces and establishes the "twin peaks" regulatory framework, by creating the Prudential Authority, FSCA, Financial Sector Tribunal and Ombud Council. The FSR Act also creates a formal financial stability mandate which is allocated to the SARB. The Prudential Authority and FSCA will regulate all financial institutions "collectively/collaboratively" with the aim of reducing regulatory fragmentation and arbitrage.

- *Retail Distribution Review.* The initial Retail Distribution Review ("**RDR**") discussion document was published in November 2014. Against the background of the TCF approach to regulating conduct of business in financial services, the RDR discussion document proposed substantive reforms to the regulatory framework for financial advice and for distribution of financial products to customers. The RDR put forward a range of regulatory proposals to be implemented in three broad phases. The phase 1 deliverables that became effective on 1 January 2018 primarily comprise of ensuring that certain long term and short term insurance policy holder protection rules and governance requirements including binder agreements for insurance arrangements are in place. The FSCA is currently defining a roadmap to inform delivery of milestones for the remaining requirements of phase 1 that include transition periods. The FSCA is also planning for the delivery of Fit and Proper Regulations that came into effect on 15 December 2017. The RDR, once fully implemented, is expected to have a financial impact on the Group, which is currently being quantified.

- *FIC Amendment Act, 2017.* The FIC together with the National Treasury have amended the FICA in line with the standards set out by the FATF and international best practices. A phased approach has been adopted towards the commencement of the FIC Amendment Act (first provisions commenced on 13 June 2017 and the bulk of the provisions came into effect on 2 October 2017). These provisions required changes to Money Laundering and Terrorist Financing Control Regulations and withdrawal of exemptions published in relation to provisions under FICA, as well as training of staff and major changes to processes and systems used by accountable institutions (Absa is an accountable institution). Banks have until April 2019 to implement and become compliant with the provisions of the FIC Amendment Act.

- *Protection of Personal Information Act, No 4 of 2013 ("**POPIA**")*. POPIA promotes the protection of personal information by public and private bodies. POPIA was promulgated on 26 November 2013 and parts of POPIA commenced in April 2014. The parts that commenced then had no compliance implications for the Issuer. The information regulator for POPIA was appointed on 7 September 2016. The Issuer expects compliance to take at least three years to achieve given the magnitude and complexity of the requirements and the nature of its business. The divestiture from Barclays further adds to the complexity and resource constraints. As a result of the promulgation of POPIA, the Issuer has set up a Privacy Office and aligned its privacy policies and standards with the requirements of POPIA. A privacy programme was initiated in early 2017 to facilitate and support the Issuer with implementing the requirements of POPIA.

- *Insurance Act, 2018*. The Insurance Act was signed into law on 17 January 2018, although the commencement date of the Insurance Act is yet to be announced. The Insurance Act provides a consolidated legal framework for the prudential supervision of the insurance sector (both long term and short term), enhances protection of policyholders, increases access to insurance for all South Africans and promotes broad-based transformation of the insurance sector. Transformation in particular will become a consideration of the Prudential Authority when granting and renewing licences. The Insurance Act also gives effect to capital reforms under Solvency Assessment and Management ("**SAM**"), a risk based approach to determining capital requirements that is expected to improve the safety and soundness of insurers. The Group has responded to or is in the process of responding to the different provisions of the Insurance Act by virtue of its existing underlying sectorial laws and global insurance guidelines and frameworks.

Upcoming

- *Financial Sector Levies Act, 2016*. The Financial Sector Levies Bill (the "**Levies Bill**") is the funding model for the establishment of "twin peaks", as it provides for the imposition and collection of levies for the benefit of the FSCA, the PA, the Financial Services Tribunal, the Ombud Council, the Office of the Pension Funds Adjudicator and the Office of the Ombud for Financial Services Providers. Banks are currently required to pay the maximum annual licence fee of R300,000 to the SARB. The Levies Bill, *inter alia*, proposes that banks pay a levy amount with the maximum cap of R45 million to the newly established PA.

- *Implementation of phases 2 and 3 of Retail Distribution Review*. Implementation of Phases 2 and 3 will primarily deal with categorisation of the types of advisers, types of advice, investment products and investment management.

- *Resolution Framework*. The draft resolution framework provides for the establishment of a framework for the resolution of banks, systemically important non-bank financial institutions and holding companies of banks or systemically important non-bank financial institutions to ensure that the impacts and potential impacts of a failure of a bank or a systemically important financial institution and designated institutions are managed appropriately in relation to financial stability. The draft resolution framework is currently undergoing a consultative process with industry and regulators and deals with, *inter alia*, resolution actions, covered deposits, the establishment of the Deposit Insurance Corporation and the Deposit Insurance Fund. The draft Resolution Bill is yet to be published for public comment to continue in the legislative process. The tax implications and size of the Deposit Insurance Fund are still unclear at this stage. The regulators are currently developing the draft standards that are to be read in conjunction with the draft resolution framework.

- *Financial Conglomerate Supervision Framework*. This framework has been through the consultation phase and is aimed at complementing the current "twin peaks" regulatory regime. The framework introduces a tier 3 supervisory approach aimed at financial institutions defined as conglomerates and is focused on the contagion risks that manifest in financial institutions that are involved in banking, insurance and securities activities. The appropriate financial regulators are currently developing the regulations in collaboration with the financial sector along five workstreams including capital, intragroup exposures, large risk exposures and concentrations, corporate governance and risk management and reporting.

- *Conduct of Financial Institutions ("**COFI**") Bill*. The COFI Bill will, *inter alia*, encompass a single licensing regime and will impose standards on products and services offered by banks. It is envisaged that the COFI Bill will consolidate market conduct regulation of banks and its implementation would constitute the first time South African banks have been required to report to a designated market conduct regulator.

- *FinTech*. The SARB has recently published the first draft directive dealing with cloud computing and the offshoring of data. The directive is currently in the consultation phase and once finalised would have an impact on the Group from a cost perspective. Regulations are also currently being developed for cryptocurrencies and a consultative paper is expected to be published for comment later this year.

- *Financial Markets Act Over the Counter Derivatives Regulations and Board Notices*. The SARB has recently published the draft Over The Counter Derivatives Regulations for public consultation. These regulations have a direct impact on the Group's CIB Global Markets business. The impact of these regulations is currently being quantified.

- *Draft National Credit Amendment Bill – Introduction of Debt Intervention Process*. The Portfolio Committee on Trade and Industry has recently initiated the draft National Credit Amendment Bill, 2018 (the "**NCA Bill**") for introduction to the National Assembly. The NCA Bill proposes to amend the National Credit Act in fundamental respects. The NCA Bill introduces a "new" debt intervention process that could lead to the extinguishment of debt of consumers who earn less than R7500 with debt of less than R50,000. The Banking Association of South Africa has raised concerns around aspects of the NCA Bill considered unconstitutional during the Parliamentary hearings into the NCA Bill. The proposals contained in the NCA Bill could reduce lending appetite.

- *Land reform*. Parliament recently passed a motion of "expropriation without compensation". The resolution established a Constitutional Review Committee to consider all aspects of expropriation without compensation, including the legal and economic aspects thereof. The resolution of Parliament sets forth a process and the Constitutional Review Committee has been requested to report back to Parliament on this matter by 30 August 2018. The Constitutional Review Committee is currently setting up workshops for consultation with a number of participants, including industry associations. The Issuer is considering the potential impact of such reforms on its land and property-related lending activities and anticipates contributing to public consultations on the reforms as they unfold. The Issuer will, furthermore, consider participating together with various stakeholders, in the development and funding of any supporting initiatives.

Rest of Africa

The Group continues to see regulatory changes across the countries in which it operates, for example:

- *Kenya*. The central bank of Kenya introduced a retrospective interest rate cap on lending, and a floor on deposits in September 2016. In March 2018, Kenya announced that it was re-examining the interest rate cap on lending.

- *Ghana: Directive with regard to New Minimum Paid Up Capital*. As part of a holistic financial sector reform plan to further develop, strengthen and modernise the financial sector to support the government's economic vision and transformational agenda, the central bank on 11 September 2017 announced a new minimum paid up capital of Ghanaian cedi 400 million. All existing banks have up to 31 December 2018 to meet the new minimum paid up capital. The Issuer's operations in Ghana are expected to be compliant.

- *Ghana: Directive with regard to Ghana Deposit Protection Scheme*. In preparation for implementation of the Ghana Deposit Protection Act 2016, Act 931 by 31 December 2018, the central bank directed banks to submit data on deposits held (which was submitted by Barclays Bank Ghana in September 2017) and internal assessments are ongoing within Barclays Bank Ghana Limited.

- *Mauritius: Guideline on the issue of Commercial Paper*. This guideline governs the issuance of Commercial Paper ("**CP**") in Mauritius. It outlines the minimum requirements that issuers and investors should meet, the procedures defined where first used to be followed for CP issuance as well as the duties and obligations of all parties involved in the process.

- *Mozambique: Implementation of New Fees, Charges and Commissions Regulations (Notice 13/GBM/2017), dated 9 June 2017*. The relevant Notice aims to adjust the regime of the free financial services, establish a common classification of the financial services and reinforce the duties of credit institutions and financial companies in order to promote transparency in the financial system.

- *Tanzania: Mining (local content) Regulations 2018*. The minister for minerals signed the Mining Regulations 2018 relevant to the mining sector. Regulation 36 will particularly impact National Bank of Commerce Limited ("**NBC**"), a member of the Group, as Regulation 36 requires persons or entities who conduct mining operations or activities (at all levels of the supply chain) in Tanzania to maintain a bank account with an indigenous Tanzanian bank and transact business through banks in Tanzania. For the purpose of Regulation 36, "an indigenous Tanzanian bank" means a bank that has 100% Tanzanian or a majority Tanzanian shareholding. NBC may be impacted if persons or entities who conduct mining operations or activities in Tanzania decide to close their accounts with NBC and open instead an account with an indigenous Tanzanian bank.

- *Zambia: The Draft Bank of Zambia Bill*. The objective of the Bill is to replace the Bank of Zambia Act no.43 of 1996, to provide for the operation of the Bank of Zambia (the central bank) and other matters connected or incidental to the same and will provide for, amongst things, establishing a deposit protection fund to be administered by the Bank of Zambia.

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS AND BUSINESS CONDITIONS

The Group's business, results of operations, financial condition and prospects have been affected, and may continue to be affected, by various factors, the most significant of which are described below. The impact of these and other potential factors may vary significantly in the future.

Macroeconomic Environment

The macroeconomic environment in the main markets in which the Group operates, and, in particular, South Africa, is the major driver of the Group's earnings and credit quality. As of 31 December 2017, 86% of the Group's total assets were in South Africa.

Across the Group's 12 operating countries in Africa, economic growth recovered to 2.8% in the first three quarters of 2017 (5.3% excluding South Africa), versus a trough of 2.2% in 2016 (4.8% excluding South Africa) and against 2.9% in 2015 and 3.4% in 2014. The strengthening global economy, higher average commodity prices and output, improved weather conditions and monetary policy accommodation across the region, underpinned the recovery. However, low fiscal buffers remained a constraint to growth, while the debt burden continues to rise. In addition, policy and political uncertainty impacted negatively on business and consumer sentiment in some larger markets.

Set out below is a summary of economic developments in the Group's main markets since the beginning of 2014. Unless otherwise stated, all expectations of future economic developments are those of the Group's economic research team and are subject to change. See "*Forward-Looking Statements*".

South Africa

South Africa's economy grew at less than 2% per year in real terms between 2014 and 2017. Though revised data shows that the country narrowly avoided slipping into recession in early 2017, a modest cyclical rebound delivered average GDP growth of 1.3% year-on-year for 2017 as a whole. The recovery was led by a strong post-drought recovery in agricultural activity as well as stronger mining output on the back of higher international commodity prices. Household consumption expenditure growth was weak but showed some resilience in the face of a weak labour market, a still muted credit cycle and tax increases. Meanwhile, amidst continuing weak business confidence, private sector fixed investment increased by 1.2% during 2017 following two consecutive years of contraction. Fiscal policy is a major challenge with the February 2018 budget announcing a package of new tax increases (particularly a 1 percentage point increase in the VAT rate to 15%) and a mix of expenditure plans (cuts to planned infrastructure, additional funding to provide for a phasing in of free higher education for students from poorer families). Following the intra-term replacement of Jacob Zuma with Cyril Ramaphosa as state president, the cabinet has been shuffled and the new administration has signalled an intention to address governance concerns within government and across state owned enterprises, to bring stakeholders in the resources sector together in order to agree a way forward on a revised mining charter, and to draft proposed changes to the constitution that could provide for expropriation of property without compensation under certain circumstances. Policy uncertainty is significant, though the new administration also brings with it greater support from business, labour, and civil society. Against this macroeconomic and policy backdrop, Standard & Poor's lowered the country's local currency rating to sub-investment grade for the first time in November 2017 although Moody's announced on 23 March 2018 that it would maintain South Africa's rating at Baa3 and was revising South Africa's outlook to stable from negative on the basis of its view that the previous weakening of institutions was gradually reversing.

The following table sets out key South Africa economic indicators for the four years ending 31 December 2014-2017:

	As of and for the year ended 31 December			
	2017	**2016**	**2015**	**2014**
GDP (Rand billions)	4652	4350	4051	3805
GDP (U.S.$ billions)	349	297	319	354
GDP growth (% year-on-year real)	1.3	0.6	1.3	1.8
Unemployment rate (%)	26.7	26.5	24.5	24.3
Repo rate (%, end of period ("**eop**"))	6.75	7.00	6.25	5.75
Inflation (%, eop)	4.7	6.7	5.3	5.3

	As of and for the year ended 31 December			
	2017	2016	2015	2014
Exports (Rand billions)	1175	1125	1030	1015
Imports (Rand billions)	1106	1090	1076	1070
Trade balance (Rand billions)	69	35	-46	-55
Current account balance (Rand billions)	-114	-121	-180	-193
Budget balance (Rand billions) [1]	-168	-166	-168	-168

Source: Statistics South Africa, South African Reserve Bank, National Treasury

[1]*Fiscal year runs April-March.*

Rest of Africa – Kenya, Botswana and Ghana

The following table sets out key economic indicators for the Group's largest markets in Rest of Africa, by revenue, of Kenya, Botswana and Ghana for the years ended 31 December 2017, 2016, 2015 and 2014:

	As of and for the year ended 31 December			
	2017	2016	2015	2014
Kenya				
GDP (U.S.$ billions)	N/A	70.5	63.8	61.4
GDP growth (%, year-on-year, real)[1]	4.7	5.8	5.6	5.3
Policy rate (%, eop)	10.00	10.00	11.50	8.50
Inflation (%, eop)	4.5	6.4	8.0	6.0
Botswana				
GDP (U.S.$ billions)	17.5	15.6	14.4	16.3
GDP growth (% year-on-year, real)[1]	2.4	4.3	-1.7	4.1
Policy rate (%, eop)	5.00	5.50	6.00	7.50
Inflation (%, eop)	3.2	3.0	3.2	3.8
Ghana				
GDP (U.S.$ billions)	N/A	42.8	36.9	38.8
GDP growth (% year-on-year, real)[1]	8.4	3.6	3.9	4.0
Policy rate (%, eop)	20.00	25.50	26.00	21.00
Inflation (%, eop)	11.8	15.4	17.7	17.0

Source: National Bureau of Statistics, central bank of Kenya, Statistics Botswana, Bank of Botswana, Ghana Statistical Service, Bank of Ghana.

[1] *2017 reflects average of Q1-Q3 2017.*

The Group runs significant banking operations in a number of markets beyond South Africa, of which the three largest by revenues are Ghana, Kenya and Botswana. In terms of the economic environment in each of these countries, Kenya's economic growth has accelerated in recent years, averaging 5.2% over the past decade as investment in infrastructure and agriculture underpinned growth. From 5.8% year-on-year in 2016, data from the first three quarters of 2017 shows Kenyan economic growth slipping to 4.7% year-on-year as a result of the tighter credit availability following the introduction of interest caps in September 2016 and as a result of the economic uncertainty created by a prolonged election cycle in the second half of 2017. In recent years the country's fiscal and current account deficits have been unusually large, reflecting large infrastructure outlays. Although investment in infrastructure should position Kenya well for elevated long-term economic growth, the significant rise in public debt and elevated external borrowing exposure has raised the concern of some global credit rating agencies. Moody's downgraded Kenya's sovereign rating to B2 (stable) in February 2018. Standard & Poor's last changed the country's credit rating, B+ (stable), in 2010.

Economic activity in Botswana has been weaker in recent years with the country's large exposure to commodities making it prone to experiencing volatile periods. After weaker diamond demand and a severe drought pushed the economy into recession in 2015, the economy staged a recovery in 2016, underpinned by the stronger demand for diamonds, to record growth of 4.3%. However, a weaker mining sector in 2017 resulted in significant slowing in economic growth. Growth in the non-mining sector was also slow in 2017 as consumer demand remained depressed. As a result of these challenges, the country's fiscal balance slipped into deficit in 2016, limiting the government's ability to support the economy. Notwithstanding the above, Botswana retains the strongest sovereign credit rating profile in Sub-Saharan Africa from the major global credit rating agencies, with its sovereign credit ratings being rated A2 (stable) by Moody's and A- (stable) by Standard & Poor's as at the date of this Prospectus.

Ghana returned to being one of the fastest growing economies within Sub-Saharan Africa in 2017. Economic growth in the first three quarters of 2017 averaged 8.4% year-on-year as significantly higher oil, cocoa and gold output underpinned the strong performance. Although growth in the non-oil sector initially lagged, growth in the oil sector and growth in this sector also strengthened as the year progressed, after benefitting from lower policy rates. With the help of the IMF, Ghana was able to reduce its large current and fiscal account deficits in 2017 after experiencing a significant fiscal deficit in 2016. The faster growth rate in 2017 and reduced accumulation of debt have improved the country's credit profile and led to Standard & Poor's upgrading the country's sovereign rating outlook to positive in October 2017.

Interest Rates

The SARB repo rate is the most significant indicators of the movement in interest rates for the Issuer. The table below shows changes in the official repo rate from 1 January 2013 to the most recent rate change prior to the date of this Prospectus.

Date	Change in repo rate	Repo rate
1 January 2013	-	5.00%
31 January 2014	+0.50%	5.50%
18 July 2014	+0.25%	5.75%
24 July 2015	+0.25%	6.00%
20 November 2015	+0.25%	6.25%
29 January 2016	+0.50%	6.75%
18 March 2016	+0.25%	7.00%
21 July 2017	-0.25%	6.75%
28 March 2018	-0.25%	6.50%

Moves in the central bank's policy rate have been limited in recent years, with the rate generally remaining near historical lows as the SARB Monetary Policy Committee has navigated an environment of very weak economic growth, muted credit creation and inflation generally within target ranges.

Most recent policy rate changes in key markets beyond South Africa are indicated below:

Kenya

Date	Change in Central Bank Rate	Central Bank Rate (%)
23 May 2016	-1.00%	10.50%
20 September 2016	-0.50%	10.00%
19 March 2018	-0.50%	9.50%

Ghana

Date	Change in Policy Rate	Policy Rate (%)
24 July 2017	-1.50%	21.00%
27 November 2017	-1.00%	20.00%
26 March 2018	-2.00%	18.00%

Botswana

Date	Change in Bank Rate	Bank Rate (%)
6 August 2015	-0.50%	6.00%
12 August 2016	-0.50%	5.50%
24 October 2017	-0.50%	5.00%

Source: Central Bank of Kenya, Statistics – Rates: Central Bank Rate; Bank of Ghana, Monetary Policy: Policy Rate Trends; Bank of Botswana, Indicators: Interest Rates – Tabular.

DESCRIPTION OF THE GROUP'S BUSINESS

OVERVIEW

The Group is a leading African diversified financial services provider offering an integrated set of products and services across retail and business banking, corporate and investment banking, wealth investment management and insurance. The Group is headquartered in South Africa and regulated by the SARB. The Group is listed on the JSE with a market capitalisation of R154.3 billion at 31 December 2017. The Issuer serves its customers through a network of 1,145 branches operating in 12 African countries. The Group's principal market is South Africa. It further operates banks in Ghana, Kenya, Tanzania, Mozambique, Zambia, Uganda, Botswana, Mauritius and Seychelles and has representative offices in Namibia and Nigeria.

As at 31 December 2017, the Group had total assets of R1.2 trillion (compared to R1.1 trillion as at 31 December 2016) of which loans and advances to customers were R750 billion (2016: R720 billion). Headline earnings for the Group were R15.6 billion on a normalised basis in 2017 (2016: R15.0 billion). See "*Management's Discussion and Analysis of Financial Condition and Results of Operations* " for further detail.

The Issuer's principal operations are conducted through its wholly-owned subsidiary, Absa. Absa offers a range of retail, business, corporate and investment banking, and wealth management products and services primarily in South Africa. Absa is one of South Africa's largest banking groups. Absa contributed 68%, 85% and 86% of the Group's total income, assets and liabilities, respectively, as at and for the year ended 31 December 2017.

As at 31 December 2017, the Group had four principal segments namely South Africa Banking ("**South Africa Banking**"), Rest of Africa Banking ("**Rest of Africa Banking**"), Wealth Investment Management and Insurance ("**WIMI**") and a group centre. South Africa Banking comprises of a Retail and Business Banking ("**RBB**") and Corporate and Investment Banking **("CIB")** divisions. This structure is replicated in Rest of Africa Banking which is comprised of the same segments.

RECENT DEVELOPMENTS

In support of the new corporate strategy of the Issuer which was announced in March 2018, the Issuer has announced changes to its organisational structure. The new organisational structure has five principal segments consisting of four core businesses: RBB South Africa; CIB; Rest of Africa Banking; and WIMI and a group centre. Each of the core businesses is led by a Chief Executive who is part of the Group Executive Committee (as defined herein) and has accountability over the strategy and performance thereof. It should be noted that discussion on financial performance of the Group, including in the section titled, "*Management's Discussion and Analysis of Financial Condition and Result of Operations*" is based on the Group organisation structure that applied as at 31 December 2017.

KEY INFORMATION

The following table presents five years of selected key information of the Group. The 2013 to 2016 information is presented on an IFRS basis whereas the 2017 information is presented on a normalised basis. Prospective investors should read the following information in conjunction with the Group's financial results for the reporting period ended 31 December 2017.

Salient features	For the year ended 31 December					
	2017	**2017(1)**	**2016**	**2015**	**2014**	**2013**
Statement of comprehensive income (Rm)						
Income	**73,305**	**72,900**	72,394	67,198	63,125	59,406
Operating expenses	**43,304**	**41,403**	39,956	37,661	35,848	33,420
Profit attributable to ordinary equity holders	**13,823**	**15,305**	14,708	14,331	13,216	11,981
Headline earnings	**14,313**	**15,558**	14,980	14,287	13,032	11,843
Statement of financial position						
Loans and advances to customers (Rm)	**749,772**	**749,772**	720,309	703,359	636,326	606,223
Total assets (Rm)	**1,165,979**	**1,165,067**	1,101,023	1,144,604	991,414	962,863
Deposits due to customers (Rm)	**689,867**	**689,867**	674,865	688,419	624,886	588,897
Loans to deposits and debt securities ratio (%)	**90.6**	**90.6**	88.4	86.1	87.1	88.3
Financial performance (%)						
Return on equity ("**RoE**")	**14.2**	**16.4**	16.6	17.0	16.7	15.5
Return on average assets ("**RoA**")	**1.27**	**1.38**	1.34	1.37	1.33	1.29
Return on risk-weighted assets ("**RoRWA**")	**1.99**	**2.16**	2.14	2.18	2.22	2.16
NPL ratio on gross loans and advances	**3.75**	**3.75**	3.94	3.47	4.19	4.71
Operating performance (%)						
Net interest margin on average interest-bearing assets	**4.96**	**4.95**	4.95	4.81	4.65	4.46
Credit loss ratio on gross loans and advances to customers and banks	**0.87**	**0.87**	1.08	0.92	0.88	1.04
Non-interest income as percentage of total income	**41.8**	**41.9**	42.0	42.8	43.6	45.5
Cost-to-income ratio	**59.1**	**56.8**	55.2	56.0	56.8	56.3
JAWS	**(7)**	**(3)**	2	1	(1)	(2)
Effective tax rate	**28.1**	**27.5**	26.9	27.7	28.3	28.9
Share statistics (cents)						
Headline earnings per ordinary share	**1,716.7**	**1,837.9**	1,769.6	1,687.2	1,538.4	1,397.7
Diluted headline earnings per ordinary share	**1,716.5**	**1,837.7**	1,769.4	1,686.2	1,537.5	1,396.6
Basic earnings per ordinary share	**1,657.8**	**1,808.0**	1,764.0	1,692.4	1,560.1	1,414.0
Diluted basic earnings per ordinary share	**1,657.6**	**1,807.8**	1,763.8	1,691.4	1,559.2	1,412.9
Dividend per ordinary share relating to income for the reporting period	**1,070**	**1,070**	1,030	1,000	925	820
Dividend cover (times)	**1.6**	**1.7**	1.7	1.7	1.7	1.7
Special dividend per ordinary share	**-**	**-**	-	-	-	708.0
NAV per ordinary share	**13,018**	**11,550**	10,980	10,558	9,764	9,125
Capital adequacy (%)						
Barclays Africa Group Limited(2)	**16.1**	**14.9**	14.8	14.5	14.4	15.5
Absa Bank Limited(2)	**16.9**	**15.0**	15.1	13.8	13.9	15.8
CET 1 (%)						
Barclays Africa Group Limited(2)	**13.5**	**12.1**	12.1	11.9	11.9	12.1
Absa Bank Limited(2)	**13.4**	**11.6**	11.6	10.5	10.8	11.3

(1) 2017 numbers presented on a normalised basis.

(2) Includes unappropriated profits.

COMPETITION

South Africa

The South African market had 11 locally controlled banks, 7 foreign controlled banks, 3 mutual banks, 15 local branches of foreign banks, 2 banks in liquidation and 30 foreign banks with approved representative offices as at 31 December 2017. According to the SARB BA 900 report for 31 December 2017, the banking sector in South Africa had total assets of R5.2 trillion. The Group's principal competitors are The Standard Bank of South Africa Limited, FirstRand Bank Limited, Nedbank Limited, Capitec Bank Limited (which has mainly retail operations) and Investec Bank Limited. These entities represent the largest banks in South Africa. The Group's operations in South Africa are material and ranked in the top three banks in the key product segments of individual mortgages; credit cards; retail deposits (individuals); corporate deposits and corporate loans and advances. The following table sets out total assets as well as capital and reserves for each, in order of magnitude for total assets as at 31 December 2017:

	Total assets	Capital and reserves
	(Rm)	
The Standard Bank of South Africa Limited	1,254,849	101,808
FirstRand Bank Limited	1,120,747	90,457
Absa Bank Limited	983,378	82,178
Nedbank Limited	889,618	72,808
Investec Bank Limited	415,285	31,960
Capitec Bank Limited	87,033	17,624

Source: BA 900 filings – SARB, 31 December 2017

Rest of Africa

The Group operated 10 banks in 9 countries outside South Africa (excluding its representative offices in Namibia and Nigeria) as at 31 December 2017. The Group's operations are material and the banks are systemic to those markets in which they operate and ranked in the top 4 banks (measured by revenue) in all of the markets as at 30 June 2017.

HISTORY

Absa was formed as a result of a merger in April 1991 between three financial service related holding companies: UBS Holdings Limited, Allied Group Limited and Volkskas Group Limited. UBS Holdings Limited represented the holding company of, *inter alia*, United Building Society Limited and United Bank Limited. The Allied Group Limited represented the holding company of, *inter alia*, Allied Building Society Limited and Allied Bank Limited, and Volkskas Group Limited represented the holding company of, *inter alia*, Volkskas Bank Limited, MLS Bank Limited and Volkskas Motorbank Limited (which later changed its name to Absa Motorbank Limited).

Volkskas Bank Limited was incorporated under the name Volkspaar- en Voorskot Kas (Kooperatief) Beperk on 3 April 1934. On 30 September 1991, all the assets and liabilities of this company were transferred to United Bank Limited. Johannesburg Building Society Limited (incorporated on 3 June 1978) became Allied Building Society Limited which then became Alliance (1991) Limited after its assets and liabilities were transferred to Absa Bank Limited.

UBS Holdings Limited changed its name to Amalgamated Banks of South Africa Limited, but traded under the names Allied Bank, TrustBank, United Bank and Volkskas Bank with assets exceeding R52 billion (as at March 1991). Amalgamated Banks of South Africa Limited then changed its name to Absa Group Limited in 1997 and from November 1998, the Group's retail and CIB operations have traded as Absa Bank.

In April 1992, all the assets and liabilities of Bankorp Holdings Limited (formerly Die Trustbank van Afrika until 1 June 1990), the holding company of, *inter alia*, TrustBank Limited, Senbank and Bankfin, were taken over by Absa.

In 2005, Barclays Bank PLC acquired a controlling 56.4% stake in Absa Bank Limited making Absa a subsidiary of the UK banking group. In July 2013, Absa's operations expanded by acquiring selected African operations from Barclays Bank PLC. The acquisition resulted in Absa Group Limited undergoing a name change to Barclays Africa Group Limited (listed on the JSE).

Included in the African operations acquired by the Issuer were Barclays Bank of Kenya Limited and Barclays Bank of Botswana Limited, which continued to be listed on their respective stock exchanges. Barclays Bank Egypt and Barclays Bank Zimbabwe were not acquired in this transaction and remained subsidiaries of Barclays Bank PLC.

As a result of this acquisition Barclays Bank PLC's shareholding in the newly formed Barclays Africa was increased to 62.3%. As of 31 December 2017, Barclays Bank PLC had reduced its shareholding in the Issuer to 14.9%. See "*Barclays Sell down and Separation*" below.

BARCLAYS SELL DOWN AND SEPARATION

On 1 March 2016 Barclays Bank PLC announced its intention to reduce its 62.3% interest in the Issuer to a level that would achieve regulatory and accounting deconsolidation. A comprehensive Separation Programme (as defined below) was initiated by Barclays Bank PLC and the Issuer to determine possible interactions between the companies to ensure that the Group can operate as an independent and sustainable group without the involvement of Barclays Bank PLC.

Barclays Bank PLC currently holds a 14.9% interest in the Group.

Separation Programme

The programme for implementing the Separation ("**Separation Programme**"), was established in 2016 and operates under a robust governance structure that involves the Group's Board of Directors as well as various mechanisms of oversight and governance frameworks within the Group. The key oversight committees include a dedicated sub-committee of the Issuer. The Separation Oversight Committee and a Joint Separation Oversight Committee constituted by three Issuer and three Barclays Bank PLC executives.

The Separation Programme activities are subject to detailed but iterative planning processes by business units, which are subject to central reviews and processes aimed at managing and addressing execution risk across the broader programme. The Separation Programme consists of approximately 300 individual projects of which approximately 90 are on the critical path. Projects on the critical path represent those with the greatest degree of interdependencies and other risk-orientated characteristics. Progress on completion of planning activities is centrally monitored to ensure robust plans support execution and delivery of projects.

A key aspect of the Separation Programme is the continued delivery of services from Barclays Bank PLC, which are delivered on the terms of the transitional services agreements between the Issuer and Barclays Bank PLC. This allows the Issuer the opportunity to build or establish the required capability internally within the Issuer, within a time horizon of approximately three years. As at 31 December 2017, seven of the 129 material services that were contracted with Barclays Bank PLC had been terminated. A further critical agreement is the transitional trademark and licensing agreement which stipulates that the Issuer can utilise the Barclays brand until 2020 in its Rest of Africa operations. In South Africa, removing 'a member of Barclays' from Absa branded items must be concluded by 6 June 2018.

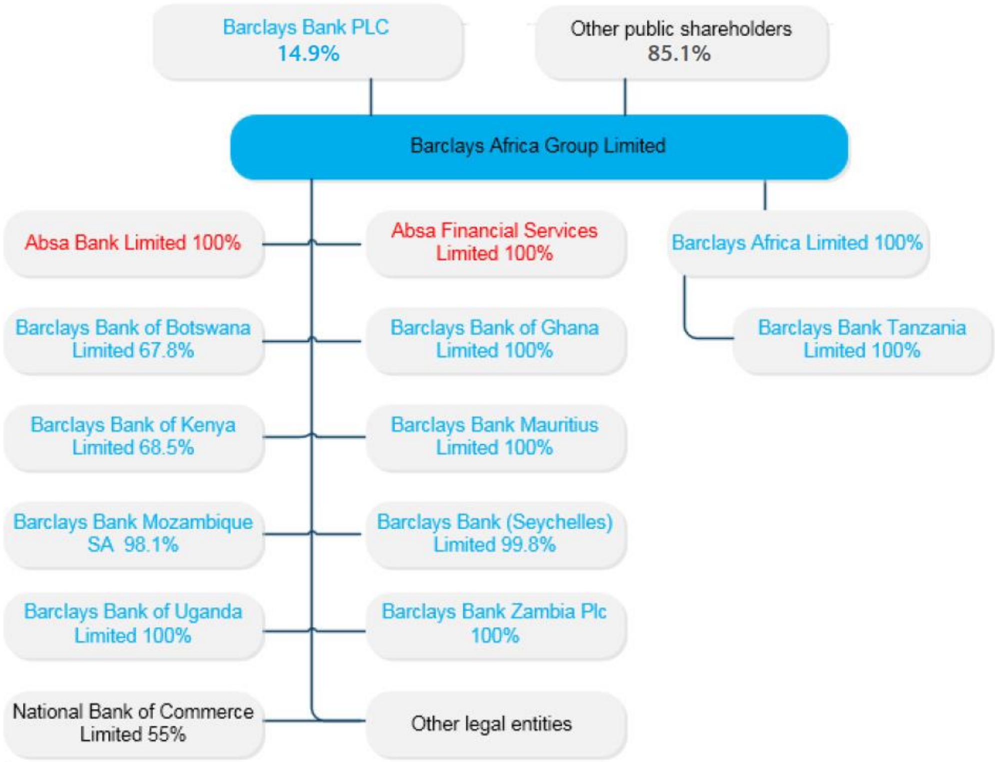
On-going and proactive engagement with regulators is also an important area of focus under the Separation Programme. Various engagements have been entered into including interactions with the Prudential Regulatory Authority and Financial Conduct Authority in the United Kingdom as well as the US Federal Reserve. These engagements focused on requirements for obtaining approval for Barclays Bank PLC for full regulatory deconsolidation of the Issuer. An Africa Supervisory College was established by the SARB to facilitate engagements with the Issuer's regulators outside of South Africa and the Issuer continues to engage with these regulators on a face-to-face basis.

As part of its divestment, Barclays Bank PLC contributed £765m to the Group, mainly in recognition of the investments required for the Group to separate from Barclays Bank PLC. This contribution will be invested primarily in rebranding, technology and other Separation-related projects. The Separation will increase the capital base of the Group in the near term and generate endowment revenue thereon, with increased costs over time as the Separation investments are concluded. The Separation is expected to be cash flow and capital neutral over time.

CORPORATE STRUCTURE AND MAJOR ORDINARY SHAREHOLDERS

The Group follows a group holding company structure, as set out below, in which each operating subsidiary is owned directly or indirectly by the Issuer. Barclays Bank of Kenya and Barclays Bank of Botswana both have significant minority shareholdings which are publically traded on their respective stock exchanges.

Absa Bank Limited represents the Group's principal operations, while the Group's insurance businesses are operated through Absa Financial Services Limited.



Following on from the sell-down by Barclays Bank PLC, the Group now has a diverse shareholder portfolio made up of institutional and individual investors.

The Issuer's largest ordinary shareholders as at 31 December 2017 and as at 31 December 2016

	2017	2016
	%	%
Barclays Bank PLC	14.88	50.10
Public Investment Corporation	6.56	6.86
Old Mutual Asset Managers	4.47	3.11
Black Rock Incorporated	3.06	1.69
Prudential Investment Managers	2.95	2.01
The Vanguard Group Incorporated	2.89	1.66
Schroders Plc	2.69	1.93
Dimensional Fund Advisors	2.39	1.65
Other	60.11	30.99

Major shareholding by geographical segment as at 31 December 2017 and as at 31 December 2016

	2017	2016
	%	%
United Kingdom	27.52	54.1
South Africa	40.68	25.32
United States and Canada	16.58	11.64
Other countries	15.22	8.94

STRATEGY

The sell-down by Barclays Bank PLC brought about a change in the ownership structure of the Issuer and simultaneously created an opportunity to reset the future of the organisation, reflected in a new corporate strategy announced in March 2018.

The aspiration of the Group is to be an entrepreneurial, digital, African banking group with global scalability that makes a real and lasting contribution to the societies it operates in; the best organisation for its people to work in and a company that offers its shareholders the highest possible returns.

The strategy comprises of three strategic priorities that outline the business' objectives, defining what is required to succeed and three enablers which will change the way the Group operates. These enablers determine how the organisation expects to achieve these objectives. The Group will measure success by growth in its principle business segments and doubling its share of revenue across the continent whilst focussing on delivering sustainable high returns.

- The first priority is to restore market leadership in core businesses. The key objectives will be:
    - Regaining leadership in South African retail;
    - Becoming the business bank of choice;
    - Sustainable growth in market share and returns in CIB banking;
    - Crafting a winning bancassurance and wealth model; and
    - Being a leading player in the core markets beyond South Africa.
- The second priority is to build pioneering new propositions. The key objectives will be:
    - Creating a superior consumer finance franchise;
    - Building a leading global payment hub; and
    - Launching a winning transaction banking platform.
- The third priority is to create a thriving organisation that will operate competitively and sustainably. This will be achieved by creating a culture of entrepreneurship.

The three key enablers are as follows:

- The first enabler is to build a scalable digitally-led business. This involves:
    - Separating from Barclays Bank PLC quickly and effectively;
    - Building world-pioneering capabilities; and
    - Establishing a winning brand.
- The second enabler is to play a shaping role in society.
- The third enabler is to pursue growth opportunities. This involves:
    - Targeted acquisitions and disposals in existing markets;
    - Expanding into target markets; and
    - Building strategic partnerships.

Rebranding

On 1 March 2018, the Issuer's shareholders were advised of the intention to change the Issuer's name from "Barclays Africa Group Limited" to "Absa Group Limited", subject to regulatory and shareholders' approval. "Barclays Africa" will become "Absa Group" and the Issuer's operations across Africa will be rebranded as "Absa".

BUSINESS OF THE ISSUER

Group Overview – segmental analysis

For the purposes of the segmental analysis, the focus is on the three principal business segments: South Africa Banking; Rest of Africa Banking; and WIMI. The South African Banking operations represent a significant component of the Group in terms of headline earnings and loans to customers, while Rest of Africa Banking represents the Group's access to less mature, higher growth markets and WIMI is responsible for the group's bancassurance operations. For the year ended 31 December 2017, WIMI and Rest of Africa contributed 26% of the Group's headline earnings.

The following table sets out the Group's revenue headline earnings, loans and advances to customers, deposits due to customers and credit loss ratio for the year ended 31 December 2017 broken down into its priority segments.

	Revenue	Headline earnings	Loans and advances to customers	Deposits due to customers	Credit Loss Ratio
	Rm	Rm	Rm	Rm	%
Barclays Africa Group Limited	**72,900**	**15,558**	**749,772**	**689,867**	**0.87**
South Africa Banking	53,345	12,200	665,959	477,980	0.80
Rest of Africa Banking	15,617	2,954	77,863	108,636	1.34
WIMI	5,490	1,156	5,004	5,150	1.58
Head Office, Treasury and other operations in South Africa	(1,552)	(752)	946	98,101	n/a

The table below shows the contribution of each segment to the Group position for the year ended 31 December 2017.

	Revenue	Headline earnings	Loans and advances to customers	Deposits due to customers
Mix	%	%	%	%
Barclays Africa Group Limited	**100**	**100**	**100**	**100**
South Africa Banking	73	78	89	69
Rest of Africa Banking	21	19	10	16
WIMI	8	7	1	1
Head Office, Treasury and other operations in South Africa	(2)	(5)	0	14

South Africa Banking

Within the South Africa Banking segment, the Group has two major business segments namely: RBB and CIB. The table below shows the contribution of RBB and CIB to South Africa Banking for the year ended 31 December 2017:

	Revenue	Headline earnings	Loans and advances to customers	Deposits due to customers	Credit Loss Ratio
	Rm	Rm	Rm	Rm	%
South Africa Banking	**53,345**	**12,200**	**665,959**	**477,980**	**0.80**
RBB South Africa	42,724	8,874	446,894	300,946	1.10
CIB South Africa	10,621	3,326	219,065	177,034	0.24

	Revenue	Headline earnings	Loans and advances to customers	Deposits due to customers
Mix	%	%	%	%
South Africa Banking	**100**	**100**	**100**	**100**
RBB South Africa	80	73	67	63
CIB South Africa	20	27	33	37

RBB South Africa

Retail Banking South Africa

The Retail Banking South Africa segment offers a comprehensive suite of retail banking products and services to individual customers and SMME (Small, Mid, and Medium Enterprises), from those needing basic banking services to those requiring sophisticated financial solutions. The Issuer serves all individual customers through its retail segment but its key focus is on the core-middle and retail affluent consumer segments.

Retail Banking South Africa services its customers through a distribution network of 730 branches and an extensive self-service terminal network of 8,919 ATMs, relationship managers, call centre agents and electronic and mobile phone channels. The focus is on providing a consistently superior experience across each of the Group's channels, matched closely to the needs and expectations of each customer segment.

Business Banking South Africa

Business Banking offers debt, deposit and transactional products to enterprise and commercial customers. Customers within the enterprise segment, with an annual turnover of up to R20 million, are serviced using a direct coverage model with a predominately branch-based interface. Customers in the commercial segment, with an annual turnover of between R20 million and R500 million, are serviced using a relationship-based model, where dedicated sales and service teams provide customised solutions. The relationship-based model includes a sector overlay focusing primarily on agriculture, public sector, wholesale, retail and franchising. Business Banking also includes an equity portfolio which is being reduced in an orderly manner.

The following tables provide an overview of the RBB operations in South Africa by primary product segments and it provides an overview of the contribution of each such product segment to total RBB South Africa operations for the year ended 31 December 2017:

	Revenue	Headline earnings	Loans and advances to customers	Deposits due to customers	Credit Loss Ratio
	Rm	Rm	Rm	Rm	%
RBB South Africa	**42,724**	**8,874**	**446,894**	**300,946**	**1.10**
Retail Banking South Africa	33,012	6,546	383,495	186,855	1.20
Home Loans	4,825	1,715	224,892	1,619	0.30
Vehicle and Asset Finance	3,910	963	101,092	458	0.87
Card and Payments	8,459	1,601	37,167	1,893	4.53
Personal Loans	2,632	436	17,132	11	6.09
Transactional and Deposits	12,711	2,470	3,211	182,862	2.11
Other	475	(639)	1	12	n/a
Business Banking South Africa	9,712	2,328	63,399	114,091	0.43
Business Banking (excluding Equities)	9,634	2,357	63,399	114,091	0.43
Business Banking Equities	78	(29)	-	-	n/a

	Revenue	Headline earnings	Loans and advances to customers	Deposits due to customers
Mix	%	%	%	%
RBB South Africa	**100**	**100**	**100**	**100**
Retail Banking South Africa	77	74	86	62
Home Loans	11	19	50	1
Vehicle and Asset Finance	9	11	23	0
Card and Payments	20	18	8	1
Personal Loans	6	5	4	0
Transactional and Deposits	30	28	1	61
Other	1	(7)	0	0
Business Banking South Africa	23	26	14	38
Business Banking (excluding Equities)	23	27	14	38
Business Banking Equities	0	(0)	-	-

Key Products and Services in Retail Banking in South Africa:

Home Loans – offers residential property-related finance solutions direct to customers through personalised services, a range of electronic channels, and intermediaries such as estate agents and mortgage originators.

Vehicle and Asset Finance ("VAF") – offers a comprehensive range of funding solutions for assets such as vehicles, aviation, marine, agricultural equipment, commercial, plant and office equipment as well as vehicle fleet and fleet card management. These solutions are provided to both individual and business customers through the branch network, approved dealerships, preferred suppliers and a specialist sales force. VAF's joint ventures with Ford Financial Services and Man Financial Services are an extension of the business and reinforce the strategic intent of establishing and harnessing relationships with dealers and customers.

Card and Payments – offers credit cards and merchant acquiring solutions via a mix of Absa-branded and co-branded offerings including British Airways, Avios and Virgin Money. Included in this portfolio are strategic partnerships with Edcon, which offers in-store cards and Woolworths Financial Services, which offers in-store cards, credit cards, personal loans and short-term insurance products.

Personal Loans – offers unsecured instalment loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.

Transactional and Deposits – offers a full range of transactional banking, savings and investment products, rewards programmes and services through a variety of channels. These include the branch network, digital channels, ATMs, priority suites, call centres as well as a third-party retailer PEP (part of the PEPKOR Group).

Other – includes distribution channel costs not recovered from product houses, strategic initiative expenditure and funding costs held centrally for Retail Banking South Africa.

Corporate and Investment Banking South Africa

CIB South Africa provides innovative solutions to meet clients' needs by delivering specialist investment banking, corporate banking, financing, risk management and advisory solutions. A variety of clients across various industry sectors such as corporates, financial institutions and public sector bodies are serviced by combining CIB's in-depth product knowledge with regional expertise and an extensive, well-established local presence. CIB's goal is to build a sustainable, trustworthy business that helps clients achieve their ambitions with the aim of creating shared growth for clients, colleagues and communities.

Key business areas in South Africa

Investment Bank - Client engagement integrates client coverage across Africa to provide holistic solutions to clients through end-to-end relationship management and origination activities, leveraging the deep segment and sector specialisation within CIB, across the following business areas:

- **Markets** – engages in trading, sales and research activities across all major asset classes and products in Africa, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients;
- **Banking** – structures innovative solutions to meet clients' strategic advisory, financing and risk management requirements across industry sectors;
- **Commercial Property Finance** – specialises in financing commercial, industrial, retail and residential development property (with a focus on affordable housing) across CIB's African footprint as well as cross border financing in other jurisdictions; and
- **Infrastructure Investments and Private Equity** – acts as a principal by investing in equity of entities focused on infrastructure development in Sub-Saharan Africa. The private equity business traditionally acted as a principal by investing in unlisted equity exposures. This portfolio continues to be reduced in line with the Group's strategy to exit non-core businesses.

Corporate – provides corporate banking solutions spanning financing and transactional banking requirements, including trade and working capital solutions, as well as a full suite of cash management, payments and liquidity products and solutions. These services are provided across the Group's combined African institutional and corporate client base.

The following tables set out a breakdown of each of Corporate and Investment Bank's contribution to CIB South Africa's revenue, headline earnings, loans and advances to customers, deposits due to customers and credit loss ratio for the year ended 31 December 2017:

	Revenue	Headline earnings	Loans and advances to customers	Deposits due to customers	Credit Loss Ratio
	Rm	Rm	Rm	Rm	%
CIB South Africa	**10,621**	**3,326**	**219,065**	**177,034**	**0.24**
Corporate..	4,897	1,143	88,840	149,273	0.24
Investment Bank..	5,724	2,183	130,225	27,761	0.23

	Revenue	Headline earnings	Loans and advances to customers	Deposits due to customers
Mix	%	%	%	%
CIB South Africa	**100**	**100**	**100**	**100**
Corporate..	46	34	41	84
Investment Bank..	54	66	59	16

Rest of Africa Banking

Rest of Africa Banking operates in 11 jurisdictions across the African continent outside of South Africa through ten banks and two representative offices. Rest of Africa Banking offers a comprehensive suite of banking products and services in three main market segments being Retail and Business Bank, CIB and Head Office, Treasury and other operations. Key segment areas:

Retail and Business Bank Rest of Africa

RBB Rest of Africa offers a comprehensive suite of retail and commercial products and services to individual and business customers on the African continent outside of South Africa. A range of solutions are provided to meet customers' transactional, borrowing, savings, protection and payments needs. This is facilitated through 415 branches and 1,314 self-service channels; including internet and mobile banking solutions. RBB Rest of Africa's affluent and commercial banking clients are serviced via a relationship model based on specific customer value propositions.

Key product/segment areas include:

- **Premier banking** – represents the affluent retail customer segment bespoke to each market. Customers are offered exclusive banking with tailor-made solutions through dedicated relationship managers and premier suites.
- **Prestige banking** – represents the emerging affluent retail customer segment serviced through dedicated banking teams, affordable products and express service.
- **Personal banking** – represents the middle-market segment serviced through convenient banking solutions.
- **Small and Medium Enterprise ("SME") banking –** represents business clients with an annual turnover of up to R50 million. Servicing is via a direct coverage model, largely through the branch network.
- **Commercial banking –** represents business clients with an annual turnover of between R50 million and R250 million. Servicing is via a relationship-based model, where dedicated sales and service teams provide customised solutions.

Corporate and Investment Bank Rest of Africa

CIB Rest of Africa provides innovative solutions to meet clients' needs by delivering specialist investment banking, corporate banking, financing, risk management and advisory products and services to clients across the various sectors and industries driving local economies. CIB Rest of Africa's focus remains delivering shared growth through a deep understanding of its client ecosystems such as unlocking supply chain opportunities for small- and medium-sized enterprises by connecting them to local, regional and global corporates. This approach enables the CIB Rest of Africa business to create growth opportunities for colleagues and contribute towards the uplift of local communities in its markets. Client relationship management provides holistic solutions to clients by leveraging its sector specialisation across Africa as well as its proven CIB expertise in the following business areas:

Investment Bank comprising:

- o **Markets** – engages in trading, sales and research activities across all major asset classes and products in Africa, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients; and

- o **Banking** – structures innovative solutions to meet clients' strategic advisory, financing and risk management requirements across various sectors.

Corporate: provides corporate banking solutions spanning financing and transactional banking requirements, trade and working capital and a full suite of cash management solutions, including payments and liquidity products. These services are provided across the Group's combined pan-African institutional and corporate client base, including the public sector.

The following tables set out a segmental breakdown of Rest of Africa Banking revenue, headline earnings, loans and advances to customers, deposits due to customers and credit loss ratio for the year ended 31 December 2017:

	Revenue	Headline earnings	Loans and advances to customers	Deposits due to customers	Credit Loss Ratio
	Rm	Rm	Rm	Rm	%
Rest of Africa Banking	**15,617**	**2,954**	**77,863**	**108,636**	**1.34**
RBB Rest of Africa	9,297	670	38,627	59,375	2.22
CIB Rest of Africa	6,318	2,348	39,237	47,621	0.84
Head Office, Treasury and other operations	2	(64)	(1)	1,640	n/a

	Revenue	Headline earnings	Loans and advances to customers	Deposits due to customers
Mix	%	%	%	%
Rest of Africa Banking	**100**	**100**	**100**	**100**
RBB Rest of Africa	60	23	50	55
CIB Rest of Africa	40	79	50	44
Head Office, Treasury and other operations	0	(2)	(0)	2

Wealth, Investment Management and Insurance

WIMI is the integrated non-banking financial services provider to the Group and other partners across the continent, including life insurance, non-life insurance, investment management, retirement services and fiduciary services. It provides advice-led investment, credit and banking solutions to high-net-worth clients, retail solutions to individual bank clients and institutional propositions to corporate and business clients. WIMI's well-established partnership model with the Group is based on close collaboration and integration, delivering broad-based financial solutions for the Group's customers.

Key business areas

- ➢ **Life Insurance –** offers life insurance, covering death, disability and retrenchment, as well as funeral and investment products.

- ➢ **Wealth and Investments –** consists of two business clusters, which operate on a collaborative basis to offer individual and institutional clients access to high-quality wealth and investment products and solutions.

  - o **Investment cluster** – offers investment management, multi-management, unit trusts and linked investments products and solutions to individual and institutional clients, with R335 billion of assets under management as at 31 December 2017.

  - o **Wealth management cluster** – provides advice-led private client asset management, risk management, structured lending and stockbroking solutions to the wealth segment of the market.

- **Short-term Insurance –** provides short-term insurance solutions to the retail and commercial market segments. A direct-to-client short-term solution, Absa idirect, is available to the retail market.
- **Fiduciary Services –** consists of estate administration, trust services and employee benefit businesses. The employee benefit business offers individual retirement fund administration, health care consulting and actuarial services. Absa Trust administers deceased estates and provides trustee services for personal, family, charitable and employee benefit trusts.
- **Distribution** – one of the larger financial, wealth, investment and risk advisory companies in South Africa. It provides the full spectrum of financial advisory services and acts as an intermediary between the Group's customers, clients and other product providers.
- **Other –** includes WIMI's head office shareholder investment portfolios, consolidation entries, holding companies as well as allocated shareholder overhead expenses.

The following tables set out the key performance indicators of the WIMI segment for the year ended 31 December 2017:

	WIMI	Life Insurance	Wealth and Investment Management	Short-term Insurance	Fiduciary	Distribution and Other	Terminating business lines
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Gross operating income.......	6,171	2,432	1,473	1,136	699	446	(15)
Headline earnings...............	1,156	774	341	233	161	(346)	(7)

	WIMI	Life Insurance	Wealth and Investment Management	Short-term Insurance	Fiduciary	Distribution and Other	Terminating business lines
	%	%	%	%	%	%	%
Gross operating income.......	100	39	24	18	11	7	(0)
Headline earnings...............	100	67	29	20	14	(30)	(1)

KEY OPERATIONAL METRICS

The following table sets out certain operational metrics of South Africa Banking and Rest of Africa Banking as at 31 December 2016 and 31 December 2017:

Operational Metrics

	31 December 2017	31 December 2016
South Africa Banking		
Outlets (including number of branches and sales centres)	730	774
ATMs..	8,919	8,885
Rest of Africa Banking		
Outlets (including number of branches and sales centres)	415	433
ATMs..	1,134	1,128
Number of permanent and temporary employees	41,703	41,241
South Africa (excludes Woolworth Financial Services employees)	31,649	30,739
Rest of Africa	10,054	10,502

INFORMATION TECHNOLOGY

The Issuer is committed to becoming a technology-enabled organisation that enables scale and digitisation for its customers. The Issuer's technology is based on a combination of in-house, commercial off-the-shelf and legacy systems that provide the business with the capabilities to service its colleagues and customers. This includes access to banking services outside of the branch environment, specifically ATMs, internet banking, Unstructured Supplementary Services Data ("**USSD**") banking and mobile banking.

To ensure the resilience of the Group's technology, the Issuer recently underwent a significant transformation of its legacy infrastructure and is in the process of moving to a new state-of-the-art data centre in South Africa which will host applications from across the continent. While the Group migrates its existing infrastructure to this new centre, it is also adopting cloud technology to provide the Issuer with the ability to develop new solutions at high velocity and improved cost. Through its Chief Security Office, the Group continuously rolls out new mechanisms and tools to address cyber threats and weaknesses, and plays an active role in the African cyber community in collaboration with Interpol, the Cyber Defence Alliance, the South African Banking Risk Information Centre and Bain & Company. This ensures that its cyber capabilities develop and mature on an ongoing basis. While the Group continues to improve the performance of the technology and the security controls currently in place, it also conducts annual disaster recovery to ensure business continuity.

In addition to engineering its existing applications and infrastructure to strengthen its resilience, the Group is embracing an agile way of working to improve velocity, quality and efficiency through the use of engineering disciplines and tools. This has enabled it to deliver new technological solutions across the Group at speed, in turn addressing the needs of its customers faster. The Group has also transformed the legacy approach to building technology solutions by introducing new design thinking to its development methodologies through its team of design specialists. It continues to invest in new technologies (such as blockchain, artificial intelligence, robotics process automation and more), enabling it to introduce unique service offerings to the market and ensuring that it remains competitive in an increasingly disrupted financial services industry. These recent changes have led to a range of new solutions being released to market, such as banking via Facebook Messenger and Twitter, a new children's banking app, the Virtual Investor tool, the Group's award winning website and a digital sales platform that allows customers to open an account online.

INTELLECTUAL PROPERTY

Absa is the proprietor of various intellectual property, including trademarks, patents and designs. Absa believes that the trade mark "Absa" and various logos for "Absa" are of material significance to its operations. Overall, the trade mark portfolio bears approximately 1,055 trademarks (including "Absa", the "Absa" logo and product/service trademarks) which have been filed in South Africa and, in some instances, in other countries and are subject to pending or registered status. Absa has three patents and four designs registered nationally. In the case of patents there are instances of international filings. In addition to the Absa brand, the Issuer is currently under licence from Barclays Bank PLC to utilise the Barclays trademarks until 2020 for the Rest of Africa operations. In South Africa, removing 'a member of Barclays' from Absa branded items must be concluded by 6 June 2018.

MANAGEMENT AND GOVERNANCE

Group Board of Directors ("the Board")

The Board is responsible for creating and delivering sustainable shareholder value, ensuring an appropriate balance between promoting long-term sustainable growth and delivering short-term performance. The Board reviews and approves the strategic objectives and policies of the Group, providing overall strategic direction within a framework of incentives and controls. Board members engage with regulators, provide leadership to management, contribute actively to the content of financial statements, results announcements and the integrated report, and are available for matters that arise on an ad hoc basis. In order for the Board to form a quorum, a majority of members must be in attendance by tele or video conference. Directors are appointed through a formal and transparent process which is facilitated by the Directors' Affairs Committee ("**DAC**") on behalf of the Board. The Board as a whole approves all appointments on recommendation by the DAC. The DAC comprises only independent non-executive directors, and is chaired by the Group Chairman. All independent directors are annually assessed in accordance with the JSE Listings Requirements and King IV recommendations. Directors who have served for more than nine years are subject to annual rotation after the Board has assessed their performance and confirmed that they remain suitably qualified to serve on the Board. Three independent directors have served on the Board for more than nine years, namely Mohamed Husain, Yolanda Cuba and Trevor Munday. At the upcoming AGM to be held on 15 May 2018, Mohamed Husain and Yolanda Cuba will offer themselves for re-election, but Trevor Munday will be retiring.

The Board is assisted by Nadine Drutman (BCom, LLB, LLM), the Issuer's Group Company Secretary. She maintains an arm's length relationship with the Board, providing guidance to Board members on the execution of their duties, and she maintains her knowledge of developments in corporate governance best practice and regulation. All Board members have unhindered access to her services in all aspects of the Board's mandate and the operations of the Group.

The Board is assisted by various board committees described below under "*Board Committees*".

The Board has 18 members, 13 of whom are independent, one non-executive and four of whom are executive directors. The following table sets out the members of the Board as of the date hereof, the year of their election or appointment to the Board, the expiration of their current term and their position(s).

Name	Year Elected/ Appointed	Year current term expires[1]	Born	Position
David Hodnett	2010	2019	1969	Executive Director, Group Deputy CEO
Jason Quinn	2016	2020	1974	Executive Director, Group Financial Director
Maria Ramos	2009	2018	1959	Executive Director, Group CEO
Peter Matlare	2011	2020	1959	Executive Director, Group Deputy CEO for Rest of Africa
Colin Beggs	2010	2018	1948	Independent Director
Yolanda Cuba	2006	2018	1977	Independent Director
Alex Darko	2014	2020	1952	Independent Director
Daniel Hodge	2017	2020	1973	Non-executive Director
Mark Merson	2014	2018	1968	Independent Director
Daisy Naidoo	2016	2020	1972	Independent Director

Name	Year Elected/ Appointed	Year current term expires[1]	Born	Position
Francis Okomo-Okello........	2014	2020	1949	Independent Director
Mohamed Husain	2008	2018	1960	Independent Director
Wendy Lucas-Bull	2013	2018	1953	Independent Director, Chairman
Trevor Munday	2007	2018	1949	Independent Director, Lead Independent Director (will be retiring at the AGM in May 2018)
Paul O'Flaherty	2016	2019	1963	Independent Director
Monwabisi Fandeso...........	2017	2020	1958	Independent Director
René van Wyk....................	2017	2020	1956	Independent Director
Tasneem Abdool-Samad	2018	2021	1974	Independent Director

[1] *The provisions of the Issuer's MoI on director rotation requires that a minimum of one-third of the directors retire at each AGM, and being eligible and available, and having offered themselves for re-election, are re-elected on the terms of section 68 (2)(a) of the Companies Act by way of a series of votes. Directors retire in order of longest serving (since last election). As such dates are indicative and subject to the total number of Board members (year represents calendar year in which AGM occurs).*

Recent changes to the Board

Patrick Clackson and Ashok Vaswani (both being Barclays Bank PLC nominees on the Board) resigned from their roles as non-executive directors in April and June 2017 respectively.

Daniel Hodge (as nominee of Barclays Bank PLC) joined the Board as a non-executive director with effect from 1 May 2017. René van Wyk joined the Board as an independent non-executive director on 1 February 2017. Monwabisi Fandeso joined the Board as an independent director on 1 September 2017.

Mark Merson joined the Board in January 2014 as a non-executive director and became an independent non-executive director with effect from 1 October 2017. Tasneem Abdool-Samad joined the Absa Bank Board as an independent director in 2016 and subsequently joined the Board as an independent director on 1 February 2018.

Abridged curricula vitae of the Issuer's directors are set out below.

David Hodnett

David joined the Executive Committee in 2008, the Board as an Executive Director in 2010 and became Deputy Chief Executive in 2013. He is a member of the Models, Credit Concentration Risk, Information Technology and Separation Oversight Committees.

He completed his articles with KPMG and became a partner in the financial services team. He then joined Standard Bank Group, where he was involved in group risk and retail credit functions. David joined the Group in 2008 as the Chief Risk Officer and became the Group's Financial Director on 1 March 2010. In December 2013, David was appointed as Deputy Chief Executive Officer.

From August 2016, he assumed responsibility for the Group's South African Banking operations including RBB and CIB (Jason Quinn took over responsibility as Financial Director from 1 September 2016). The Group's South African banking operations ceased to be a management or reporting segment from 9 April 2018. David is on sabbatical from 9 April 2018 for two months.

Qualifications: BCom; CA (SA); MBA.

Jason Quinn

Jason is the Financial Director. He joined the Board and Executive Committee in September 2016. He is the Chairman of the Models Committee and a member of the Group Risk and Capital Management, Credit Concentration Risk, Information Technology and Separation Oversight Committees.

Before joining the Group, he was a partner at EY. Jason joined the Group in 2008 as the Financial Controller and was appointed as the Head of Finance in 2014 after holding several senior finance positions. He was appointed to the Board in September 2016.

Jason is a Director of Absa Financial Services Limited, Woolworths Financial Services (Pty) Limited and is an employer appointed Trustee of the Absa Pension Fund.

Qualifications: BAcc (Hons); CA(SA).

Maria Ramos

Maria is the Chief Executive and joined the Board as an executive director in 2009. She is a member of the Group Risk and Capital Management, Credit Concentration Risk, Social and Ethics, Information Technology, Models, and Separation Oversight Committees.

Maria was previously the director-general of the National Treasury and in January 2004, she was appointed as the group chief executive of Transnet Limited. Maria joined Absa as Group Chief Executive in March 2009.

Maria is a non-executive director of Compagnie Financiere Richemont SA. She is also a member of the International Business Council Executive Committee; Business Leadership South Africa; and the Banking Association of South Africa.

Qualifications: Institute of Bankers' Diploma (CAIB); BCom (Hons); MSc (Economics).

Peter Matlare

Peter joined the Board as an independent director in 2011. In August 2016, he was appointed Deputy Chief Executive Officer responsible for the Rest of Africa businesses and he remains on the Board as an executive director. He is a member of the Information Technology Committee and Separation Oversight Committee.

Peter began his career with the Urban Foundation and Citibank and gained international experience, particularly in Europe. Peter was previously chief executive officer of the South African Broadcasting Corporation ("**SABC**"), chief strategy and business development officer of Vodacom SA Proprietary Limited and executive director of commercial at Vodacom SA Proprietary Limited. Most recently, Peter was the chief executive officer of Tiger Brands Limited.

Qualifications: BSc (Hons) (Political Science); MA (South African Studies).

Colin Beggs

Colin joined the Board as an independent director in 2010. He is the Chairman of the Group Audit and Compliance Committee and is a member of the Group Risk and Capital Management, Directors' Affairs, Separation Oversight and Board Finance Committees.

Colin is the former senior partner and chief executive officer of PwC in Southern Africa and retired from that position in June 2009. He was also the chairman of the SAICA board in 2002/3 and was a member of the Accounting Practices Board.

He is also a non-executive director of Sasol Limited, SAB Zenzele Holdings Limited and the Ethics Institute of South Africa.

Qualifications: BCom (Hons), CA (SA).

Yolanda Cuba

Yolanda joined the Board as an independent director in 2006. She is a member of the Board Finance, Group Remuneration and Concentration Risk Committees.

Yolanda became chief executive officer of Mvelaphanda Group Limited in 2007. She joined South African Breweries Limited as executive director for development and decision support in September 2011 and was subsequently appointed as executive director for strategy and business support. Yolanda was appointed as chief officer: strategy and new business at Vodacom Group Limited in November 2014. She was appointed chief executive of Vodafone Ghana in March 2016.

She is a member of the Nelson Mandela Foundation Investment and Endowment Committee.

Qualifications: BCom (Statistics); BCom (Hons)(Accounting); CA (SA).

Alex Darko

Alex joined the Board as an independent director in 2014 and is a member of the Group Audit and Compliance Committee, Group Remuneration Committee, Separation Oversight Committee and is the Chairman of the Information Technology Committee.

Alex held a number of senior positions at Dun & Bradstreet, including director of UK shared services, director of finance - Dun & Bradstreet Europe Ltd and head of accounting re-engineering. He later moved back to Ghana and worked for Ashanti Goldfields in a number of senior roles. Alex was vice-president, knowledge and information at AngloGold Ashanti from 2005 to 2010.

Alex is a director at Nkululeko Leadership Consulting where he advises organisations on leadership, culture, strategy and change management. He also serves as a non-executive director on the board of Consolidated Infrastructure Group Limited.

Qualifications: MSc (Management Information Systems); FACCA.

Daniel Hodge

Daniel Hodge joined the Board as a non-executive director with effect from 1 May 2017. Daniel is a member of the Group Risk and Capital Management Committee.

Daniel has been the Barclays Bank PLC Group Treasurer since 2013. He joined Barclays in 1999 and has held a number of roles in both the investment bank and treasury during his 17 years with the firm. He was appointed managing director in 2008 and has held a number of senior management positions since then, including head of execution for the structured finance division, and corporate and investment bank treasurer.

Daniel is a qualified chartered accountant and holds an MA (Hons) from Oxford University.

Mark Merson

Mark joined the Board in January 2014 as a non-executive director and became an independent non-executive director with effect from 1 October 2017. Mark is a member of the Group Risk and Capital Management Committees and was recently appointed as Chairman of the Board Finance Committee.

Mark is a graduate of Oxford University, chartered accountant and was previously a partner in the financial services consulting practice of Arthur Andersen and Deloitte. From 2003 through 2016, he served Barclays Bank PLC in a variety of roles including Group Financial Controller, Head of Investor Relations, CFO for the Corporate and Investment Bank and latterly Deputy Group Finance Director.

Qualifications: ACA; MA (Hons).

Daisy Naidoo

Daisy joined the Board as an independent director in 2016. She is a member of the Group Audit and Compliance and Credit Concentration Risk Committees.

Daisy started her career in 1994 at EY in Durban. She held various positions at South African Breweries, Deloitte and Sanlam Capital Markets, where she headed up the debt structuring unit between 2008 and 2010. Daisy is a non-executive director of Strate (Pty) Limited, Hudaco Industries Limited, Omnia Holdings Limited, Mr Price Group Limited and Anglo American Platinum Limited.

Qualifications: BCom; CA(SA); Masters in Accounting (Taxation).

Francis Okomo-Okello

Francis joined the Board as an independent director in 2014. Francis is a member of the Social and Ethics Committee.

Francis is an Albert Parvin fellow of Woodrow Wilson School of Public and International Affairs, Princeton University, and a fellow of The Kenya Institute of Bankers. He serves as chairman of TPS Eastern Africa Limited (Serena Group of Hotels and Lodges), and as a non-executive director of the Nation Media Group.

Currently, Francis is the executive director in charge of legal and corporate affairs at Industrial Promotion Services Group of Companies, an affiliate of the Aga Khan Fund for Economic Development.

He also serves as a member of the advisory board of the Strathmore Business School (Strathmore University, Nairobi) and is a member of the Advisory Committee of the Aga Khan University, Faculty of Arts and Sciences – East Africa.

Qualifications: LLB (Hons).

Mohamed Husain

Mohamed joined the Board as an independent director in 2008. He is the Chairman of the Social and Ethics Committee and is a member of the Group Audit and Compliance, Group Remuneration, Directors' Affairs and Separation Oversight Committees.

Mohamed has been an attorney for 30 years, during which time he has represented a diverse range of state, institutional and individual clients in all areas of corporate practice. He is a past president of the London-based Commonwealth Lawyers Association and of the Law Society of the Northern Provinces. He is a past chairman of the Attorneys Insurance Indemnity Fund. He was a founder member and councillor of the Law Society of South Africa. Currently, he serves on its Audit and Risk Committees and chairs the Remuneration Committee. Mohamed has served as a judge of the High Court of South Africa.

Mohamed serves as director of Knowles Husain Lindsay Incorporated and KLH Investments Proprietary Limited and is the non-executive chairman of Andulela Investment Holdings Limited.

Qualifications: BProc.

Wendy Lucas-Bull

Wendy joined the Board as an independent director and Chairman in 2013. She is also the Chairman of the Absa and Absa Financial Services boards of directors. Wendy is the Chairman of the DAC and the Separation Oversight Committee, and she is a member of the Board Finance, Group Risk and Capital Management, Group Remuneration, Credit Concentration Risk, Social and Ethics and Information Technology Committees. She is a permanent attendee of the Group Audit and Compliance Committee.

Wendy is one of the founders of the Peotona Group. She was previously chief executive of FirstRand Limited's retail businesses and prior to that an executive director of Rand Merchant Bank Holdings. Former non-executive directorships include those at Barclays Bank PLC, Anglo American Platinum Limited, the Development Bank of Southern Africa, Alexander Forbes, Eskom, Nedbank, Telkom, Aveng (deputy chairman), Lafarge Industries (chairman), the South African Financial Markets Advisory Board, Discovery Holdings, Dimension Data PLC and the Momentum Group. She was also a member of the President's Advisory Council on Black Economic Empowerment.

Qualifications: BSc.

Trevor Munday

Trevor joined the Board as an independent director in 2007. On 19 September 2013, he was appointed as the Lead Independent Director of the Group. He is a member of the Group Risk and Capital Management Committee, Board Finance Committee, Separation Oversight Committee and the DAC.

In 2001, Trevor was appointed as an executive director of Sasol Limited, with global responsibility for finance and accounting, risk management, internal audit, corporate affairs and planning. In 2003, he assumed responsibility for Sasol Group's global chemical businesses. He retired as deputy chief executive of Sasol on 31 December 2006.

Trevor is the non-executive chairman of Reunert Limited.

Qualifications: BCom.

Paul O'Flaherty

Paul joined the Board as an independent director in February 2016. He is the Chairman of the Group Remuneration Committee and is a member of the Group Audit and Compliance, Group Risk and Capital Management, Separation Oversight and the DAC. Paul joined the Board Finance Committee with effect from April 2018.

Paul started his career in auditing and became a partner at PricewaterhouseCoopers South Africa before spending time in the construction industry in South Africa, Africa and in the Middle East. He first served as chief financial officer and deputy chief executive officer of Group Five Limited and then chief financial officer of Al Naboodah Construction Group LLC. From 2010 to 2013, he was the finance director and group executive for Group Capital of Eskom Holdings (SOC) Limited. Paul was most recently the chief executive officer of ArcelorMittal South Africa Limited (July 2014 to February 2016).

He is the chief executive officer of Al Naboodah Group Enterprises LLC and a non-executive director of enX Group Limited.

Qualifications: BCom; BAcc (Hons); CA (SA).

Monwabisi Fandeso

Monwabisi joined the Board as an independent director on 1 September 2017. He is a member of the Information Technology Committee and Social and Ethics Committee.

Monwabisi's career has spanned several roles in a number of sectors, including manufacturing, banking, tourism and mining. He occupied various senior executive positions in SABMiller plc (now AB InBev), corporate affairs director and operations director. He also served as country chair of Shell South Africa, and chief executive officer of the Land Bank and Thebe Tourism Group.

Monwabisi currently serves as a non-executive director of SABSA Holdings Limited.

Qualifications: BSc (Mechanical Engineering); MBA.

René van Wyk

René joined the Board as an independent non-executive director in 2017. He is the Chairman of the Group Risk and Capital Management Committee and Credit Concentration Risk Committees and a member of the DAC, Separation Oversight Committee and Group Audit and Compliance Committee.

René is the former Registrar of Banks and Head of Banking Supervision of the SARB and retired from that position in May 2016. Prior to that, Rene was with the Nedbank Group of companies (from 1993 to 2011), where he occupied various positions in the risk field notably as executive director responsible for risk at Nedcor Investment Bank, and CEO of Imperial Bank (a subsidiary of Nedbank). In his earlier years, he joined KPMG and rose to become partner in the financial services group.

Qualifications: BCom; BCompt (Hons); CA (SA).

Tasneem Abdool-Samad

Tasneem has been on the Absa Bank Board as an independent director since 2016 and joined the Board as an independent director on 1 February 2018 at which point she stepped down from the Absa Bank board. She joined the Group Audit and Compliance Committee with effect from 1 April 2018.

Tasneem started her career at Deloitte in Kwa-Zulu Natal. She then moved to the University of the Witwatersrand, where she was a lecturer in auditing from 2003 to 2006. In 2006 she rejoined Deloitte and is a former member of the Deloitte South Africa board.

Tasneem is a non-executive director of Absa Financial Services Limited, Reunert Limited, Long4Life Limited and Crookes Brothers Limited.

Qualifications: BCom; CA (SA).

Executive Committee

The Executive Committee includes the Group's executive directors and other members of executive management. The Executive Committee is responsible for all material matters relating to implementing the Group's agreed strategy. The table below sets out the name, year of birth, current position and year of first employment of members of the Group's Executive Committee (the "**Group Executive Committee**").

Changes to the Group Executive Committee were announced on 9 April 2018 and are reflected below.

Name	Born	Year of First Employment	Position
Arrie Rautenbach	1965	1997	Chief Executive: RBB South Africa
August van Heerden	1961	2012	Chief Risk Officer
Bobby Malabie	1960	2010	Group Executive: Brand, Communication and Role in Society
Bongiwe Gangeni	1978	2007	Deputy Chief Executive: RBB South Africa
Charles Russon	1966	2006	Chief Technology Officer
Charles Wheeler	1964	2013	General Counsel and Acting Head of Compliance
David Hodnett	1969	2008	Deputy Chief Executive Officer
Jason Quinn	1974	2008	Financial Director
Maria Ramos	1959	2009	Chief Executive Officer
Nomkhita Nqweni	1974	2010	Chief Executive: Wealth, Investment Management and Insurance
Peter Matlare	1959	2011	Deputy Chief Executive Officer, Chief Executive of the Group's Rest of Africa operations
Yasmin Masithela	1973	2011	Chief Executive: Strategic Services

Arrie Rautenbach

Arrie Rautenbach is the Chief Executive: RBB South. Prior to this appointment, Arrie was Chief Risk Officer and responsible for Group Strategy and the Separation from Barclays Bank PLC. He began his career with Absa Group in Bankfin in the late 1990s and has since held a number of leadership positions including Head of Retail Banking in South Africa and Managing Executive: Absa Card, Managing Executive: Customer Segments and Managing Executive: Branch network.

Qualifications: BBA; MBA; AMP.

August van Heerden

August van Heerden is the Chief Risk Officer for the Issuer. Prior to his appointment, he was the Chief Separation Officer, responsible for the Separation Programme of the Group from Barclays Bank PLC. From March 2016 to January 2017, August was the Chief Risk Officer for Discovery Holdings. Prior to that, from 2012 to 2016, he was the Chief Financial Officer for the Group's RBB business. August began his career with Peat Marwick Mitchell & Co (subsequently KPMG) in 1983, after which he held various financial related positions at Nedbank Limited, KPMG, and Standard Bank Group, amongst others.

Qualifications: BCom; BAcc (Hons); Advanced Diploma in Banking Law.

Bobby Malabie

Bobby is the Group Executive: Brand, Communication and Role in Society. He joined the Group and the Executive Committee in 2010.

He has held senior roles within Charter Life, Nedbank Group and South African Breweries. He then joined Liberty Group, where he held the position of chief executive officer: marketing and distribution.

Qualifications: BCom; MBA; MDP.

Bongiwe Gangeni

Bongiwe Gangeni is the Deputy Chief Executive: RBB South Africa. Bongiwe began her career at Absa Bank in 2007 and has held several positions in the Group, most recently that of Managing Executive: Distribution in our WIMI division.

Bongiwe also spent a year at Barclays Bank in London from 2008 to 2009.

Qualifications: BPharm; PDM; MBA; AMP.

Charles Russon

Charles is the Chief Technology Officer. He joined the Group in 2006 and the Executive Committee in 2014.

He completed his articles with KPMG and then joined Merrill Lynch in London as financial controller for credit products. Charles worked for Deutsche Bank in London and Frankfurt from 1998 to 2006 as the rates head of product control, before he joined Absa Capital in September 2006 as chief financial officer. He became the chief operating officer of CIB in October 2007 and regional head of finance for Barclays Africa in September 2012. Charles was appointed as Chief Operating Officer for Barclays Africa Group in May 2014.

Qualifications: CA (SA).

Charles Wheeler

Charles is the General Counsel and the Acting Head of Compliance. He joined the Group and the Executive Committee in 2013.

Previously he worked as director: legal services at Standard Bank until 2003; as group executive: commercial legal at MTN Group Limited until 2010 and most recently as a legal consultant for Webber Wentzel.

Qualifications: BA; LLB; HDip (Tax).

David Hodnett

Refer to Group Board.

Jason Quinn

Refer to Group Board.

Maria Ramos

Refer to Group Board.

Nomkhita Nqweni

Nomkhita is the Chief Executive: WIMI. She was appointed to the Executive Committee in 2013.

Nomkhita has spent the majority of her career at Alexander Forbes performing a variety of functions and before joining Barclays Africa in 2010, she was the managing director of Alexander Forbes Financial Services Holdings Limited. She was appointed as the Head of Absa Wealth in June 2010 and became the Chief Executive: Wealth and Investment Management in 2013.

Qualifications: BSc; PG Dip (Investment Management).

Peter Matlare

Refer to Group Board.

Yasmin Masithela

Yasmin is the Chief Executive: Strategic Services. She joined the Group in 2011 and was previously the Group Head of Compliance and prior to that, general counsel for WIMI. Yasmin completed her articles with Webber

Wentzel and became an associate in the South African project finance team. In 2011, she joined Siemens Limited where she later led the projects and export finance department.

Prior to joining Barclays Africa Group, she was the partner responsible for general corporate, mergers and acquisitions, corporate and project finance at Phukubje Pierce Masithela.

Qualifications: LLB; HDip (Company Law); LLM (Tax Law).

Conflicts of Interest

There are no conflicts of interest between any duty owed to the Group by any member of the Board or Executive Committee and such individual's personal interests and/or other duties.

ABSA MANAGEMENT

The Absa board of directors has an appropriate balance, with the majority of the Directors being independent. The chairman of the board is an independent non-executive director. Absa also has a lead independent director. Absa has nine directors, of whom three are executives and six are considered to be independent.

The Group's board committees have oversight over Absa and there is formal reporting from the board committees to the Absa board. Absa contributes the majority of the Group's earnings and forms the largest portion of the Group's employee and customer base, and as such is a key focus at all relevant boards and committees.

Absa Board of Directors

Name	**Born**	**Elected/ Appointed**	**Position**
David Hodnett	1969	2010	Executive Director
Jason Quinn..................................	1974	2016	Executive Director, Financial Director
Maria Ramos................................	1959	2009	Executive Director, Group CEO
Colin Beggs	1948	2010	Independent Director
Mohamed Husain	1960	2008	Independent Director
Wendy Lucas-Bull	1953	2013	Independent Director, Chairman
Trevor Munday	1949	2007	Independent Director, Lead Independent Director (will be retiring at the AGM in May 2018)
Paul O'Flaherty	1963	2016	Independent Director
René van Wyk..............................	1956	2017	Independent Director

All members of the Absa Board of Directors are members of the Issuer's Board of Directors.

EXECUTIVE COMMITTEES

The Executive Committee is supported by the following committees: Treasury Committee, Group Change Committee, Group Credit Committee, Remuneration Review Panel, Conduct and Reputation Risk Committee, Regulatory Investigations Oversight Committee, BAGL Executive Risk Committee, Tax Committee and Group Investment Committee.

BOARD COMMITTEES

Directors' Affairs Committee

The DAC supports the Board in corporate governance, Board nominations and related matters. The committee reviews the Group's governance structure, focusing on director succession planning and appropriate skill sets as well as membership of the Group and subsidiary boards and committees to establish and maintain optimal size, independence, tenure, skills, and diversity.

The committee monitors the Group's reputational risk, matters arising from inappropriate conduct and other control failures and the actions taken by management in response, matters pertaining to regulatory engagement and regulatory commitments, progress on the Board/corporate governance objectives, board and committee attendance, and findings and actions from Board and board committee evaluations (including peer review).

Group Audit and Compliance Committee

The Group Audit and Compliance Committee, which includes the Disclosure Committee, supports the Board by overseeing internal controls, compliance, internal and external audits, accounting, and external reporting.

The Committee monitors the Group's control environment, impairments in credit portfolios, internal audit plans and audit outcomes, regulatory engagements and compliance plans and matters pertaining to operational risk. The Committee also monitors progress on financial focus areas including the alignment of the annual financial reporting processes across Africa, the auditor transition from PwC to KPMG in 2017, and the progress on compliance with the National Credit Regulator's affordability regulations.

The committee has reviewed the Group's progress on the preparation for IFRS 9, the financial implications of the Separation from Barclays Bank PLC and the reporting on a normalised and IFRS basis as a result, the approach to fraud risk management, the stability in the payments and settlements area, and the Group's tax philosophy.

Group Risk and Capital Management Committee

The Group Risk and Capital Management Committee supports the Board in assessing risk, risk appetite, capital and liquidity management.

In particular, the committee has reviewed the nine principle risk types, execution against risk appetite, the impact of recommended dividends on the Group's capital and liquidity position, market development of total loss-absorbing capacity for globally systemically important banks, cyber risk developments, updates on business continuity management metrics and business programmes; the embedment of the risk data aggregation and reporting framework for Basel Committee on Banking Supervision 239, the structural hedge programme in place for a portion of Absa Bank's liabilities; stress testing for the integrated planning (budgeting) process, and developments with regard to the Basel III NSFR.

Regarding the Separation from Barclays Bank PLC, the committee has reviewed the risk implications relating to technology and brand, the transitional outsourced arrangements with Barclays Bank PLC in light of its sell-down, and the corporate insurance coverage which was previously brokered through Barclays Bank PLC.

Group Remuneration Committee

The Group Remuneration Committee supports the Board of Directors in establishing remuneration and incentive arrangements, policy, disclosures, and executive appointments. The committee has focused on:

(a) improving the link between pay and performance;

(b) improving the balance of pay across the organisation;

(c) ensuring appropriate and compliant disclosure of remuneration principles, philosophies and outcomes;

(d) engaging with investors regarding the Group's remuneration policy and disclosure;

(e) managing the implications of CRD IV on pay for the Group's executives and material risk takers; and

(f) retaining key individuals in the context of the sell-down.

The committee reviews remuneration structure, policy, governance and philosophy, performance reviews including the Group Chairman's performance review of the Chief Executive Officer, and the Chief Executive Officer's performance reviews of the Group's two Deputy Chief Executive Officers, Financial Director and other Executive Committee members. The committee also reviews proposals for senior hires and terminations, updates from the management's Remuneration Review Panel on risk, compliance and conduct-related incidents, updates on pensions and benefits across the Group, reports on subsidiary entities pertaining to pay and benefits, peer local and international trends in disclosure of executive pay, and reports from external advisers on trends in compensation practices, impact of King IV, and industry approaches.

King IV requires increased disclosure around remuneration, requiring the Group to expand on how it addresses and approaches remuneration throughout the Group. To achieve this the Group must revise its reward/remuneration policy to more comprehensively (i) address the principles of fair and responsible remuneration; (ii) address the approach to remuneration Group-wide; and (iii) incorporate all the elements of remuneration that are offered in the organisation.

The committee approves compensation for all Executive Committee members, the salary mandates for bargaining unit and non-bargaining unit employees, and the remuneration report for inclusion in the integrated report.

Social and Ethics Committee

The committee monitors key organisational health indicators including ethics management; talent retention and acquisition; labour turnover; wellness; learning and development reach and spend; employee relations; diversity and inclusion; and conduct and reputation risks; and the Group's activities having regard to any relevant legislation and codes of best practice on matters relating to:

- social and economic development;
- good corporate citizenship;
- ethics;
- sustainable development;
- labour and employment;
- consumer relations;
- stakeholder management;
- transformation;
- the environment; and
- health and safety.

The committee monitors the status of the Group's premises' health and safety and remediation of any issues thereof, initiatives to improve service delivery by the human resources function, customer and client engagement and retention, as well as complaints trends and root cause analysis in specific business areas and corresponding remedial action.

The committee has reviewed regulatory and general developments that could influence conduct risk management, key organisational health indicators such as ethics management, talent attraction and acquisition, employee turnover and wellness, human resource-related process improvements, learning and development, employee relations, diversity and inclusion, disability initiatives, and leadership programmes, employee opinion and culture surveys, customer complaints and other satisfaction metrics, assurance activities performed on conduct and ethics by Internal Audit and Compliance, and advertising approaches and the sponsorship portfolio. The committee also reviews the Group's environmental impact, the mapping of sustainability frameworks, and participation in environmental, social and governance frameworks and related reporting, as well as the promotion of equality in the context of the Employment Equity Act, 1998 the Broad-Based Black Economic Empowerment Act, 2003 and related regulatory landscape. The committee also oversees the execution of the shared growth plan, which focuses on citizenship initiatives and spend, education and skills, community enterprise development and financial inclusion.

Information Technology Committee

The IT Committee assists the Board with effective oversight and governance of technology and information for the Group. King IV distinguishes between governance oversight of (i) the organisation's information assets, and (ii) the technology infrastructure used to generate, process and store that information. The IT Committee's mandate has been updated accordingly.

The committee monitors among others, technology stability, resilience and risk in South Africa and the Rest of Africa, top technology priorities (including customer stability, regulatory commitments, and technological separation from Barclays Bank PLC, technology investment spend, operational stability of the Group's payments systems, core infrastructure and platforms in the Rest of Africa, and progress on the Group's new digital strategy and cyber security strategy, as well as disaster recovery and data centre migration).

Board Finance Committee

The Board Finance Committee assists the Board in approving certain levels of investments and types of transactions within its mandate. The Committee is also mandated by the Issuer and Absa boards to consider and approve their dividend declarations within the parameters determined by the boards, and to finalise the profit commentary as it relates to interim and year-end financial results. The committee considers, and recommends to the Board the medium-term plan developed in terms of the Group strategy.

In particular, the committee has assessed, among others, the progress of the property consolidation strategy upgrades throughout the portfolio, the disposal of certain private equity investments, the development of the international operations strategy for securities and payment licences in the context of the Separation, and outsourcing certain IT applications maintenance and development.

Credit Concentration Risk Committee

The Credit Concentration Risk Committee supports the Board in addressing exposures above 10% of the Group's qualifying capital and reserves, portfolio exposures, applicable impairment trends and concentration risks.

The committee monitors levels of wholesale and retail credit and credit risk appetite in all jurisdictions in which the Group operates, key sectors including agriculture (primary and secondary), banking, mining and metals, retail, and public sector, commercial property finance and prime services businesses, the impact of a possible sovereign downgrade in South Africa, forex rate risk, country limits for the Group's Rest of Africa portfolio, as well as stress triggers, stress losses, and mandate and scale.

Models Committee

The Models Committee is the designated committee responsible for approving the Group's material risk models on inception and annually thereafter, in accordance with guidelines set out in the relevant policy and by the SARB and other applicable regulatory requirements.

The committee monitors the governance of models including the embedment of the model risk policy, the results and levels of model validation coverage, and compliance with regulatory standards. The committee approves the Group's regulatory capital, economic capital, impairment and other Group-level material models in accordance with the model risk policy and based on the recommendations of the independent validation unit, as well as the implementation of appropriate post-model adjustments.

Separation Oversight Committee

The Separation Oversight Committee supports the Board by providing oversight and guidance to management on the execution of the Separation with Barclays Bank PLC pursuant to the sell-down.

In the last year, the Separation Oversight Committee considered and supervised, advised or guided on, amongst others:

- the transitional governance framework in terms of the Separation agreement which applies until regulatory deconsolidation;
- the governance structure put in place to manage the Separation to conclusion;
- the critical path to Separation with appropriate sequencing, dependencies, capabilities, capacity and migration management;
- execution updates including progress, scope management and the impact of regulatory and stability changes;
- prioritising and managing strategic investments as a single book of work across the business;

- the status of service management by Barclays Bank PLC under the three year transitional service agreement (comprising approximately 129 material service schedules);
- the regulatory engagements with the SARB and the Prudential Regulatory Authority as part of the process for Barclays Bank PLC to achieve regulatory de-consolidation, and with the regulators for the Rest of Africa countries;
- the stages in the reduction by Barclays Bank PLC of its shareholding in the Issuer (to 14.9% on 1 December 2017);
- the manner in which the necessary capital support is provided to each of the Rest of Africa country banks to enable the required Separation investments to be made; and
- the overall financial impact and implications of the Separation, including actual project spend in 2017, and the projected Separation spend for 2018 and beyond.

The committee noted the risk management that is being applied throughout the Separation Programme with appropriate risk assessments and independent assurance.

OTHER CORPORATE GOVERNANCE MATTERS

King IV

The Board believes that good corporate governance is important in (i) creating and sustaining shareholder value; and (ii) ensuring that behaviour is ethical and promotes positive outcomes for the benefit of all stakeholders. Accordingly, and in order to balance these interests, the Group remains committed to the highest standards of corporate governance. The Issuer's Board of Directors charter provides the Directors with guidance on promoting these standards of corporate governance. It sets out the practices for implementing the corporate governance provisions set out in the King Code, the Companies Act, the Banks Act, the JSE Listings Requirements and other governance practices.

The Principles and recommended practices of King IV present a revised framework to review the Group's existing governance practices. King IV defines corporate governance as "the exercise of ethical and effective leadership by the Board towards the achievement of the following governance outcomes:

- ethical culture
- good performance
- effective control
- legitimacy"

The principles and practices of King IV revolve around the role and responsibilities of governance forums (in the case of the Issuer, the Issuer's Board of Directors). The Issuer's Board of Directors is the focal point for driving achievement of the Group's strategic and governance objectives.

King IV was launched by the Institute of Directors on 1 November 2016 and became effective on 1 April 2017. The Issuer reported on its application of the Code in the 2017 Integrated Report on 31 March 2018. The Code advocates an outcomes based approach and within that, an "apply and explain" application regime. The Issuer explained in its report that its approach to governance and the disclosure thereof was and will continue to be linked to the four desired outcomes and the Issuer will explain on an ongoing basis where the Group has not applied relevant practices.

Application of King IV

Applying King IV brought about changes to the Group's governance processes, including:

- transitioning from an annual to a biennial Board effectiveness review;
- the inclusion of a gender and race diversity policy and related targets in the Board Charter;

- more extensive disclosures on remuneration practices;
- more focus on combined assurance;
- a detailed review of the Group's stakeholder-inclusive practices and policies, with a view to creating a more comprehensive and effective stakeholder management regime; and
- developing a Group-wide governance framework to improve the inclusivity of governance.

In the Group's approach, each principle and underlying recommended practice was considered against that which was already in policy or practice within the Group. The outcomes of the analysis were considered by the Board and relevant committees between November 2016 and September 2017. The assessment indicates that the Group applies all key aspects of the 16 Principles, with room for improvement in Principles 14 (remuneration governance) and 16 (stakeholder relationships).

Principle 17 is designed for application by institutional investors. The Group's asset/investment management businesses Absa Asset Management, Absa Alternative Asset Management and Absa Multi Management have assessed their policies and practices against this principle and confirmed that they are generally compliant, with certain areas requiring improvement. Absa Asset Management and Absa Alternative Asset Management are signatories to the United Nations Principles for Responsible Investment ("**UN PRI**") and subscribe to the Code for Responsible Investing in South Africa (which is based on the UN PRI), while Absa Multi Management is working towards achieving the same by the end of 2018.

King IV also recommends that a board set targets for race and gender representation, and the JSE Listings Requirements require the Group have policies on the promotion of race and gender diversity at board level. The Board is committed to ensuring that the Group meets its governance, social and regulatory obligations regarding diversity while considering the environment and pan-African geographies in which the Group operates. In accordance with the board diversity policy, the Board has set targets for race and women representation at a minimum of 30% each for 2018.

The Board also takes prudent measures toward greater race and gender diversity among all employees, and recognises the benefits of having foreign Board members. As at 31 December 2017, the representation of women on (i) all subsidiary boards is 26%; (ii) South African boards is 28%; and (iii) the country bank boards is 22%. The black representation on the South African subsidiary boards is 37%.

King IV assessment

An initial assessment in early 2017 indicated that the Group already applies the most significant aspects of the principles and a majority of the underlying recommended practices of King IV. Of the 400 practices, 80% had at that stage been fully applied, 15% partially applied, 2% not applied and 3% are not yet applicable. Principles 14 and 16 (respectively covering remuneration governance and stakeholder inclusiveness) recorded higher percentages in the partially applied category for a number of reasons.

From March 2017, remedial efforts were aimed mainly at updating the Board Charter in 2017, committees' terms of reference and other governance documents and processes. After September 2017, efforts involved more detailed and strategic work on selected governance practices. The Group's third quarter assessment revealed that the number of fully applied practices had increased to 87%.

RISK MANAGEMENT

INTRODUCTION

The Group maintains an active approach towards managing both current and emerging risk through the continued operating effectiveness of its Board approved Enterprise Risk Management Framework ("**ERMF**"). The ERMF provides an integrated risk management framework designed to meet the challenges of changing risk environments and to ensure that the Group's business growth plans are properly supported by effective risk management. This approach is underpinned by:

- a robust and aligned governance structure at a Group, legal entity and business cluster level;
- well defined material risk categories known as principal risks;
- a three lines of defence model, with clear accountability for managing, overseeing and independently assuring risks;
- comprehensive processes to evaluate, respond to, and monitor risks; and
- a sound architecture that sets out the appropriate risk practices, tools, techniques and organisational arrangements.

Risk Management Objectives

All levels within the Group, from the Board and executive level committees down to the business unit managers and their risk specialists are responsible for risk management. A strong risk awareness and accountability culture is central to the Group's effective risk management. Risk management decisions are enacted at the most appropriate level, in line with business objectives and subject to robust and effective review as well as challenge processes. Strategic business decisions are taken in accordance with a Board-approved risk appetite with the executive and risk committees closely monitoring risk profiles against this appetite.

ERMF

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

The ERMF sets out the principal risks, and assigns clear ownership and accountability for these risks. The ERMF defines credit, market, treasury and capital, insurance, operational, model, conduct, reputation and legal risks as principal risks in recognition of their significance to the Group's strategic ambitions.

Credit Risk, Market Risk and Treasury and Capital Risk are collectively known as "**Financial Principal Risks**". The remaining risks are referred to as "**Non-Financial Principal Risks**" (together with the Financial Principal Risks, the "**Principal Risks**").

Individual events may entail more than one Principal Risk. For example, internal fraud by a trader may expose the Group to operational and market risks as well as many aspects of conduct risk.

This is not an exhaustive list of risks to which the Group is subject. For example, the Group is also subject to political and regulatory risks in the jurisdictions in which the Group operates. While these may be very consequential, and assessed from time to time in the planning and decision making process, they are not considered Principal Risks. These other risks are, however, subject to ERMF framework and oversight by Risk Management.

The Group's Risk and Capital Management Committee periodically reviews the list of Principal Risks to consider if new risks have emerged that should be included in the framework.

Risk Process: Evaluate-respond-monitor

The Group uses a structured, practical set of three steps to manage risk – Evaluate, Respond and Monitor (the E-R-M process). The Group's process enables management to identify and assess risks, determine the appropriate response, and then monitor the effectiveness of the risk response and any changes to the risk profile. This three step risk management process:

- can be applied to every objective at every level in the Group;
- is embedded into the business decision-making process;

  guides the Group's response to changes in the external or internal environment; and
- involves all staff and all three lines of defence.

(See "*Risk management – Risk Architecture*" below)

Risk Architecture

The ERMF sets out the activities, tools, techniques and organisational arrangements to ensure that material risks can be identified and managed. It ensures that appropriate responses are in place to protect the Group and its stakeholders. The following tools and techniques are key in the Group's risk architecture:

Risk culture: The code of conduct outlines the values and behaviours which govern the Group's way of working. It constitutes a reference point covering all aspects of employees' working relationships, specifically with other employees, customers and clients, governments and regulators, business partners, suppliers, competitors and the broader community. The objective of the code of conduct is to define the way the Group thinks, works and acts at a Group level to ensure it delivers against its purpose of helping people to achieve their ambitions – in the right way. The code of conduct sets out the ethical and professional attitudes and behaviours expected of the Group and its employees.

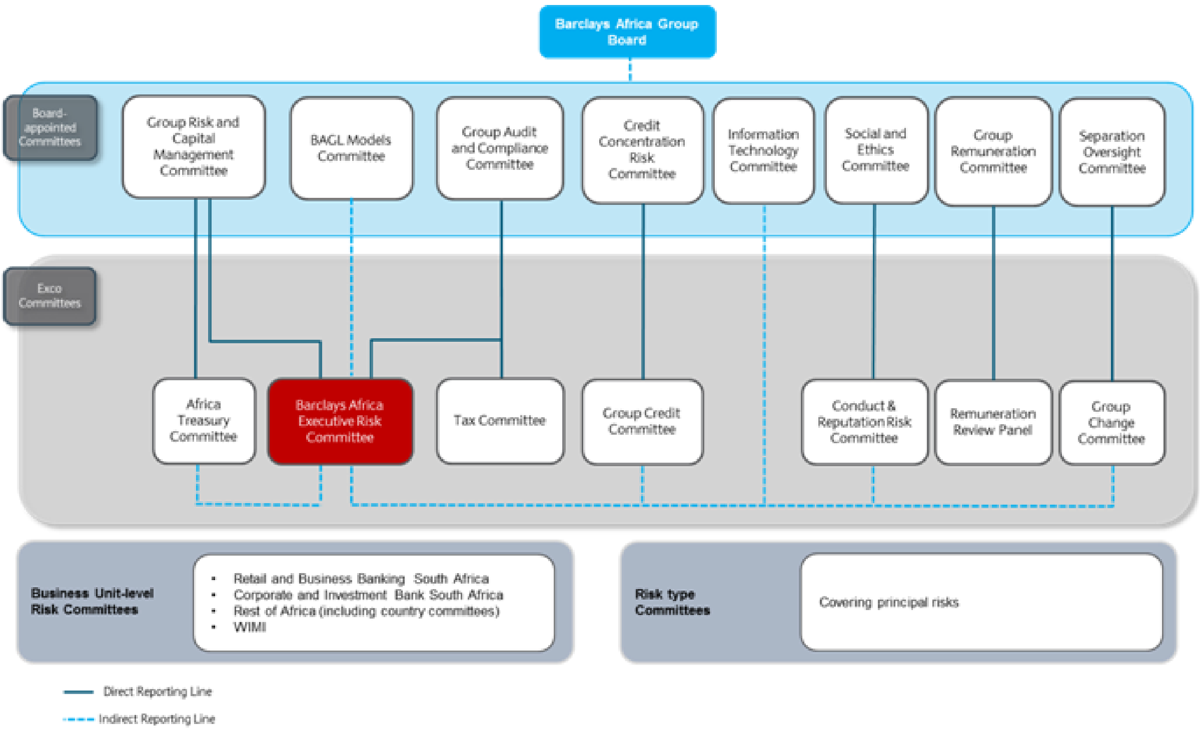
Three lines of defence: The Group applies a 'three lines of defence' model to govern risk across all segments and functions. The ERMF assigns specific responsibilities to each line of defence:

1. First line: process and control owners in customer and client-facing business segments and select Group functions. They are responsible for managing risk and control in their processes on an end-to-end basis;

2. Second line: independent risk, compliance, legal and control functions which formulate the policies and standards for managing risk and control and ensure, through reviews, that the first line meets the requirements of the policies and standards; and

3. Third line: internal and external audit functions that confirm, through control testing and other reviews, that the first and second lines execute their responsibilities in an effective and consistent manner.

Governance: The Group Board is supported by a number of committees at Board, executive, and business level. The following diagram depicts the risk related committees.



Combined assurance: The Group applies a combined assurance model and requires co-ordinated activity across the three lines of defence for effective combined assurance. The objective of combined assurance is to optimise overall assurance provided to the executive and Board in respect of the risk and control environment. The Group seeks to have a greater level of process automation and a higher proportion of preventative controls, wherever possible. The combined assurance strategy is a more risk-based approach, across those areas that are most material to the enterprise.

Human Capital: Sustained focus on employees, as a differentiating asset, has enabled the Group to accelerate progress. Central to this is leadership continuity, critical skills retention and ability to attract and engage quality employees. The Group is significantly investing in employee development and strengthening the employer brand. This includes building the leadership and managerial depth to underpin future ambitions.

Data: Internal and external data is utilised in meeting regulatory requirements and the management of risk. The Group enters into selected data and analytics partnerships with third parties, to enhance and heighten understanding of customers and clients. Third parties may include public and private sector corporate clients, bureaus and other data providers. Internal data is owned and managed by the respective business units with regular assessment of data quality via their respective risk governance structures. All key datasets are subject to the requirements of the Group's data policies and standards.

Technology: Technology is a building block for the Group's risk management practices, and to this end solutions are focussed on:

- Data collection and storage;
- Risk analysis and modelling;
- Risk assessment, monitoring and control; and
- Risk reporting and communication.

Principal Risks

The Board-approved ERMF sets out the scope of the risks the Group faces and creates clear ownership and accountability for risks. The ERMF covers the nine principal risks (as detailed below).

Principal Risk		Responsible Parties
Financial Principal Risks	**Credit Risk** Credit risk is the risk of suffering financial loss due to a borrower, counterparty to a derivative transaction, or an issuer of debt securities defaulting on its contractual obligations.	**Chief Risk Officer (through the Chief Credit Officer)**
	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 variables.	**Chief Risk Officer (through the Head of Market and Funding Risk)**
	Treasury & Capital Risk ***Liquidity Risk:*** The risk that the Group is unable to meet its contractual or contingent cash obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. ***Capital risk:*** The risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities and to remain within its Board-approved capital target ranges under normal operating conditions or above regulatory capital requirements under stressed conditions (both actual and as defined for internal planning or regulatory stress testing purposes). ***Interest Rate Risk in the Banking Book:*** The risk that the Group is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its non-traded assets and liabilities.	**Chief Risk Officer (through the Head of Market and Funding Risk)**
	Insurance Risk The risk that future claims, expenses, policyholder behaviour and investment returns may be adversely different to the allowances made in measuring policyholder liabilities and in product pricing.	**Chief Risk Officer (through the Chief Risk Officer, WIMI)**
Non-Financial Principal Risks	**Operational Risk** The risk of direct and indirect loss resulting from human factors, inadequate or failed internal processes, systems or external events.	**Chief Risk Officer (through the Head of Operational Risk)**
	Model Risk The risk of potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports.	**Chief Risk Officer (through the Head of Model Risk)**
	Conduct Risk The risk of detriment to customers, clients, market integrity, effective competition or the Group from the inappropriate supply of financial services, including instances of wilful/negligent misconduct and the failure to meet	**Chief Compliance Officer**

	regulatory requirements.	
	Reputation Risk The risk that an action, transaction, investment or event will reduce trust in the Group's integrity and competence by clients, counterparties, investors, regulators, employees or the public.	**Chief Compliance Officer**
	Legal Risk The risk of loss or imposition of penalties, damages or fines from the failure of the Group to meet its legal obligations including regulatory or contractual requirements.	**General Counsel**

The Group Chief Risk Officer is accountable for ensuring that frameworks, policies and associated standards are developed and implemented for each of the Financial Principal Risks, Operational Risk and Model Risk and that they are subject to limits, monitored, reported on and escalated as required. The Chief Compliance Officer is likewise accountable for Conduct Risk and Reputation Risk, and the Group General Counsel for Legal Risk.

Risk Appetite and Strategy

The risk strategy is developed alongside the Group's business strategy and forms an integral part of the integrated planning process. Within the risk strategy, risk appetite defines the nature and amount of risk that the Group seeks. This is set at the start of the strategic planning process to ensure that the business strategy is achievable within risk appetite, and that risk information is considered in the organisation's decision-making and planning process.

The Group's risk appetite:

- specifies the level of risk the Group is willing to take and why;
- considers all principal risks individually and, where appropriate, in aggregate;
- consistently measures, monitors and communicates the level of risk for different risk types, expressed in financial and non-financial terms;
- describes agreed parameters for the Group's performance under varying levels of financial stress with respect to profitability, loss and return metrics, capital adequacy and liquidity ratios; and
- is considered in key decision-making processes, including business planning, mergers and acquisitions, new product approvals and business change initiatives.

The Group's risk appetite is defined using qualitative statements and quantitative measures which are cascaded to the level of principal risk, legal entity and business unit. The Group's risk appetite is stated qualitatively in terms of risk principles and risk preferences with reference given to those types of risks the Group actively seeks as well as those it accepts and avoids. In addition, the maximum amount of risk that the Group is prepared to accept in pursuit of its business objectives is defined using a range of quantitative metrics relating to liquidity, earnings volatility, capital adequacy and leverage.

Quantitative Risk Appetite Metrics	**Definition**
Total Regulatory Capital coverage	The extent to which the Group is adequately capitalised on a regulatory basis for both its banking and insurance businesses.
CET1 ratio (%)	The extent to which the Group is adequately capitalised with CET 1.
Economic capital ("**EC**") coverage	The extent to which the Group is adequately capitalised on an economic basis.
Accounting earnings-at-risk (%)	Percentage of profit before tax potentially lost over a 12 month

	period.
Loan loss rate (bps)	Level of actual credit losses in the Group's credit portfolios.
LCR (% Basel III)	The Group's sufficiency of high-quality liquid assets relative to total net cash outflows over a 30 day period.
Leverage ratio (% Basel III)	Level of leverage in the Group per unit of qualifying Tier 1 regulatory capital (statutory).

Stress testing

Stress testing and scenario analysis are key elements of the Group's integrated planning and risk management processes. Through the use of stress testing and scenario analysis, the Group is able to assess the performance of the Group's business in the expected economic environment and also evaluate the potential impact of adverse economic conditions, using and applying the information in the process of setting risk appetite.

Stress testing is conducted across all legal entities, business units, risk types, as well as at Group level. This is supported by a framework, policies, and procedures, adhering to internal and external stakeholder requirements, and benchmarked against best practice.

The stress testing results are reviewed by management and the Board and have been incorporated into the Group's internal capital adequacy assessment process ("**ICAAP**"), as well as its recovery and resolution plan. The Group performs ad hoc stress tests for internal and regulatory purposes.

Risk Types

1. Credit Risk

Credit risk is the risk of suffering financial loss due to a borrower, counterparty to a derivative transaction, or an issuer of debt securities defaulting on its contractual obligations.

The Group's credit risk is a function of the Group's business model and arises from wholesale and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk arising from derivatives and securities financing contracts entered into with the Group's customers and trading counterparties.

Management

The ERMF, owned by the Group Credit Risk Officer and approved by the Board, sets out the processes and governance arrangements used to evaluate, respond to and monitor risks incurred by the Group. The credit risk framework sets out:

- the credit risk governance process;
- the process for establishing credit risk appetite;
- the requirements for the management, measurement and reporting of credit risk; and
- the authorisation and delegation of credit risk activities.

The management of credit risk is carried out in accordance with the Group’s three lines of defence model. This sets out the relationship between the credit risk function, compliance and internal audit. The business function is the first line of defence and is primarily responsible for credit risk management, control and optimisation in the course of business origination. Both the credit risk function and compliance are positioned in the second line of defence. The credit risk functions embedded in the business units are responsible for providing oversight over the risk-taking activities of business areas. Group credit functions are responsible for credit policies and for providing independent credit risk assurance services. Internal audit is positioned in the third line of defence.

Key Impairment and Default Policies

Various regulatory and accounting terms are used to refer to assets that are not performing as expected at the time of origination.

The assets are categorised into two broad categories, namely:

- Impaired assets: This is where there is objective evidence of impairment as a result of one or more loss events that occurred after origination, for example;
    - significant financial difficulty of the Issuer or borrower;
    - breach of contract (default or delinquency in interest or principal). A tolerance of one cent per day is used for delinquency;
    - granting a concession to the borrower that would not otherwise be considered due to the borrower's financial difficulty (distressed restructure);
    - probable bankruptcy or financial reorganisation of the borrower;
    - the disappearance of an active market for the 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 assets in the portfolio.
- Default: This is where:
    - payment is 90 days or more past the contractual due date, or payment is three or more instalments in arrears, or the utilisation on the revolving facility remains in excess of an advised limit for 90 days or more; or
    - the customer is unlikely to pay its credit obligation to the bank in full. Indications of unlikeliness to pay include suspension of interest, the Group consents to a distressed restructuring of the credit obligation, the customer applies for debt review, business rescue or similar protection and bankruptcy.
- NPL: This includes:
    - in the retail portfolio, loans that are more than 90 days past the due date; and
    - in the wholesale portfolio, loans that are considered unlikely to make full repayment of capital and interest to the Issuer and where the intent of the Issuer switches from rehabilitation to recovery of the outstanding capital and accrued interest.

Credit Impairments

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:

- product type;
- industry;
- geographical location;
- collateral type;
- past due status; and
- other factors relevant to the evaluation of expected future cash flows.

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

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

Following impairment, interest income is recognised at the original effective interest rate on the reduced carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans. The impairment allowance contains a net present value adjustment that represents the time value of money of expected cash flows. Such time value of money reduces as the point of cash flow is approached. The time-based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets. Uncollectable loans are written off against the related allowance for loan impairment on completion of the Group's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to impairment losses on loans and advances in profit or loss.

Recognition criteria for financial reporting:

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.

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

Unidentified Impairment

- An impairment allowance is recognised when observable data indicates there is a measurable decrease in the estimated future cash flows from a group of financial assets since the original recognition of those assets, even though the decrease cannot yet be identified for the individual assets in the group. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition that has already occurred, but will only be identifiable at a borrower level at a future date. The purpose of collective assessment of impairment is to test for latent losses on a portfolio of loans that have not been individually evidenced.

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

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

Management of Customers in Distress

Distressed assets must be subject to enhanced risk oversight and monitoring to ensure that appropriate action is taken in a timely manner, allowing a high level of turnaround success and reduced risk of loss for the Issuer.

Wholesale businesses are required to identify, at an early stage, those customers believed to be facing financial distress or where there are grounds for concern regarding their financial health. Distressed customers are assigned to a specific Watch List ("**WL**") category based on various qualifying criteria relating to the severity of their financial difficulties. It is expected that most customers would be categorised WL1 before migrating to a different WL category (WL2, WL3, WL4) or out of the WL framework. WL4 counterparties are assessed as unlikely to pay their credit obligations in full and as such represent defaulted assets. WL categories are updated monthly and are subjected to business unit aligned governance forums where the status of individual names is discussed and approved. Once an account is included on a WL, exposure is carefully monitored and, where deemed necessary, a reduction of the exposure is pursued.

Within the Retail portfolios, the collections and recovery functions are responsible for managing customers in financial distress. Business units have established consistent approaches to the identification and management of customers in financial distress using toolkits such as High Risk ("**HR**") customer strategies, restructures, collection arrangements and legal action. HR customers are not in arrears, but are identified systematically either through an event or observed behaviour to exhibit potential financial distress. Strategies are in place to prevent these customers from moving to an arrears status. Collection activities (1-180 days in arrears) are focused on assisting customers to return to a current status. Recovery activities (180 days + arrears) are focused on collection of the full amount owed. Legal action may be considered at this stage and interest is suspended.

Restructure

The Group may offer restructure plans to assist customers in financial distress. A distressed restructure is defined as an agreement between the Issuer and a customer to modify the terms and conditions of a credit agreement - typically to accept less than the original contractual amounts due for a period of time where financial distress would otherwise prevent satisfactory repayment within the original terms and conditions of the contract. The following factors are taken into account when determining whether the restructuring was performed due to the financial distress of the customer (also known as a distressed restructuring):

- in all cases, if the loan is in arrears at the time of the restructure;
- if the loan has been in arrears at any point during the 6 months prior to the restructure; and
- where the loan is not in arrears at the time of the restructure and the terms and conditions were changed in order to prevent the customer from going into arrears. In order to determine whether the terms and conditions were changed for the purposes of preventing the customer from going into arrears the following should be considered:
  - bankruptcy or application for bankruptcy by the customer;
  - application for debt counselling by the customer;
  - analysis of the information available indicates that the cash flows will be insufficient to service the existing agreement; and
  - any other information that comes to the Issuer's attention that indicates that the customer is experiencing financial distress.

Exposures that have undergone a distressed restructuring are monitored closely to ensure that they are able to perform under the revised terms and conditions. Exposures are marked and reported as distressed restructures until such time that they have been able to perform in accordance with the revised terms and conditions for 12 consecutive months.

The restructuring may result in a reduced financial obligation where interest or capital concessions are made. In the retail banking business, customers under debt review will often involve a reduced financial obligation, whereas internal restructures will not imply interest and capital concessions under current policies (but rather a term extension). Exposures that are marked as distressed restructurings are segregated for impairment purposes and are impaired to a level that is consistent with the historical behaviour of assets that underwent distressed restructures.

A distressed restructuring is objective evidence of impairment. Such exposures are assessed for impairment at the time of the restructure and at appropriate intervals thereafter. Where subsequent to the impairment test an identified impairment is raised against the exposure or where there is any other reduction of the financial obligation, this should be regarded as a reduced financial obligation and the exposure is classified as 'impaired'. The Group currently treats all exposures to distressed restructuring as 'defaulted' for regulatory purposes.

Governance

The credit risk management and control function consists of committees and individuals at Board, executive management and business unit level. The key committees involved in the governance of credit risk are:

- Credit portfolio oversight: The Credit Concentration Risk Committee is the primary board sub-committee responsible for credit risk oversight. The Exco Risk Committee ("**BERC**") is the most senior management committee responsible for credit risk oversight. At a business unit level, credit portfolio quality review meetings are responsible for the oversight and management of the credit portfolios of each business unit.

- Model governance: The Board level Models Committee is responsible for the review and approval of the most material credit models. Business unit model approval forums are in place for the review of the balance of the models.

- Sanctioning: The Credit Concentration Risk Committee is the ultimate sanctioning authority in the bank, responsible for the approval of single name exposures that exceed 10% of the Group's qualifying capital and reserves. The committee delegates authority for the approval of country risk exposures and single name exposures that fall below the 10% threshold to the Group Credit Committee, which in turn delegates authority to the Group Chief Credit Officer ("**GCCO**").

Reporting

The GCCO is responsible for the following board-level reporting:

- To the Credit Concentration Risk Committee: The Group's credit risk profile, including key credit metrics, utilization of risk appetite, the bank's impairment position and credit concentrations.

- To the Group Risk and Capital Management Committee: A summary of the Group's credit risk profile and its utilisation of risk appetite against limits.

- To the Group Audit and Compliance Committee: A summary of the Group's impairment results and impairment position.

Measuring and managing credit concentrations

Credit risk management includes the management of concentrations, or pools of exposures, whose collective performance has the potential to affect a bank negatively even if each individual transaction within a pool is soundly underwritten. When exposures in a pool are sensitive to the same economic or business conditions, that sensitivity, if triggered, may cause the sum of the transactions to perform as if it were a single, large exposure.

The Credit Concentration Risk Committee has the overall responsibility for the oversight of credit concentration risk for the Issuer and approves material credit concentration risk limits. Credit concentration risk is managed from the following perspectives:

- Large Exposures and Maximum Exposure Guidelines: Large exposures to a single counterparty or group of counterparties are managed in accordance to regulatory requirements, with the Credit Concentration Risk Committee fulfilling board level responsibilities in terms of this requirement. In addition to the regulatory requirements, a framework of internally derived maximum exposure guidelines informs risk appetite levels to single counterparties or a group of counterparties, with risk appetite scaled according to probability of default;

- Mandate and Scale: Mandate and scale are selected on the basis that they isolate segments of high loss volatilities (i.e. where loss rates increase disproportionately relative to the remainder of the portfolio in a stress environment) or, where concentrations are considered of significance. Groups of exposures are considered according to sector/industry, collateral, maturity, product and transactions with similar underwriting criteria. The management of Wrong Way Risk ("**WWR**") being the risk that occurs where exposure to a counterparty is adversely correlated with the credit quality of that counterparty and is considered as part of the mandate and scale framework; and

- Country Risk: Country risk involves the risk of default by obligors on their cross-border obligations, due to implementation of capital controls (transfer risk) and/or a risk of loss occurring as a result of a country event (e.g. adverse political changes, legal changes, the macro economy (jurisdiction risk) or environmental factors). Country risk includes the following risks: transfer risk, currency risk, contagion risk, sovereign risk as well as the consideration of other jurisdiction risks.

The Issuer maintains a well-diversified portfolio of credit assets. Concentrations exist in the following areas which flow naturally from the Issuer's position and role in the South African economy:

- Private households, and specifically the home loans asset class due to the Issuer's position as a major retail bank in the South African market;
- Sovereign exposure, that is largely due to the Issuer's liquid asset portfolio holdings;
- South Africa geographic exposure due to the Issuer's being headquartered in South Africa; and
- Banks, due to the Issuer's funding and hedging activities.

Exposures by Basel Asset Class and Maturity

	As at 31 December 2017				
	Total exposure	**Current to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**
	Rm	**Rm**	**Rm**	**Rm**	**Rm**
Banks	63,951	12,678	33,444	16,031	1,798
Corporate	301,757	143,744	23,847	124,017	10,149
Local governments and municipalities	7,948	1,508	25	2,721	3,694
Public sector entities	26,576	9,347	1,370	9,379	6,480
Retail – other	108,496	8,600	3,931	78,675	17,290
Retail mortgages (including any home equity line of credit)	281,102	35,783	1,032	14,910	229,377
Retail revolving credit	98,349	98,349	-	-	-
Securities firms	11,262	5,859	309	5,094	-
SME Corporate	134,167	78,251	16,488	34,890	4,538
SME Retail	23,727	14,244	517	5,392	3,574
Sovereign (including central government and central bank)	136,613	46,171	26,251	36,159	28,032
Specialised lending - income producing real estate	20,149	165	29	8,049	11,906
Specialised lending - project finance ("**PF**")	29,693	3,828	3,486	13,576	8,803
Total	**1,243,790**	**458,527**	**110,729**	**348,893**	**325,641**

Credit Risk Mitigation (CRM)

The most widely used forms of credit risk mitigation ("**CRM**") in the banking book include collateral, suretyships and guarantees (from both related parties and third parties), and risk distribution. The Group also makes use of other forms of risk mitigants such as covenants and parental support to strengthen its position as a lender. In addition, the Group makes use of on-balance sheet netting (set-off) to reduce credit risk exposure across multiple accounts (with both debit and credit balances) held by a single customer. The Group only allows set-off on instruments of the same maturity and currency. A formal legal agreement governs the arrangement with the customer. The Group makes limited use of credit derivatives to mitigate risk in the banking book.

Generally one or more forms of CRM is used in the credit approval process. The use and approach to CRM varies by product type, portfolio, customer and business strategy. Minimum requirements are prescribed in policies and procedures, and cover:

- acceptable risk mitigation types and any conditions or restrictions applicable to these mitigants;
- the minimum haircuts or other volatility adjustments applicable to each type of mitigant, including, where appropriate, adjustments for currency mismatch, obsolescence and any time sensitivities on asset values;
- the means by which legal certainty is to be established, including required documentation and necessary steps required to establish legal rights;
- acceptable methodologies for valuations of collateral and the frequency with which the collateral are to be revalued;

- actions to be taken in the event of the current value of mitigation falling below required levels;
- management of the risk of correlation between changes in the credit risk of the customer and the value of CRM, for example, any situation where customer default materially impacts the value of a mitigant;
- management of concentration risks, for example, setting thresholds on the maximum amount that can be accepted in a particular collateral type; and
- collateral management to ensure that CRM is legally enforceable.

The Group accepts the following types of collateral:

- financial collateral, such as cash, government bonds, commodities, listed or unlisted equities and pledged securities;
- physical collateral, such as bonds over properties (commercial and residential), equipment and vehicles; and
- other funded collateral, such as intangible assets and receivables.

Depending on the Group's assessment of a customer's financial capacity, financing may also be granted on an unsecured basis.

Valuation of Collateral

The Group uses a number of approaches for the valuation of collateral that is not in a defaulted state, including physical inspection, Automated Valuation Model ("**AVM**"), desktop valuation, statistical indexing and price volatility modelling. Valuations are refreshed on a regular basis. Once an asset becomes non-performing, the following approach is followed:

- For the wholesale portfolio, collateral valuations are updated when an account enters the legal/recovery process to ensure an appropriate impairment allowance can be calculated. In the wholesale portfolios these valuations are reviewed regularly to ensure any impairments raised remain at an appropriate level; and
- In the retail portfolio, mortgage asset valuations are updated using an AVM, while an indexing methodology is used for instalment sale assets. High value property assets are valued through a physical valuation. Valuations are updated at least every six months.

The banking book collateral management process is focused on the efficient handling and processing of a large number of cases in the retail portfolio and the lower end of the corporate sector, therefore relying heavily on the Group's collateral and document management systems. For larger wholesale exposures and capital market transactions, collateral is managed jointly between the credit and legal functions as transactions and associated legal agreements are often bespoke in nature. All security structures and legal covenants are reviewed at least annually to ensure they remain fit for purpose and consistent with accepted market practice.

Types of guarantor and credit derivative counterparties

In the commercial, corporate and financial sector, reliance is often placed on a third party guarantor, which may be a parent company to the borrower, a major shareholder or a bank. Similarly, credit derivative transactions are sometimes used to hedge specific parts of any single name risk in the wholesale portfolio. For these transactions, the most common counterparties or issuers are banks, non-bank financial institutions, large corporates and governments. The creditworthiness of the guarantor or derivative counterparty/issuer is assessed as part of the credit approval process and the value of such a guarantee or derivative contract is recorded against the guarantor/issuer's credit limits.

Assessment of RWA

Credit Risk under standardised approach

The Group uses the standardised credit risk approach for its Rest of Africa banking book portfolios (both wholesale and retail), and in South Africa for the Edcon retail portfolio. Due to the relative scarcity of data, the

Rest of Africa portfolios are not currently on the IRB migration plan. The Edcon portfolio is on the IRB migration plan.

Standard and Poor's and Moody's ratings are used by the Group as input into standardised capital formulas for the Group, corporate and sovereign asset classes. Rating agencies have limited coverage in the Rest of Africa where the Group applies the standardised approach. Where more than one rating is available, the more conservative rating is applied. Issuer ratings are generally used. Obligors that are not rated externally are classified as unrated for regulatory capital purposes.

Credit Risk under the IRB approach

The IRB approach is followed in South Africa. The principal objective of credit modelling 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 credit parameters that are used for credit risk management purposes and in the calculation of Regulatory Capital ("**RC**"), EC and impairment requirements. The key credit parameters used in this process are EAD, PD, LGD (each as defined below), maturity and asset correlation.

Key risk parameters used in credit risk measurement

EAD	PD	LGD	M	Correlation
Exposure at Default	**Probability of default**	**Loss given default**	**Maturity**	**Correlation**
An estimate of the level of credit exposure, should the obligor default occur during the next (rolling) 12-month period.	Represents the likelihood that an individual obligor will default during the next (rolling) 12-month period.	Represents an estimate of the percentage of EAD that will not be recovered, should the obligor default occur during the next (rolling) 12-month period.	Remaining time until the contractual maturity date of the loan or other credit facility.	Measures to what extent the risks in the various industry sector and regions in the loan portfolio are related to common factors.
These parameters can be calculated to represent different views of the credit cycle, which are used in different applications:				
	• **Through-the-cycle ("TTC"):** reflecting the predicted default frequency in an average 12-month period across the credit cycle. • **Point-in-time ("PIT"):** reflecting the predicted default frequency in the next 12 months.	• **Downturn ("DT"):** reflecting behaviour observed under stressed economic conditions. • **Long run ("LR"):** reflecting business-as-usual measures or behaviour under current conditions.		
Internal and vendor-supplied credit models are used to estimate the key credit parameters of EAD, PD, LGD and asset correlation. The Group uses different modelling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers.				

Counterparty Credit Risk ("CCR")

CCR arises from the risk that counterparties are unable to meet their payment obligations under derivatives and securities financing transactions. The credit risk that relates to a derivative or securities financing transaction does not remain static over time, but changes due to movement in underlying market variables. The loss to the Group is the cost of replacing or closing out the contract and is recognised as a trading loss. In order to quantify the potential impact of these changes in market factors on counterparty exposures, the Group employs both Monte Carlo and maximum replacement cost ("**MTM**") plus add-on techniques to estimate a counterparty's potential future exposure ("**PFE**"). The PFE is a measure of MTM over the life (in the case of uncollateralised portfolios) or closeout period (in the case of collateralised portfolios) of a counterparty portfolio. A confidence level of 98% is used to measure PFE.

CCR exposures must be approved by the Risk Sanctioning Unit ("**RSU**") by setting PFE credit limits at counterparty level. PFE limits are made available to the first line of defence for trade approvals on a case-by-case basis. The first line of defence is responsible for ensuring that trading exposure falls within approved credit appetite. PFE limits define the magnitude and tenors of acceptable exposure. The RSU is authorised to approve requests for new PFE limits and adjustments to existing PFE limits. The RSU gives due consideration to current usage under relevant concentration limits. All CCR credit limits are considered uncommitted and are revocable at any time.

In line with international market practice, the Group endeavours to use netting agreements and collateral agreements wherever possible to optimise capital usage. The Group employs primarily (i) International Swaps and Derivatives Association ("**ISDA**") master agreements as well as collateral support annexures ("**CSAs**"); (ii) International Securities Lending Association ("**ISLA**") Global Master Securities Lending ("**GMSLA**"); and (iii) the International Capital Market Association ("**ICMA**") Global Master Repurchase Agreement ("**GMRA**"). These provide standardised and commonly accepted terminology and processes for managing collateral and margin calls over the lifetime of the transaction.

These agreements may create an obligation on the Group unrelated to the underlying instruments in the event of a credit downgrade of the Group. However, the Group currently has no trading book collateral agreements that are sensitive to the Group's own credit rating.

Securitisation

Securitisation transactions are used as a means of raising long-term funding.

As at the date hereof, the Group does not undertake any securitisation transactions apart from the SARB committed CLF which is a non-market securitisation transaction. Home loans are sold into a special purpose vehicle ("**SPV**") structure, notes are issued to Absa Bank Limited to fund this acquisition, and the senior notes are ceded to the SARB as collateral for the CLF.

The Group's own assets relating to its home loans portfolio were securitised in connection with the securitisation transaction described above. The look-through approach is applied for the Home Obligors Mortgage Enhanced Securities Proprietary Limited and Absa Home Loans 101 (RF) Limited (AHL101) (Homes securitisation); hence transfer of credit risk does not take place. In addition to credit risk, liquidity and interest rate risk are considered regularly. The Group does not enter into any re-securitisation transactions.

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 governance of equity investments is based on the following 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
- implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for transactions cover a comprehensive set of financial, commercial, legal and technical (where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio. The majority of the Group's equity investments are held in CIB and Business Bank.

Credit performance metrics are provided below:

Key risk metrics	Year-on-Year trend	Group		2017 Wholesale		Retail
Growth in gross loans and advances to customers (%)	▲	**3.9**	▼	**6.9**	▲	**1.5**
Credit loss ratio (%)	▼	**0.87**	▼	**0.41**	▼	**1.29**
NPL as a percentage of gross loans and advances (%)	▼	**3.7**	▼	**2.5**	▲	**5.3**
NPL coverage ratio (%)	▼	**43.1**	▼	**39.5**	▼	**44.5**
Performing loans coverage ratio (%)	▼	**0.7**	▼	**0.5**	▼	**0.9**
Weighted average probability of default ("**PD**") (%)	▼	**2.3**	=	**1.0**	▼	**3.9**
Weighted average loss-given-default ("**LGD**") (%)	▲	**30.6**	▲	**34.2**	▼	**26.1**
Credit RWA as a percentage of Exposure at Default ("**EAD**")[1] (%)	▲	**45.3**	▲	**48.0**	▲	**42.1**

	2016 Group	Wholesale	Retail
Growth in gross loans and advances to customers (%)	2.7	7.8	(0.8)
Credit loss ratio (%)	1.08	0.63	1.54
NPL as a percentage of gross loans and advance (%)	3.9	2.8	5.2
NPL coverage ratio (%)	44.2	40.8	45.6[2]
Performing loans coverage ratio (%)	0.8	0.7[2]	1.0[2]
Weighted average PD (%)	2.4	1.0	4.0
Weighted average LGD (%)	28.6	30.6	26.2
Credit RWA as a percentage of EAD (%)	43.5	46.1	40.6

- Loans and advances: The 3.9% (4.8% on a constant currency basis) growth in loans and advances to customers from the year ended 31 December 2016 to the year ended 31 December 2017 is largely a result of tough economic conditions, political and policy uncertainty, and low business confidence levels in South Africa. Muted growth in retail advances was partly offset by solid growth in wholesale loans and advances. The size of the home loans portfolio remained unchanged from the year ended 31 December 2016 to the year ended 31 December 2017. Wholesale loans growth was largely due to strategic focus on selected names in the real estate sector and high quality mid-tier corporates.

- NPLs: NPL as a percentage of gross loans and advances improved to 3.7% in 2017 (2016: 3.9%) due to the recovery of a large single name exposure, write-offs, and payments received on NPLs in the wholesale Rest of Africa portfolio.

- Credit loss ratio: The credit loss ratio improved to 87bps in 2017 (2016: 108bps), driven by reduced impairment charges. Impairment charges have reduced by 19.8% to R7,022 million in 2017 (2016: R8,751 million), as a result of lower default experienced across the South African wholesale loan portfolios, improved credit performance in the Rest of Africa businesses, and risk mitigation strategies initiated previously in the South African retail businesses. The income statement charge for macroeconomic provisions was lower during the reporting period.

- Performing coverage: The decrease in coverage to 70bps in 2017 (2016: 79bps) relates to an improvement in the wholesale portfolio's risk profile.

- Credit RWA intensity: RWA consumption calculated as a percentage of the exposure at default has increased and is attributable to increased wholesale LGD levels (due to a new sovereign LGD model implementation) and market movements increasing both CCR and credit value adjustment ("**CVA**").

1 The percentages include only the portfolios subject to the IRB approaches.
2 Changed from the previous disclosure due to business changes in Rest of Africa where some of the balances moved between retail and wholesale.

Detail of NPLs

	2017	2016	2017	2016	2017	2016
	Credit loss ratio (bps)		Non-performing loans (Rm)		NPL coverage ratio (%)	
South Africa Banking	80	103	25,887	25,719	41	43
RBB South Africa	110	133	23,868	23,454	41	42
Retail Banking South Africa	120	139	20,534	20,166	42	43
Cards	453	541	5,053	5,423	71	72
Vehicle Asset Finance	87	114	2,362	2,085	47	44
Mortgages	30	40	10,353	10,029	20	21
Personal Loans	609	568	2,383	2,409	66	66
Business Banking South Africa	43	98	3,334	3,288	33	35
CIB South Africa	24	44	2,019	2,265	41	52
Rest of Africa Banking	134	162	4,742	5,262	56	51
WIMI	158	13	262	116	67	49
Group	87	108	30,891	31,097	43	44

2. 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 variables.

Market risk management objectives are to:

- ensure risk is managed within the Group's appetite by monitoring risk against the limit and appetite framework;
- understand risk sensitivity and volatility;
- use appropriate models to measure risk;
- utilise stress testing and empirical analytics to supplement model based risk management.
- ensure risk is managed within the Group's risk appetite by monitoring risk against the risk limit and risk appetite framework;
- ensure a sufficient degree of net interest margin stability in the Group's banking books;
- understand risk sensitivity and volatility;
- use appropriate models to measure risk; and
- utilise stress testing and empirical analytics to supplement model based risk management.

Performance

Key risk metrics	**Year-on-Year Trend**	**2017**	**2016**
Average traded market risk – 95% Daily Value at Risk ("**DVaR**") (Rm)	▼	**26.5**	26.8
Traded market risk RC (Rm)	▼	**2,476**	2,889

Review of reporting period ending 31 December 2017

Trading exposures were managed within overall risk appetite during the year ended 31 December 2017. The DVaR decreased marginally from the position in the year ended 31 December 2016 (R26.8 million) to R26.5

million in 2017. RC reduction was driven by a decrease in standardised specific risk exposure across the African businesses.

Priorities

- Continue to ensure market risk is managed within risk appetite in potentially volatile conditions; and
- Retain focus on regulatory change, specifically preparing for the adoption of the Fundamental Review of the Trading Book ("**FRTB**").

3. Interest Rate Risk in the Banking Book ("IRBB")

IRRBB is the risk that the Group's financial position might 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, and certain structural exposures within the balance sheet from re-pricing differences between assets, liabilities and equity. These risks impact both the earnings and economic value of the Group.

The Group's objective for managing IRRBB is to ensure a higher degree of interest rate margin stability and reduced 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 the Issuer group treasury, which is mandated to hedge material net exposures with the external market. Interest rate risk may arise when some of the net position remains with the Issuer group treasury as a result of timing considerations. A limit framework is in place to ensure that the retained risk remains within approved risk appetite.

Risk management strategies 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 IRRBB. 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 the Issuer group treasury. Interest rate risk also arises in each of the Rest of Africa treasuries in the normal course of managing the balance sheet and facilitating customer activity. The risk is managed by the local treasury functions, subject to risk limits and other controls.

Embedded customer optionality risk may also give rise to IRRBB. This risk arises from a customer's right to buy, sell or in some manner alter the cash flow of a financial contract.

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. This risk is managed by modelling the loans on a behaviouralised basis for both pricing and risk measurement. This treatment is also applied to non-maturing customer deposits.

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. Market risk processes are in place to enable robust management of these additional forms of IRRBB.

The techniques that are used to measure and control IRRBB include:

- re-pricing profiles;
- annual earnings at risk ("**AEaR**");

- DVaR and tail metrics;
- economic value of equity ("**EVE**") sensitivity; and
- stress testing.

DVaR and tail metrics are assessed on a daily basis while re-pricing profiles, AEaR and EVE are assessed on a monthly basis. These techniques are supported by non-VaR metrics (position and sensitivity limits). Limits are set and monitored in accordance with the limit framework. Limits for AEaR, DVaR and stress are agreed by the GMRC. Compliance with limits is monitored by the respective Rest of Africa market risk teams with oversight provided by the Group's market risk team.

Priorities

- Retain focus on regulatory and capital change, specifically preparing for the adoption of the standard on IRRBB noting the extension of the deadline; and
- Continue to manage margin volatility through the structural hedge programme in South Africa and through appropriate asset and liability management processes in Rest of Africa.

Review of reporting period ending 31 December 2017

Banking book earnings at risk decreased compared to the reporting period ending 31 December 2016, remaining within risk appetite. The Group remained positively exposed to increases in interest rates after the impact of hedging.

AEaR/NII for 100 and 200 bps up and down movements in market interest rates for the Group's banking books is disclosed in the table below. 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 31 December 2017, result in a pre-tax reduction in projected 12-month net interest income of R1.93 billion (31 December 2016: R2.38 billion). A similar increase would result in an increase in projected 12-month net interest income of R1.7 billion (31 December 2016: R2.22 billion). On this basis AEaR expressed as a sensitivity to a 200bps parallel decrease in all market interest rates decreased by 1.2% to 4.5% of the Group's NII from 31 December 2016 to 31 December 2017.

Performance

Key risk metrics

	Year-on-Year trend	**Reporting period ending 31 December 2017**	**Reporting period ending 31 December 2016**
Banking book AEaR for a 2% interest rate shock (% of Group net interest income ("NII"))	▼	**<5%**	**<6%**

AEaR for 100 and 200 bps changes in market interest rates

	Reporting period ending 31 December 2017			
	200 bps decrease	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Domestic bank book[3] (Rm)	(1,405)	(459)	609	1,172
Foreign subsidiaries banks books[4](Rm)	(530)	(265)	265	530
Total (Rm)	(1,934)	(724)	873	1,701
Percentage of the Group's NII (%)	(4.5)	(1.7)	2.0	4.0
Percentage of the Group's equity (%)	(1.9)	(0.7)	0.9	1.7

3 Includes exposures held in the CIB banking book.

4 African subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.

	Reporting period ending 31 December 2016			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book[5] (Rm)	(1,835)	(765)	840	1,681
Foreign subsidiaries banks books[6] (Rm)	(541)	(270)	270	541
Total (Rm)	(2,376)	(1,036)	1,110	2,222
Percentage of the Group's NII (%)	(5.7)	(2.5)	2.6	5.3
Percentage of the Group's equity (%)	(2.3)	(1.0)	1.1	2.2

4. Treasury & Capital Risk

Liquidity Risk

Liquidity risk is monitored at a Group level under a single comprehensive liquidity risk framework. The liquidity risk framework is designed to deliver an appropriate tenor structure and composition of funding consistent with the LRA set by the local board of directors. The liquidity framework is delivered through a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring.

Each geographic entity is required to be self-sufficient from a liquidity and funding perspective, and is responsible for implementing appropriate processes and controls to ensure compliance with local LRA, regulatory limits and reporting requirements.

Risk identification and management

The efficient management of liquidity is essential for safeguarding the Group's depositors, preserving market confidence and maintaining the Group's brand. The Group considers sustainable access to appropriate liquidity for each of its entities to be extremely important. Liquidity risk is managed in line with the liquidity risk framework, in order to:

- Maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the LRA as expressed by the Board.
- Maintain market confidence.
- Set limits to control liquidity risk within and across lines of business and legal entities.
- Price liquidity costs accurately and incorporate these into product pricing and performance measurement.
- Set Early Warning Indicators ("**EWIs**") to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources.
- Project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items.
- Maintain a Contingent Funding Plan ("**CFP**") and Recovery Plan (as defined herein) that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

The liquidity risk management processes are summarised in the table below:

[5] Includes exposures held in the CIB banking book.
[6] African subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.

Funding planning	**Liquidity risk monitoring**	**Execution and intra-day liquidity risk**	**Contingent funding planning**	**Regulatory compliance**
• Funding plan • Concentration risk • Client behaviour • Pricing liquidity risk through funds transfer pricing	• Liquidity framework and policies • LRA • Stress testing • Limits and metrics • Intra-day liquidity risk monitoring • Monitoring other contingent liquidity risks • New product review • Debt buyback monitoring	• Liquidity buffers • Funding execution • Daily clearing and settlement • Contingent liquidity risks in transaction documentation	• Contingency planning • Committed Liquidity Facility • EWIs • Liquidity simulations • Recovery and resolution planning	• Reserving • Liquid assets • Regulatory reporting • LCR • NSFR

Funding structure

Funding is sourced from a variety of depositors representing a diversity of economic sectors, with a wide range of products and maturities.

The graphs below show that the Group's funding sources by product have remained stable over the last 12 months.

Funding Sources by Product (Rand billion)	**As at 31 December 2017**	**As at 31 December 2016**
Deposits from banks	67.4	53.2
Demand deposits	431.4	417.3
Term Deposits	222.3	225.5
Debt securities in issue	137.9	139.7
Total	**859.0**	**835.7**

Contractual mismatch

Absa applies maturity transformation by using contractually short-dated deposits and on-lending these to customers in need of longer term financing. Due to the structure of the South African market, where customer assets exceed customer deposits, banks remain dependent on wholesale funding sources. Absa's funding strategy is to grow its core deposit franchises in RBB and CIB, and to use wholesale funding to fund any shortfall. Absa's contractual mismatch up to 12 months (as reflected on 31 December 2017) shows that there are net contractual outflows. This risk is mitigated by ensuring that the Group has sufficient sources of liquidity in a stress scenario.

Behavioural mismatch

The behavioural mismatch of the balance sheet provides an economic view of the liquidity mismatches across tenors, and models the expected behaviour of the balance sheet under business as usual conditions. Based on past client behaviour, there is a propensity for liabilities to remain with Absa for longer, and for assets to prepay earlier. Wholesale funding retains its contractual maturity due to the type of investor. As at 31 December 2017, the resultant behavioural mismatch shows greater inflows than outflows up to 12 months.

From a behavioural perspective, Absa has sufficient long-dated funding (greater than 6 months) to fund the long-dated asset mismatch, taking into consideration funding from equity and preference shares. Absa deploys short-dated wholesale funding (less than 6 months) into shorter-dated liquid and trading assets. Absa targets an average contractual long-term funding ratio of between 24% and 27% in order to ensure that Absa's liquidity risk remains within its risk appetite.

Diversification

The Group has a well-diversified deposit base and concentration risk is managed within appropriate guidelines. Sources of funding target a wide range of depositor, product and tenor.

Foreign currency loans and advances as well as deposits make up less than 5% of Absa's balance sheet. The Group is in the process of further diversifying and lengthening its foreign currency book profile.

Each entity within the Group is required to ensure that funding diversification is taken into account in its business planning process and maintain a funding plan. This takes into account market conditions and the changes in factors that affect the entity's ability to raise funds.

Stress and scenario testing

Under the liquidity risk framework, the Group has established the LRA, which sets the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory requirements. It is measured by reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to identify the size of the liquidity pool.

Each entity within the Group undertakes a range of stress tests appropriate to its business. Stress tests consider both name-specific and market-wide scenarios. The results of the stress tests are used to determine the liquid asset buffer, to develop the CFP, and the liquidity related components of the Group's recovery and resolution plan. Stress testing results are also taken into account when setting limits for the management of liquidity risk and the business planning process.

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

Contingency funding planning

Each banking entity within the Group maintains its own CFP. The CFP includes, *inter alia*:

- The roles and responsibilities of senior management in a crisis.
- Authorities for invoking the plan.
- Communications and organisation.
- An analysis of a realistic range of market-wide and Group specific liquidity stress tests.
- Scenario analyses and the extent to which each stress test and scenario can be mitigated by managing the balance sheet.
- A range of EWIs, which assist in informing management when deciding whether the CFP should be invoked.

Each banking entity within the Group must adopt and conform to the Group CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Group's plan. The CFPs set out the specific requirements to be undertaken locally in a crisis. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets.

Governance

The three lines of defence model is followed in respect of treasury and capital risk, with Treasury acting as first line of defence and Group Risk acting as the second line of defence. In line with other risk types, internal and external audit serve as the third line of defence.

A set of policies and standards, with an overarching framework, is used in conjunction with the ERMF to manage and govern treasury and capital risks. The treasury and capital risk framework includes key control objectives that must be met. The liquidity and capital risk policies outline a minimum set of standards and requirements that should be maintained for the management of these risks, encompassing planning, limit setting, stress testing, contingency and recovery planning.

Reporting

The Group's sources of liquidity

	31 December 2017	31 December 2016
	Rm	**Rm**[7]
The Group sources of liquidity	212,954	191,671
High quality liquid assets[8]	159,958	144,695
Other liquid assets (outside South Africa)	32,797	33,201
Other sources of liquidity	20,199	13,776

The Group's sources of liquidity amount to 30.9% of deposits due to customers.

Liquidity Coverage Ratio (LCR)

The objective of the LCR is to ensure that banks maintain an adequate stock of HQLA to survive a significant stress scenario lasting 30 days. The LCR minimum requirement in 2017 of 80% increases by 10% per annum until 1 January 2019 at which point the requirement reaches a level of 100%. The Group targets an LCR above the minimum regulatory requirement and consistently maintained a buffer above the 80% requirement during 2017. The table below represents the average LCR for the fourth quarter of each of the financial years ended 31 December 2016 and 2017:

	Barclays Africa Group Limited		Absa Bank Limited[9]	
	2017[(1)]	2016[(1)]	2017[(1)]	2016[(1)]
High quality liquid assets (Rm)	157,119	142,758	144,970	134,142
Net cash outflows (Rm)	146,104	149,017	129,845	135,354
LCR (%)	107.5	95.8	111.6	99.1
Required LCR (%)	80	70	80	70

[(1)] Average shown for the period from 1 October to 31 December in each year.

High Quality Liquid Assets (HQLA)

Each entity within the Group holds a stock of HQLA to meet any unexpected liquidity outflows. In the majority of locations, local regulators impose rules on the quantum of reserve liquidity to be held.

HQLA consists of cash and cash equivalents, deposits with central banks, government debt, and other qualifying instruments under the Basel III framework. Each entity within the Group maintains and demonstrates constant access to the relevant underlying asset market to avoid undue price movement if liquid assets need to be sold. Each operation ensures that its buffer can be liquidated at short notice.

Absa successfully applied for a CLF from the SARB, which was included in HQLA for LCR purposes from January 2016.

7 31 December 2016 restated to incorporate a revised assumption relating to available interbank funding.
8 The values disclosed represent the spot values of HQLA.
9 Absa includes the South African banking operations.

Performance

Key risk metrics	Year-on-Year trend	2017	2016
Sources of liquidity (Rm)	▲	212,954	191,671[10]
NSFR (%)	=	>100	>100
LCR (%)[11]	▲	107.5	95.8[12]
Loan-to-deposit ratio (%)	▲	90.6	88.4
South Africa	▲	93.4	91.5
Rest of Africa	▲	71.4	69.3
Loans and advances to customers	▲	749,772	720,309
South Africa	▲	671,909	642,432
Rest of Africa	▼	77,863	77,877
Deposits	▲	827,815	814,579
Deposits due to customers	▲	689,867	674,865
South Africa	▲	581,231	562,872
Rest of Africa	▼	108,636	111,993
Debt securities in issue	▼	137,948	139,714

Review of reporting period ending 31 December 2017

- **Liquidity risk position:** Remained within risk appetite and above the minimum regulatory requirements. As at 31 December 2017 the Group's sources of liquidity of R213.0 billion (2016: R191.7 billion), amounted to 30.9% of deposits due to customers.

- **Structure:**

  - The NSFR (effective 1 January 2018) for both the Issuer and Absa are expected to meet the minimum requirement of 100%. The NSFR results for 31 March 2018 for each of the Issuer and Absa will be reported publicly post May 2018.

  - In addition to the NSFR, the long-term funding ratio is managed at an Absa level on a contractual basis in order to balance the LCR and NSFR requirements with overall costs. Long-term funding was raised to match the growth in long-term assets, and was achieved through a combination of funding instruments, capital market issuances and private placements. Absa targets an average long-term funding ratio of between 24% and 27%.

  - The loan-to-deposit ratio as at 31 December 2017 was 90.6% (2016: 88.4%), due to increases in loans and advances to customers. The ratio is in line with internal targets.

    - Due to the structural nature of the South African market, partly attributable to low discretionary savings, the funding gap between core deposits and advances is supported by longer term wholesale deposits (mainly debt securities in issue): i) debt securities with a tenor of greater than 1 month have a weighted average life of approximately 23 months; and ii) wholesale deposits with tenors of less than 1 month are invested in the liquid asset portfolio and are available to support short term outflows.

    - The Rest of Africa banking entities are primarily deposit-led, comprising mainly retail and corporate deposits, with limited reliance on wholesale funding: i) given the high degree of stability exhibited by retail and corporate depositors, these deposits are behaviourally long-term; ii) the Rest of Africa surplus deposits over advances of

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[10] December 2016 restated to incorporate a revised assumption relating to available interbank funding.

[11] The Group LCR represents the simple average of the relevant three month-end data points. Surplus high quality liquid asset holdings in excess of the minimum requirement of 80% have been excluded from the aggregated high quality liquid asset number in the case of all Rest of Africa banking entities.

[12] December 2016 LCR reported post audit.

R30.8 billion is invested in liquid assets; iii) the loan-to-deposit ratio for the Rest of Africa is 71.4%; and iv) each Rest of Africa banking entity is required to be self-sufficient from a liquidity perspective with limited working capital support required from the Group.

  - The Group's foreign currency balance sheet is surplus funded and comprises less than 5% of deposits due to customers.

- **Diversification:** The Group has a well-diversified deposit base and concentration risk is managed within appropriate guidelines. Sources of funding, both Rand and foreign currency, are managed in order to maintain a wide diversity of depositor, product and tenor.

- **Short term liquidity stress**:

  - The Group targets an LCR above the minimum regulatory requirement and consistently maintained a buffer in excess of the regulatory minimum requirement of 80% during 2017. The Group's average HQLA of R157.1 billion during 2017 (2016 R142.8 billion) include a CLF from SARB for LCR purposes.

  - The Group has an internal LRA Framework, which is used to determine the amount of HQLA the Issuer is required to hold in order to survive internally defined stress scenarios.

Priorities

- Manage the funding and HQLA position in line with the Board-approved LRA framework and regulatory requirements;

- Build and maintain adequate liquidity buffers to ensure the Group continues to remain compliant with the LCR and NSFR regulatory requirements;

- Grow and diversify the funding base to support asset growth and other strategic initiatives, while optimising the funding cost;

- Grow core retail, business bank, corporate and public sector deposits faster than wholesale funding; and

- Work with regulatory authorities and other stakeholders on resolution planning and DIS.

Capital Risk

This is the risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities and to remain within its Board-approved capital target ranges under normal operating conditions or above regulatory capital requirements under stressed conditions (both actual and as defined for internal planning or regulatory stress testing purposes).

The capital management process in the Group encompasses all regulated entities within it (including insurance entities and banking subsidiaries in the Rest of Africa). Appropriate capital buffers, above the minimum regulatory requirements, are held at an entity level. The Group ensures that all regulated entities are adequately capitalised in terms of their respective minimum capital adequacy requirements ("**CARs**").

The Group’s capital management strategy, which is in line with and in support of the Group’s strategy, is to create sustainable value for shareholders within the boundaries approved by the Group’s risk appetite.

The Group’s capital management objectives are to:

- optimise the level and mix of capital resources and the utilisation of those resources;

- meet RC requirements and the Board-approved capital target ranges;

- maintain an adequate level of capital resources in excess of both RC and EC requirements and within Board-approved target ranges;

- increase business and legal entity accountability for the use of capital and, where relevant, the use of allocated capital per client or portfolio;
- assess, manage and efficiently implement regulatory changes to optimise capital usage;
- maintain a strong credit rating;
- maintain an optimal mix of high-quality capital, while continuing to generate sufficient capital to support profitable growth and a sustainable dividend;
- continue to focus on RWA precision and strong internal generation of equity;
- ensure all entities remain adequately capitalised relative to minimum regulatory requirements and Board-approved capital target ranges;
- continue to manage the capital position of the Group and its subsidiaries, throughout the period of Separation from Barclays Bank PLC, allowing for the potential effects of economic uncertainty, regulatory and accounting developments, and actions taken by ratings agencies;
- continue to focus on the management of capital supply, raising Additional Tier 1 and Tier 2 capital in local and overseas markets as appropriate;
- further embed the EC framework across the Group;
- continue engagement with the SARB to finalise the Resolution Framework for South Africa; and
- continuously monitor regulatory developments and changes that may affect the capital position, such as the standard entitled "Basel III: Finalising post-crisis reforms" published by the Basel Committee on Banking Supervision in December 2017.

Various processes play a role in ensuring that the Group’s capital management objectives are met, including:

- ICAAP;
- Stress testing; and
- Recovery and resolution planning.

Further details can be found in the sections below.

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP document is produced in accordance with the SARB’s Guidance Note 4 of 2015.

The ICAAP forms an integral part of the management and decision-making of the Group. The ICAAP framework is a tool that requires that internal systems, controls and management information are in place to enable the Board and senior management to track changes in the economic environment, which may require adjustments to the business strategy in order to remain within the risk appetite of the Group on an ongoing basis.

The Group uses the ICAAP in support of meeting its capital management objectives across the Group. The ICAAP is a documented risk-based assessment of the capital adequacy position of the Group and its subsidiaries on a RC and EC basis, reflecting not only the point-in-time position, but also the forward-looking and stressed position over the medium-term plan ("**MTP**") period. Capital adequacy is not considered in isolation, but in the context of the broader set of financial plans of the Group. This is made possible by the integrated planning process. The ICAAP includes entities within the Group that are subject to consolidated supervision by the SARB. Insurance entities are excluded from SARB consolidated supervision, as these are regulated by the Financial Services Board ("**FSB**").

The ICAAP reflects the expected level of capital required to be held against identified risks the Group may become exposed to as a result of executing its strategy. Board and senior management track changes in the economic environment, which may result in an adjustment to the business strategy.

Management of excess capital

The Group's capital policy stipulates that capital held in the Group's entities in excess of Board-approved capital target ranges should be repatriated in the form of dividends and/or capital repatriation, subject to local regulatory requirements, exchange controls and strategic management decisions. Capital is not transferred to other subsidiaries unless there is a robust business, regulatory or tax reason to support it.

Recovery and resolution planning

The SARB has called on D-SIBs to identify the range of potential options available to restore their capital, liquidity and balance sheet positions during times of severe stress ("**Recovery Plans**") and to enable an orderly restructure/wind-down if required. To this effect, the Group has a Board-approved Recovery Plan in place that is reviewed annually for relevance and appropriateness and is submitted annually to the SARB for compliance. The Recovery Plan assumes no reliance on Barclays Bank PLC for funding, capital and liquidity. In addition, the Recovery Plan is aligned to the ERMF.

The key objectives of the Recovery Plan are to:

- Set consistent and objective EWIs that allow the Group to monitor its capital and liquidity position and to identify and respond timeously when the Group might come under severe stress;
- Provide the Group with plausible, timely and effective management actions to ensure the Group is adequately prepared when CFP actions may be inadequate for severe stressed conditions. This will be done through an approved execution approach and communication plan, and identification of risks and potential impacts of the recovery options; and
- Provide the Group with an understanding of the potential effectiveness of recovery options under varying forms of severe stress, through determining estimates of the capital, liquidity and balance sheet impacts of the recovery options and by assessing their likely effectiveness under a range of severe stress scenarios.

EWIs provide a consistent, forward-looking and objective approach to early identification of deviation from target capital, liquidity and leverage ratios, which might negatively impact the liquidity and capital plans. Statutory regulatory ratios are monitored against EWIs and Board target ranges, whilst RC ratios are monitored against regulatory minimum capital requirements. The capital EWIs form the basis of the Group's Recovery Plan escalation and invocation process and are set at levels which provide sufficient notice to allow the Group to take corrective action.

The main objectives of an effective resolution regime are to minimise the cost of crisis resolution to the taxpayer, reduce moral hazard in the financial system and protect financial stability. The purpose of a resolution plan is to prepare and consider actions for the resolution of the financial institution without a systemic disruption or cost to the taxpayer.

The Group continues to engage with the SARB to finalise the requirements as part of the Resolution Framework for South Africa, as well as work with regulators and industry bodies in the formulation of resolution planning.

Capital risk metrics

Key risk metrics	**Year-on-Year trend**	**2017**	**2016**
Total RWA (Rm)	▲	736,892	703,785
CET1 capital adequacy ratio[(1)] (%)	=	12.1	12.1
RoRWA[(1)] (%)............	▲	2.16	2.14
Return on average EC (%)............	▲	18.4	16.9
RoE[(1)] (%)............	▼	16.4	16.6
Cost of Equity ("**CoE**") (%)[(2)]	▼	13.75	14.75

(1) Reported on a normalised basis in 2017.
(2) The CoE is based on the capital asset pricing model.

Review of reporting period ending 31 December 2017

- The Issuer maintained a strong capital adequacy position above the minimum regulatory requirements and above the Board-approved capital target ranges, with capital buffers sufficient to withstand stressed conditions.

- The Board-approved capital target ranges were further strengthened in light of increased regulatory requirements, economic uncertainties and pending regulatory and accounting headwinds.

- Strong internal capital generation led to a final dividend of 595 cents per share, representing a full year increase of 3.9% from 2016.

- Receipt of the contribution amounts in June 2017 from Barclays Bank PLC, arising from the Separation, resulted in an initial uplift in CET1 of approximately 160bps for the Issuer and approximately 220bps for Absa. As at 31 December 2017 the uplift arising from contribution amounts received was approximately 140bps for the Issuer and approximately 180bps for Absa.

- The Issuer issued R2.8 billion bonds qualifying as new style Basel III Tier 2 capital to replace an equal amount of bonds that matured during the year.

- The Issuer issued R1.5 billion new-style Basel III Additional Tier 1 capital instruments, which qualify as regulatory capital at the Issuer and Absa level, in its inaugural issuance of an instrument of this nature.

- RWAs increased by 4.7% to R736.9 billion as at 31 December 2017 from R703.8 billion as at 31 December 2016 mainly due to exposure growth in wholesale markets in line with asset growth. Strong RWA growth in Rest of Africa, in line with balance sheet growth, was materially offset by Rand strength towards the end of 2017.

Capital adequacy

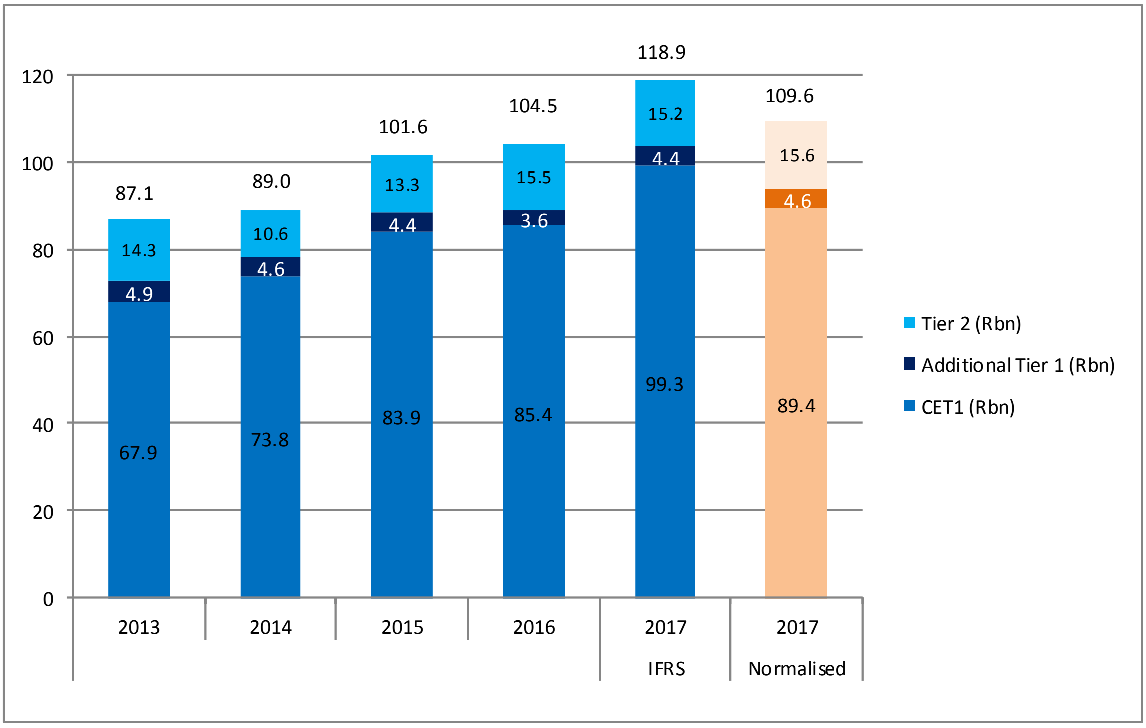
The Issuer's capital management process encompasses all regulated entities within it (including insurance entities and banking subsidiaries in the Rest of Africa). Appropriate Board-approved capital buffers, above the minimum regulatory requirements, are held at an entity level. The Issuer ensures that all regulated entities are adequately capitalised in terms of their respective CARs. The Issuer's capital target ranges for 2017 were set after considering the following:

- Capital risk appetite;
- The preference of rating agencies for loss absorbing capital;
- Stress scenarios and their impact on the integrated plan, including the capital position of the Group;
- Current and future Basel III requirements and accounting developments; and
- Peer analysis.

Group capital adequacy

Group	Board target ranges	Minimum regulatory capital requirement[13]	Year-on-Year	IFRS Group performance	Total Group normalised performance	IFRS Group performance
	%	%	Trend	2017	2017	2016
Statutory capital ratios (includes unappropriated profits) (%)						
CET1	10.0 – 11.5	7.3	▲	13.5	12.1	12.1
Tier 1	11.5 – 13.0	8.5	▲	14.1	12.8	12.6
Total	14.0 – 15.5	10.8	▲	16.1	14.9	14.8

Unappropriated profits excludes reserve funds and retained earnings that are recognized by the SARB according to regulation 38(10) of the Regulations Relating to Banks once appropriated by the Board of the Issuer. Dividends are paid from unappropriated profits while IFRS performance includes the Barclays Bank PLC contribution.

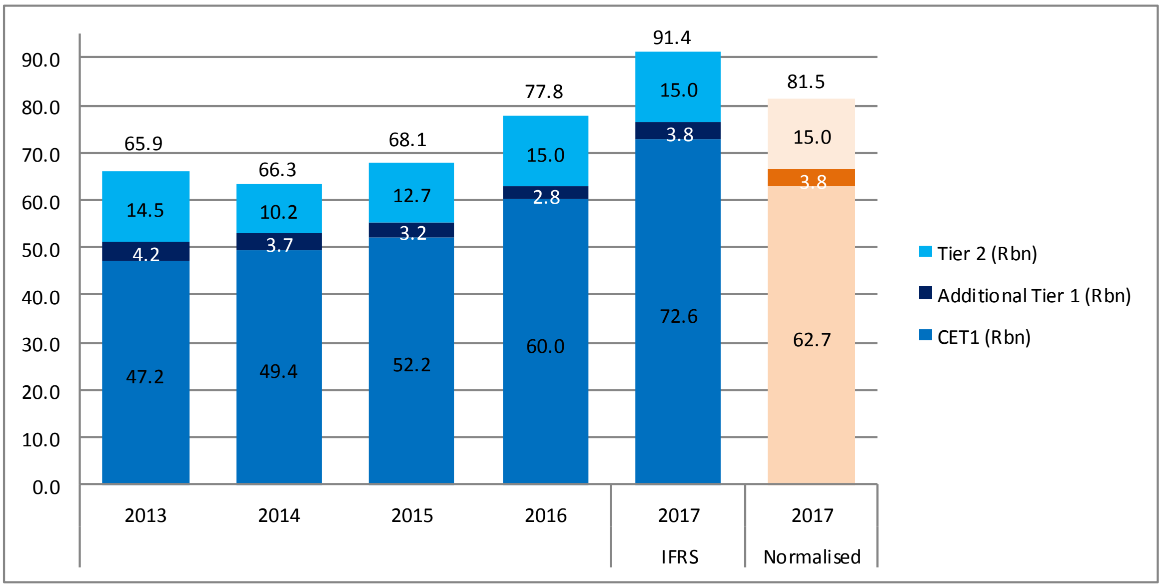


	As at 31 December				IFRS	Normalised
	2013	2014	2015	2016	2017	2017
CET1 ratio (%)	12.1	11.9	11.9	12.1	13.5	12.1
Total capital adequacy ratio (%)	15.5	14.4	14.5	14.8	16.1	14.9

13 The 2017 minimum regulatory capital requirement of 10.75% includes the capital conservation buffer which is phased in between 1 January 2016 and 1 January 2019 but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the domestic systematically important bank (D-SIB) add-on. The minimum CET 1 ratio for 2017 was 7.25% increasing to 7.375% in 2018 and to 7.5%. in 2019. The minimum tier 1 ratio for 2017 was 8.5% increasing to 8.875% in 2018 and to 9.25% in 2019. The minimum total capital adequacy ratio for 2017 was 10.75% increasing to 11.125% in 2018 and to 11.5% in 2019.

Absa Bank Limited capital adequacy

Absa Bank Limited[15] Statutory capital ratios (includes unappropriated profits) (%)	Board target ranges %	Minimum regulatory capital requirements[14] %	Year-on-Year Trend	IFRS Group performance 2017	Total Group normalised performance 2017	IFRS Group performance 2016
CET1	10.0 – 11.5	7.3	▲	13.4	11.6	11.6
Tier 1	11.0 – 12.5	8.5	▲	14.1	12.3	12.2
Total	13.5 – 15.0	10.8	▲	16.9	15.0	15.1



	As at 31 December				IFRS	Normalised
	2013	2014	2015	2016	2017	2017
CET1 ratio (%)	11.3	10.8	10.5	11.6	**13.4**	**11.6**
Total capital adequacy ratio (%)	15.8	13.9	13.8	15.1	**16.9**	**15.0**

[14] The 2017 minimum regulatory capital requirement of 10.75% includes the capital conservation buffer which is phased in between 1 January 2016 and 1 January 2019 but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the domestic systematically important bank (D-SIB) add-on. The minimum CET 1 ratio for 2017 was 7.25% increasing to 7.375% in 2018 and to 7.5% in 2019. The minimum tier 1 ratio for 2017 was 8.5% increasing to 8.875% in 2018 and to 9.25% in 2019. The minimum total capital adequacy ratio for 2017 was 10.75%. increasing to 11.125% in 2018 and to 11.5% in 2019.

[15] Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.

Capital demand: Overview of RWA

The following table provides the RWA per risk type and associated minimum capital requirements.

		As at 31 December 2017	As at 31 December 2016	2017
		RWA	**RWA**	**Minimum capital requirements**[16]
Group			**Rm**	
1	Credit risk (excluding counterparty credit risk)	527,466	498,826	42,198
2	Of which standardised approach ("**SA**")	144,558	140,001	11,565
3	Of which IRB approach	382,908	358,825	30,633
4	CCR	38,126	33,337	3,050
5	Of which standardised approach for CCR ("**SA-CCR**")[17]	38,126	33,337	3,050
6	Of which internal model method ("**IMM**")	-	-	-
7	Equity positions in banking book under market-based approach	9,707	9,658	777
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk	1,130	1,842	90
12	Securitisation exposures in banking book	460	576	37
13	Of which IRB ratings-based approach ("**RBA**")	460	576	37
14	Of which IRB Supervisory Formula Approach	-	-	-
15	Of which SA/simplified supervisory formula approach ("**SSFA**")	-	-	-
16	Market risk	24,761	28,890	1,981
17	Of which SA	7,689	8,447	615
18	Of which internal model approaches ("**IMA**")	17,072	20,443	1366
19	Operational risk	105,730	100,433	8,458
20	Of which basic indicator approach ("**BIA**")	3,432	3,849	274
21	Of which Standardised Approach	26,082	25,156	2,087
22	Of which AMA	76,216	71,428	6,097
	Non-customer assets	24,167	23,524	1,933
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	5,345	6,699	427
24	Floor adjustment	-	-	-
25	Total **(1+4+7+8+9+10+11+12+16+19+23+24+non customer assets)**	736,892	703,785	58,951
	Pillar 2A requirements (1.5%)	-	-	11,053
	Capital conservation buffer (1.25%)[18]	-	-	9,212
	SA minimum capital requirements including buffers[19]	-	-	79,216

Key drivers of change in RWA movements 2016 to 2017 were as follows:

- **Credit risk:** Exposures subject to the AIRB approach have increased by R24.1 billion as a result of exposure growth in CIB in line with balance sheet growth. The increase in the standardised approach of

16 The 2017 minimum regulatory capital requirements are calculated based on the Basel Committee on Banking Supervision minimum regulatory requirement of 8%.

17 SA-CCR amount is calculated using the Current Exposure Method ("CEM") defined where first used.

18 The capital conservation buffer is phased in between 1 January 2016 and 1 January 2019 reaching 2.5% by 1 January 2019.

19 The 2017 SA minimum regulatory requirement of 10.75% includes the capital conservation buffer but excludes the bank-specific individual capital requirement (Pillar 2B add-on) and the D-SIB add-on.

R4.6 billion is mainly due to loan growth in line with balance sheet growth, offset by a strengthening of the Rand against foreign currencies;

- **CCR:** The increase in CCR of R4.8 billion is in line with market volatility, specifically exchange rate fluctuations;
- **Market risk:** The decrease in market risk of R4.1 billion is due to lower levels of Value at Risk ("**VaR**") and Stressed Value at Risk ("**sVaR**") in the three-month averaging period; and
- **Operational risk:** Operational risk increased by R5.3 billion due to higher operating income attributable by AMA entities which drove an increase in the regulatory floor (TSA floor on AMA entities).

	Absa Bank Limited[20]	**As at 31 December 2017 RWA**	**As at 31 December 2016 RWA**	**2017 Minimum capital requirements**[21]
			Rm	
1	Credit risk (excluding CCR)	384,998	366,099	30,800
2	Of which SA	12,882	15,018	1031
3	Of which IRB approach	372,116	351,081	29,769
4	CCR	37,902	32,814	3,032
5	Of which standardised approach for CCR ("**SA-CCR**")[22]	37,902	32,814	3,032
6	Of which IMM	-	-	-
7	Equity positions in banking book under market-based	2,707	2,775	217
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk	1,069	1,773	85
12	Securitisation exposures in banking book	460	576	37
13	Of which IRB RBA	460	576	37
14	Of which IRB SFA	-	-	-
15	Of which SA/ SSFA	-	-	-
16	Market risk	20,633	22,935	1,651
17	Of which SA	3,561	2,492	285
18	Of which internal model approaches ("IMA")	17,072	20,443	1,366
19	Operational risk	75,221	70,895	6,018
20	Of which BIA	3,348	3,772	268
21	Of which Standardised Approach	-	-	-
22	Of which AMA	71,873	67,123	5,750
	Non-customer assets	18,688	16,943	1,495
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	521	657	41
24	Floor adjustment	-	-	-
25	Total **(1+4+7+8+9+10+11+12+16+19+23+24+non-customer assets)**	542,199	515,467	43,376
	Pillar 2A requirements (1.5%)	-	-	8,133
	Capital conservation buffer (1.25%)[23]	-	-	6,777
	SA minimum capital requirements including buffers[24]	-	-	58,286

20 Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.

21 The 2017 minimum regulatory capital requirements are calculated based on the Basel Committee on Banking Supervision minimum regulatory requirement of 8%.

22 SA-CCR amount is calculated using the CEM.

23 The capital conservation buffer is phased in between 1 January 2016 and 1 January 2019 reaching 2.5% by 1 January 2019.

24 The 2017 SA minimum regulatory requirement of 10.75% includes the capital conservation buffer but excludes the bank-specific individual capital requirement (Pillar 2B add-on) and the D-SIB add-on.

Key drivers of change in RWA consumption were as follows:

- **Credit risk:** Exposures subject to the AIRB approach have increased by R21.0 billion as a result of exposure growth in CIB in line with balance sheet growth. The decrease under the SA of R2.1 billion is mainly due to the reduction of the Edcon portfolio;

- **CCR:** The increase in CCR of R5.1 billion is in line with market volatility, specifically exchange rate fluctuations;

- **Operational risk:** Operational risk increased by R4.3 billion due to higher operating income attributable by AMA entities which drove an increase in the regulatory floor (TSA floor on AMA entities);

- **Market risk:** The decrease in market risk of R2.3 billion is due to lower levels of VaR and sVaR in the three-month averaging period.

Capital supply

(a) Breakdown of qualifying capital

	As at 31 December 2017		As at 31 December 2016	
Group	**Rm**	**%** [25]	**Rm**	**%** [25]
CET 1	91,297	12.4	80,451	11.4
Ordinary share capital	1,666	0.3	1,693	0.2
Ordinary share premium	10,498	1.4	4,468	0.6
Reserves	85,048	11.5	78,546	11.2
Non-controlling interest	1,910	0.3	2,084	0.3
Deductions	(7,825)	(1.1)	(6,340)	(0.9)
Goodwill	(684)	(0.1)	(715)	(0.1)
Amount by which expected loss exceeds eligible provisions	(2,083)	(0.3)	(2,128)	(0.3)
Other deductions	(5,058)	(0.7)	(3,497)	(0.5)
Additional Tier 1 capital	4,364	0.6	3,557	0.5
Tier 1 capital	95,661	13.0	84,008	11.9
Tier 2 capital	15,213	2.0	15,495	2.2
Instruments recognised as Tier 2 capital	14,675	2.0	14,911	2.1
General allowance for impairment losses on loans and advances – standardised approach	538	0.0	584	0.1
Total qualifying capital (excluding unappropriated profits)	110,874	15.0	99,503	14.1
Qualifying capital (including unappropriated profits)				
Tier 1 capital	103,686	14.1	88,991	12.6
CET 1 (excluding unappropriated profits)	91,297	12.4	80,451	11.4
Unappropriated profits	8,025	1.1	4,983	0.7
Additional Tier 1	4,364	0.6	3,557	0.5
Tier 2 capital	15,213	2.0	15,495	2.2
Total qualifying capital (including unappropriated profits)	118,899	16.1	104,486	14.8
Normalised qualifying capital (including unappropriated profits)	109,602	14.9	104,486	14.8

[25] Percentage of capital to RWAs.

(b) Leverage

Group	2017 31 Dec	30 Sep	30 Jun	31 Mar
Leverage ratio exposure (Rm)	**1,311,893**	1,318,673	1,259,572	1,254,437
Tier 1 Capital (excluding unappropriated profits) (Rm)	**95,661**	98,736	96,225	82,249
Tier 1 Capital (including unappropriated profits) (Rm)	**103,686**	103,875	101,802	86,348
Leverage ratio (excluding unappropriated profits) (%)	**7.3**	7.5	7.6	6.6
Normalised leverage ratio (excluding unappropriated profits) (%)	**7.2**	7.0	7.2	6.9
Leverage ratio (including unappropriated profits) (%)	**7.9**	7.9	8.1	6.9
Board target leverage ratio (%)	**≥4.5**	≥4.5	≥4.5	≥4.5
Minimum required leverage ratio (%)	**4.0**	4.0	4.0	4.0

Absa Bank Limited[26]	2017 Rm	2017 %[27]	2016 Rm	2016 %[27]
CET 1	**68,194**	**12.6**	54,185	10.5
Ordinary share capital	**304**	**0.1**	304	0.1
Ordinary share premium	**36,880**	**6.8**	24,964	4.8
Reserves[28]	**37,545**	**6.9**	33,560	6.5
Deductions	**(6,535)**	**(1.2)**	(4,643)	(0.9)
Amount by which expected loss exceeds eligible provisions	**(2,139)**	**(0.4)**	(1,983)	(0.4)
Other deductions	**(4,396)**	**(0.8)**	(2,660)	(0.5)
Additional Tier 1 capital	**3,812**	**0.7**	2,758	0.5
Tier 1 capital	**72,006**	**13.3**	56,943	11.0
Tier 2 capital	**15,024**	**2.8**	15,025	3.0
Instruments recognised as Tier 2 capital	**14,917**	**2.8**	14,881	2.9
General allowance for impairment losses on loans and advances – standardised approach	**107**	**0.0**	144	0.1
Total qualifying capital (excluding unappropriated profits)	**87,030**	**16.1**	71,968	14.0
Qualifying capital (including unappropriated profits)				
Tier 1 capital	**76,454**	**14.1**	62,744	12.2
CET 1 (excluding unappropriated profits)	**68,194**	**12.6**	54,185	10.5
Unappropriated profits	**4,448**	**0.8**	5,801	1.1
Additional Tier 1	**3,812**	**0.7**	2,758	0.6
Tier 2 capital	**15,024**	**2.8**	15,025	2.9
Total qualifying capital (including unappropriated profits)	**91,478**	**16.9**	77,769	15.1
Normalised qualifying capital (including unappropriated profits)	**81,513**	**15.0**	77,769	15.1

26 Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.
27 Percentage of capital to RWAs.
28 Reserves exclude unappropriated profits.

Leverage

Absa Bank Limited	31 Dec	30 Sep	30 Jun	31 Mar
	2017			
Leverage ratio exposure (Rm)	**1,153,338**	1,136,516	1,095,984	1,092,562
Tier 1 Capital (excluding unappropriated profits) (Rm)	**72,006**	72,860	71,613	55,656
Tier 1 Capital (including unappropriated profits) (Rm)	**76,454**	75,640	76,541	62,228
Leverage ratio (excluding unappropriated profits) (%)	**6.2**	6.4	6.5	5.1
Leverage ratio (including unappropriated profits) (%)	**6.6**	6.7	7.0	5.7
Normalised leverage ratio (including unappropriated profits) (%)	**5.8**	5.6	6.0	5.7
Board target leverage ratio (%)	**≥4.5**	≥4.5	≥4.5	≥4.5
Minimum required leverage ratio (%)	**4.0**	4.0	4.0	4.0

5. Operational Risk

Operational risk arises when there is potential for direct and indirect loss resulting from human factors, inadequate or failed internal processes, systems or external events. Operational risk exists in the natural course of business activity; therefore it is not possible to eliminate all operational risk exposure. Risk events of significance are not frequent and the Group seeks to reduce the likelihood of these in accordance with its risk appetite.

Operational risk is recognised as a significant risk type and the organisation is committed to enhancing the measurement and management thereof. Within the 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.

The Group's operational risk management objectives are to:

- Articulate an appropriate level of appetite for operational risk, that supports the business strategy;
- Manage risk and control effectively and in doing so maintain the operational risk profile within appetite;
- Embed a positive risk culture across the organisation; and
- Minimise the impact of losses suffered in the normal course of business Expected Loss ("**EL**") and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss.

Performance

Key risk metrics	Year-on-Year trend	For the year ended 31 December 2017	For the year ended 31 December 2016
Total losses as a percentage of gross income (%)	▼	**0.3**	0.8
Total operational risk losses (Rm)	▼	**240**	582
Operational RWA (Rm)	▲	**105,730**	100,433

Review of reporting period ending 31 December 2017

- Total operational risk losses: The reduction in losses is driven by a decrease in both fraud and transaction processing related losses, as well as a significant recovery on a prior year payment related loss. In line with the nature of the business, the main contributors to operational losses remain fraud and transaction processing related issues.
- Operational risk RWA: Higher operating income in AMA entities drove an increase in the regulatory floor (SARB minimum capital holdings, which are influenced by gross income levels). This contributed to an overall increase in RWA of 5% compared to the reporting period ending 31 December 2016.

Priorities

- Maintain the safe and controlled execution of the structured programme directed at delivering the Separation from Barclays Bank PLC;
- Implementation and embedment of the security strategy, including cyber capability;
- Ongoing investment in data infrastructure and controls to support the increasing utilisation of data towards delivery of the Group's strategic objectives;
- Continue rollout and improvement to the risk-based-approach to financial crime management, in line with the FIC amendment bill; and
- Focus on people risk given the significant change agenda in the organisation.

6. Insurance Risk

Insurance risk is the risk that future claims, expenses, policyholder behaviour and investment returns may be adversely different to the allowances made in measuring policyholder liabilities and in product pricing.

<u>Performance</u> Key risk metrics	**Year-on-Year trend**	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**
Africa Life Insurance			
Present Value of In-Force book ("**PVIF**") (Rm)	▲	**4,408**	3,763
New business margin (%)	▲	**10.1**	5.0
Annualised return on shareholder funds (%)	▲	**8.7**	7.2
YTD profit & loss impact of mismatch position (Rm)	▲	**3**	(16)
Africa Short-term Insurance			
Net Premium income (Rm)	▼	**3,018**	3,559
Net underwriting margin (%)	▲	**1.2**	(0.7)
Annualised return on shareholder funds (%)	▲	**7.7**	6.9
WIMI Insurance			
Profit Before Tax (Rm)	▲	**1,284**	1,185
Regulatory capital adequacy cover	▲	**1.71**	1.69

Review of reporting period ending 31 December 2017

Key performance indicators and key risk indicators are established during the annual planning and risk appetite setting process. For each insurance entity, these metrics include (at a minimum) the target regulatory and economic capital adequacy levels and the business performance targets (profit before tax) with associated levels of variability. Key metrics have associated thresholds defined.

- PVIF: The Present Value of In-Force business represents the discounted value of the expected future after tax profits in respect of business in force at the reporting period. The PVIF is sensitive to new business acquired, lapse rates and mortality rates. The increased PVIF in 2017 is attributed largely to business growth, as well as change in lapse assumptions driven by a decrease in both credit life and funeral product lapse rates.
- Life insurance new business margin: The new business margin represents the discounted value of the expected future after tax profits in respect of new business written during the reporting period less initial capital costs expressed as a percentage of the present value of projected premium income expected from new business written during the reporting period. The increase in margin is due to a change in the mix of business with a weighting more towards higher margin risk business compared to the previous year.
- Annualised return on shareholder funds: The fund return is expressed as investment income earned on shareholder funds. Performance differences for both life and short-term insurance are attributed to changes in financial market conditions as investment mandates have remained largely unchanged.

- Short-term insurance premium income: The decrease in premium income is attributed largely to the sale of the unprofitable commercial intermediated business book in South Africa, as well as pricing interventions which were implemented in the rest of Africa. These pricing actions, together with improved claims process efficiencies and cost containment initiatives are expected to result in positive financial performance over the longer term.

- Short-term insurance net underwriting margin: The underwriting surplus is expressed as a percentage of net premiums. The increased margin is largely a result of focused portfolio management actions including: the implementation of best practice pricing methodology; sound underwriting practices; and specific claims cost containment initiatives across the business. There has, however, been an increase in both the severity and frequency of catastrophe events in South Africa with these costs growing 148% year on year.

- WIMI insurance profit before tax: The profit before tax figure in 2017 increased 8% versus the previous year mainly due to improved profits in Rest of Africa insurance entities partly offset by lower profits in the South African short-term insurance businesses due to catastrophe events.

- Absa Financial Services regulatory capital adequacy cover: The regulatory capital cover is calculated using the Solvency Assessment and Management's Deduction & Aggregation approach where the capital position for Absa Financial Services (as registered at the FSB) is calculated by adding together all the capital positions of the entities within the Absa Financial Services Group and deducting the intragroup exposures to avoid double-counting of capital.

- Key performance indicators: Indicator levels are monitored on a monthly basis and compared with trigger levels. These indicators include most of the above metrics as well as numerous product-level sales performance, policyholder experience and profitability measures.

- Key process enhancements:

    - Actuarial centres of excellence established for Africa life insurance and Africa short-term insurance in order to provide consistent and prioritised actuarial support to Rest of Africa entities.

    - Life insurance and short-term insurance Chief Risk Officers were put in place to provide more effective and focused second line of defence for insurance entities.

    - An actuarial oversight function was formally established to strengthen actuarial practice and embed consistent standards, procedures and controls.

    - A WIMI model risk standard was developed to address unique insurance requirements and subsequently implemented with all high materiality actuarial models being independently reviewed.

Priorities

- Ensure consistent risk and control standards across all pan African insurance entities;

- Develop Solvency Assessment and Management ("**SAM**") insurance group reporting to the end state requirements, including revising dividend policies to target appropriate SAM regulatory capital levels once SAM is enacted;

- Continuous improvement in setting insurance risk appetites and stress scenario testing;

- Meeting the end state SAM requirements for the head of actuarial control and the actuarial control function for South African short-term insurance entities;

- Continuous improvements to the insurance group internal EC methodology;

- Continuous improvements of financial reporting data quality with a focus on SAM;

- Life insurance entities will continue to focus on sales and underwriting initiatives to increase revenues and attract high quality risks; and

- Short-term insurance entities will continue to embed analytics, pricing and retention solutions to maintain claims ratios within targeted ranges.

7. Model Risk

Model risk is the risk of potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports.

A model is defined as a quantitative method, system or approach that applies statistical, economic, financial, or mathematical theories, techniques, parameters and assumptions to process input data into outputs. A model is comprised of inputs, parameters and calculations that produce outputs. A model is considered as an end-to-end concept, including the sourcing of inputs, the selection and specification of methodology, the calibration of parameters, the implementation of the model and the usage of the outputs.

Model Risk is managed throughout the model lifecycle. Controls are in place at each stage of the lifecycle.

Key Achievements

- The combined assurance assessments over the period, performed by the internal audit function and model governance and control function within Model Risk and Development ("**MRaD**"), confirmed the operating effectiveness of the model risk framework and the Group model risk policy that direct and govern the use of models within the Group;
- Several important model development initiatives were concluded in 2017, such as new IFRS9 credit impairment modes and several regulatory model suites; and
- Significant progress has been made in the design and implementation of the strategic model implementation platform and migration to this platform is underway.

Priorities

- Define and approve the risk appetite, previously included in operational risk, for model risk as a principal risk;
- The model development programme for 2018 will continue to focus on the enhancement of the current model suites that support the Issuer risk appetite assessment; and
- Migration of model suites to the new platform will continue in 2018.

8. Conduct Risk

Conduct risk is the risk of detriment to customers, clients, market integrity, effective competition or the Group from the inappropriate supply of financial services, including instances of wilful/negligent misconduct and the failure to meet regulatory requirements.

Performance

Key risk metrics	**Year-on-Year trend**	**2017**	**2016**
% of complaints resolved at first point of contact (%)..............	▲	66[29]	N/A
Overall Conduct Index..	▼	61	64

Review of reporting period ending 31 December 2017

- The percentage of complaints resolved at first point of contact is reflective of the Group's ongoing investment into the complaints management processes. An improvement was noted in the year ending 31 December 2017, with 66% of complaints resolved at first point of contact above the target of

[29] The methodology for calculation of the metric has been revised to ensure alignment across all conduct metrics. Comparatives not disclosed due to inconsistency in method of calculation.

65%. Contributing to this is the change in methodology of calculating the metric, which was informed by the need to align with the requirements of Basel Committee on Banking Supervision 239 which relates to risk data aggregation and risk reporting principles.

- The Overall Conduct Index which measures the internal and external perception of the Issuer's performance on the individual conduct risk outcomes is inclusive of the TCF outcomes. The metric is rated out of a score of 100. Risks relating to cyber crime and protection of customer information remain a key focus due to increased regulatory change regarding personal information protection and cyber threats. The implementation of an enhanced control framework which includes collaboration with the South Africa Banking Risk Information Centre ("**SABRIC**") commenced in 2017. This will further aid the protection of confidential data and customer interests. Proactive management of issues remains the lowest performing category on the index. This is intended to be addressed through the cultural transformation journey being undertaken across the organisation.

- Thematic inherent risks identified through the application of the conduct risk framework are continuously monitored through rigorous controls that relate to:

  - Information risk management (data retention and retrieval);
  - Sales practices and customer treatment;
  - IT stability and functionality;
  - Complaints management systems;
  - Use and protection of customer information;
  - Continued focus on the up-skilling of new product knowledge; and
  - Lending practices

Priorities

- Continued focus on cultural change across the Group to enhance integrated decision-making in the management of the conduct risk outcomes;

- Implementation of the revised conduct risk framework which was enhanced to incorporate the G30 recommendations on conduct and culture. This looks to strengthen good practises in banking culture and governance;

- The development and implementation of a conduct dashboard to provide senior management and the Board with better insights to enable more informed business decision making and accountability for the conduct of employees;

- Use of data analytics and digital platforms to improve customer service; and

- Implementation and embedment of new regulatory requirements across the continent.

9. Reputational Risk

Reputational risk is the risk that an action, transaction, investment or event will reduce trust in the Group's integrity and competence by clients, counterparties, investors, regulators, employees or the public.

Performance

Key risk metrics	**Year-on-Year trend**	**2017**	**2016**
Africa YouGov	▲	**6.6**	6.3

Review of reporting period ending 31 December 2017

Africa YouGov: This measures the external perception of the brand from various stakeholders including customers and regulators. The metric is rated out of a score of 10. The Group's metric continued to improve from its position in 2016 to 2017 with an increase noted particularly with the perception of the quality of products and services and delivery of value for money to customers by the Issuer.

Significant progress was achieved towards definition and implementation of the reputation risk framework across the Group in support of the elevation to a Principal Risk.

Priorities

- Increased internal awareness of reputation risk and its integration into the other principal risks;
- A focus on organisational culture to ensure that employee conduct is aligned to the organisational values;
- Enhance the capability to identify issues that may impact the Group's reputation. This includes the use of data analytics; and
- Embed additional metrics to support the measurement of reputation risk.

10. Legal Risk

Legal risk is the risk of loss or imposition of penalties, damages or fines from the failure of the Group to meet its legal obligations including regulatory or contractual requirements.

Review of reporting period ending 31 December 2017

- Legal risk across the Group is managed with reference to five key focus areas, namely contractual arrangements; competition law; intellectual property law; litigation; and the use of law firms.
- For the period under review, the Group's legal risk overall has been rated as "at appetite", with a stable trend.
- Although showing a declining trend in respect of policy breaches across the reporting period, compliance with the contractual arrangements policy has remained a challenge in certain areas of the business.
- In respect of competition law, the Group is continuing to cooperate with the South African Competition Commission in its referral of a complaint to the South African Competition Tribunal that 18 banks (of which Absa is one) allegedly colluded at some time between 2007 and 2013 in the trading of USD/ZAR currency pairs in alleged contravention of South Africa's Competition Act, 1998 (the "**South African Competition Act**"). The South African Competition Commission has granted Absa leniency under its corporate leniency program.
- The Group did not face any significant issues in respect of the legal risk associated with intellectual property laws or the Group's use of law firms.
- Exposure to litigation risk has improved over the period and the Litigation Team's focus on reducing the age of matters in the portfolio and resolving matters without resorting to litigation, has yielded positive results, both in respect of the Group's total exposure and the provisions held for contingent liabilities.
- The Group was successful in a major litigious matter concerning the report issued by the Public Protector in respect of the Bankorp investigation, in which the Public Protector ruled that Absa was liable to repay R1.125 billion to the State. The court ruled in Absa's favour and set the remedial action aside, with a punitive costs order against the Public Protector's office.
- The legal function has continued to play a key role in ensuring the Group's readiness to comply with various pieces of new international and South African legislation and regulation, including the Protection of Personal Information Act and the Financial Markets Act.

Priorities

- To improve the current "at appetite" position, there will be a focus on:
    - Driving improved levels of compliance with the contractual arrangements policy in relation to the signing and issuing of standard documentation supporting certain credit products.
    - Remediating known instances of inadequate legal documentation.
    - Embedding additional legal controls in the businesses outside of South Africa to improve compliance with the contractual arrangements policy.
- Reviewing and optimising the legal function's future target operating model.
- Reviewing and embedding the level 2 legal risk policies and standards, in support of the newly adopted legal principal risk control framework.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Normalised financial results as a consequence of Barclays Bank PLC Separation

On 1 March 2016, Barclays Bank PLC announced its intention to sell down its 62.3% interest in the Group to a level that would achieve regulatory and accounting deconsolidation. A comprehensive Separation Programme was initiated to focus on the future state of Barclays Bank PLC, the Group and possible interaction between the companies to ensure that the Group can operate as an independent and sustainable group without the involvement of Barclays Bank PLC.

Barclays Bank PLC currently holds 14.9% of the Group.

As part of its divestment Barclays Bank PLC contributed £765 million to the Group, primarily in recognition of the investments required for the Group to separate from Barclays Bank PLC. Investments will be made primarily in rebranding, technology and Separation-related projects and it is expected that it will neutralise the capital and cash flow impact of Separation investments on the Group over time.

The Separation process will have an impact on the Group's financial results for the next few years, most notably by increasing the capital base in the near-term and generating endowment revenue thereon, with increased costs over time as the Separation investments are concluded. IFRS require that the Barclays Bank PLC contribution be recognised directly in equity, while the subsequent investment expenditure (including the depreciation or amortisation of capitalised assets), will be recognised in profit or loss. The aforementioned will result in a disconnect between underlying business performance and the IFRS financial results during the Separation period.

Normalised financial results will therefore be disclosed while the underlying business performance is materially different from the IFRS financial results.

The following items have been excluded from the normalised financial results:

- Barclays Bank PLC contribution (including the endowment benefit);
- Hedging linked to Separation activities;
- Technology and brand Separation projects;
- Depreciation and amortisation on the afore-mentioned projects;
- Transitional service payments to Barclays Bank PLC;
- Employee cost and benefits linked to Separation activities; and
- Separation project execution and support costs.

Normalised results were presented for the first time during 2017, with the following table presenting reconciliation to IFRS results.

Reconciliation of IFRS to normalised results

	IFRS Group performance 2017	Barclays Separation effect 2017	Total Group normalised performance 2017
Statement of comprehensive income (Rm)			
Net interest income	**42,644**	**325**	**42,319**
Non-interest income	**30,661**	**80**	**30,581**
Total income	**73,305**	**405**	**72,900**
Impairment losses on loans and advances	**(7,022)**	**-**	**(7,022)**
Operating expenses	**(43,304)**	**(1,901)**	**(41,403)**
Other expenses	**(2,270)**	**(394)**	**(1,876)**
Share of post-tax results of associates and joint ventures	**170**	**-**	**170**
Operating profit before income tax	**20,879**	**(1,890)**	**22,769**
Tax expenses	**(5,857)**	**408**	**(6,265)**
Profit for the reporting period	**15,022**	**(1,482)**	**16,504**
Profit attributable to:			
Ordinary equity holders	**13,823**	**(1,482)**	**15,305**
Non-controlling interest - ordinary shares	**789**	**-**	**789**
Non-controlling interest - preference shares	**362**	**-**	**362**
Non-controlling interest - additional Tier 1	**48**	**-**	**48**
	15,022	**(1,482)**	**16,504**
Headline earnings	**14,313**	**(1,245)**	**15,558**
Operating performance (%)			
Net interest margin on average interest-bearing assets	**4.96**	**n/a**	**4.95**
Credit loss ratio	**0.87**	**n/a**	**0.87**
Non-interest income as % of total income	**41.8**	**n/a**	**41.9**
Income growth	**1**	**n/a**	**1**
Operating expenses growth	**8**	**n/a**	**4**
Cost-to-income ratio	**59.1**	**n/a**	**56.8**
Effective tax rate	**28.1**	**n/a**	**27.5**
Statement of financial position (Rm)			
Loans and advances to customers	**749,772**	**-**	**749,772**
Loans and advances to banks	**55,426**	**-**	**55,426**
Investment securities	**111,409**	**-**	**111,409**
Other assets	**249,372**	**912**	**248,460**
Total assets	**1,165,979**	**912**	**1,165,067**
Deposits due to customers	**689,867**	**-**	**689,867**
Debt securities in issue	**137,948**	**-**	**137,948**
Other liabilities	**219,104**	**(9,840)**	**228,944**
Total liabilities	**1,046,919**	**(9,840)**	**1056,759**
Equity	**119,060**	**10,752**[30]	**108,308**
Total equity and liabilities	**1,165,979**	**912**	**1,165,067**
Key performance ratios (%)			
RoRWA	**1.99**	**n/a**	**2.16**
RoA	**1.27**	**n/a**	**1.38**
RoE	**14.2**	**n/a**	**16.4**
Dividend cover (times)	**1.6**	**n/a**	**1.7**
Capital adequacy	**16.1**	**n/a**	**14.9**
CET 1	**13.5**	**n/a**	**12.1**
Share statistics (cents)			
Diluted headline earnings per ordinary share	**1,716.5**	**n/a**	**1,837.7**

30 The contribution received from Barclays Bank PLC has been recorded as equity.

Salient features

	For the year ended 31 December		Change
	2017(1)	**2016**	**%**
Statement of comprehensive income (Rm)			
Income	**72,900**	72,394	1
Operating expenses..	**41,403**	39,956	4
Profit attributable to ordinary equity holders.........................	**15,305**	14,708	4
Headline earnings	**15,558**	14,980	4
Statement of financial position			
Loans and advances to customers (Rm)	**749,772**	720,309	4
Total assets (Rm)..	**1,165,067**	1 101,023	6
Deposits due to customers (Rm)..	**689,867**	674,865	2
Loans to deposits and debt securities ratio (%)	**90.6**	88.4	
Financial performance (%)			
RoE..	**16.4**	16.6	
Return on average assets (RoA)	**1.38**	1.34	
RoRWA	**2.16**	2.14	
Non-performing loans (NPL) ratio on gross loans and advances	**3.75**	3.94	
Operating performance (%)			
Net interest margin on average interest-bearing assets...........	**4.95**	4.95	
Credit Loss Ratio……………………………………………	**0.87**	1.08	
Non-interest income as percentage of total income...............	**41.9**	42.0	
Cost-to-income ratio	**56.8**	55.2	
Jaws	**(3)**	2	
Effective tax rate...	**27.5**	26.9	
Share statistics (million)			
Number of ordinary shares in issue	**847.8**	847.8	
Number of ordinary shares in issue (excluding treasury shares)..	**845.6**	846.7	
Weighted average number of ordinary shares in issue	**846.5**	846.5	
Diluted weighted average number of ordinary shares in issue	**846.6**	846.6	
Share statistics (cents)			
Headline earnings per ordinary share	**1,837.9**	1,769.6	4
Diluted headline earnings per ordinary share	**1,837.7**	1,769.4	4
Basic earnings per ordinary share..	**1,808.0**	1,764.0	2
Diluted basic earning per ordinary share	**1,807.8**	1,763.8	2
Dividend per ordinary share relating to income for the reporting period……………………………………………..	**1,070**	1,030	4
Dividend cover (times)	**1.7**	1.7	-
Special dividend per ordinary share.......................................	**-**	-	-
NAV per ordinary share	**11,550**	10,980	5
Tangible NAV per ordinary share	**11,007**	10,501	5
Capital adequacy (%)			
Barclays Africa Group Limited	**14.9**	14.8	
Absa Bank Limited..	**15.0**	15.1	
CET 1 (%)			
Barclays Africa Group Limited	**12.1**	12.1	
Absa Bank Limited..	**11.6**	11.6	

(1) 2017 figures are reported on a normalised basis.

Segmental performance

	For the year ended 31 December		Change
	2017[(1)]	**2016**	**%**
Headline earnings (Rm)			
South Africa Banking	**12,200**	11,678	4
RBB South Africa	**8,874**	8,822	1
CIB South Africa	**3,326**	2,856	16
Rest of Africa Banking	**2,954**	2,756	7
WIMI	**1,156**	1,258	(8)
Head Office, Treasury and other operations in South Africa	**(752)**	(712)	6
Return on average risk-weighted assets (%)			
South Africa Banking	**2.4**	2.38	
RBB South Africa	**2.76**	2.81	
CIB South Africa	**1.77**	1.61	
Rest of Africa Banking	**1.77**	1.64	
Return on regulatory capital (%)			
South Africa Banking	**20.8**	20.9	
RBB South Africa	**23.5**	24.4	
CIB South Africa	**15.9**	14.4	
Rest of Africa Banking	**16.6**	15.1	
WIMI	**20.1**	21.7	
Credit loss ratio (%)			
South Africa Banking	**0.8**	1.03	
RBB South Africa	**1.1**	1.33	
CIB South Africa	**0.24**	0.44	
Rest of Africa Banking	**1.34**	1.62	
WIMI	**1.58**	0.13	
Loans and advances to customers (Rm)			
South Africa Banking	**665,959**	636,154	5
RBB South Africa	**446,894**	434,139	3
CIB South Africa	**219,065**	202,015	8
Rest of Africa Banking	**77,863**	77,877	-
WIMI	**5,004**	5,660	(12)
Head Office, Treasury and other operations in South Africa	**946**	618	53
Deposits due to customers (Rm)			
South Africa Banking	**477,980**	460,080	4
RBB South Africa	**300,946**	286,297	5
CIB South Africa	**177,034**	173,783	2
Rest of Africa Banking	**108,636**	111,993	(3)
WIMI	**5,150**	5,144	-
Head Office, Treasury and other operations in South Africa	**98,101**	97,648	-

(1) 2017 figures are reported on a normalised basis.

Condensed Consolidated statement of comprehensive income

	For the year ended 31 December		
	2017[(1)]	**2016**	**Change**
	Rm	**Rm**	**%**
Net interest income……………………………………..	**42,319**	42,003	1
Interest and similar income………………………………	**85,918**	85,114	1
Interest expense and similar charges……………………..	**(43,599)**	(43,111)	1
Non-interest income…………………………………...	**30,581**	30,391	1
Net fee and commission income………………………...	**21,711**	20,723	5
Fee and commission income…………………………...	**24,724**	23,972	3
Fee and commission expense…………………………...	**(3,013)**	(3,249)	(7)
Net insurance premium income………………………..	**6,598**	6,986	(6)
Net claims and benefits incurred on insurance contracts...	**(3,334)**	(3,691)	(10)
Changes in investment and insurance contract liabilities..	**(2,113)**	(493)	>100
Gains and losses from banking and trading activities…...	**5,172**	5,691	(9)
Gains and losses from investment activities……………..	**1,905**	51	>100
Other operating income…………………………………..	**642**	1,124	(43)
Total income………………………………………………	**72,900**	72,394	1
Impairment losses on loans and advances……………….…	**(7,022)**	(8,751)	(20)
Total costs…………………………………………………	**(43,279)**	(42,076)	3
Operating expenditure……………………………………..	**(41,403)**	(39,956)	4
Other expenses………………………………………………	**(1,876)**	(2,120)	(12)
Other impairments………………………………………	**(322)**	(690)	(53)
Indirect taxation…………………………………………	**(1,554)**	(1,430)	9
Share of post-tax results of associates and joint ventures…	**170**	115	48
Operating profit before income tax……………………...	**22,769**	21,682	5
Taxation expense…………………………………………...	**(6,265)**	(5,835)	7
Profit for the reporting period…………………………...	**16,504**	15,847	4
Profit attributable to:			
Ordinary equity holders…………………………………….	**15,305**	14,708	4
Non-controlling interest - ordinary shares…………………	**789**	788	0
Non-controlling interest - preference shares………………	**362**	351	3
Non-controlling interest - Tier 1 capital…………………..	**48**	-	100
	16,504	15,847	4
Earnings per share:			
Basic earnings per share(cents)……………………………	**1,808.0**	1,764.0	2
Diluted earnings per share(cents)…………………………..	**1,807.8**	1,763.8	2

(1) 2017 figures are reported on a normalised basis.

Statement of other comprehensive income

	For the year ended 31 December		
	2017[(1)]	**2016**	**Change**
	Rm	**Rm**	**%**
Profit for the reporting period	**16,504**	15,847	4
Other comprehensive income			
Items that will not be reclassified to the profit or loss	**(179)**	(220)	(19)
Fair value losses arising from changes in own credit risk on liabilities measured at fair value through profit or loss	**(147)**	-	100
Movement in retirement benefit fund assets and liabilities	**(32)**	(220)	(85)
Decrease in retirement benefit surplus	**(91)**	(120)	(24)
Decrease/(increase) in retirement benefit deficit	**45**	(141)	<(100)
Deferred tax	**14**	41	(66)
Items that are or may be subsequently reclassified to profit or loss	**(1,327)**	(2,942)	(55)
Movement in foreign currency translation reserve	**(2,219)**	(4,529)	(51)
Differences in translation of foreign operations	**(2,271)**	(4,209)	(46)
Fair value gains/(losses)	**52**	(320)	<(100)
Movement in cash flow hedging reserve	**794**	1,726	(54)
Fair value gains	**1,465**	2,721	(46)
Amount removed from other comprehensive income and recognised in the profit or loss	**(365)**	(321)	14
Deferred tax	**(306)**	(674)	(55)
Movement in available-for-sale reserve	**98**	(139)	<(100)
Fair value gains/(losses)	**154**	(197)	<(100)
Release to profit or loss	**67**	(3)	<(100)
Deferred tax	**(123)**	61	<(100)
Total comprehensive income for the reporting period	**14,998**	12,685	18
Total comprehensive income attributable to:			
Ordinary equity holders	**14,072**	11,931	18
Non-controlling interest - ordinary shares	**516**	403	28
Non-controlling interest - preference shares	**362**	351	3
Non-controlling interest - Tier I capital	**48**	-	100
	14,998	12,685	18

(1) 2017 figures are reported on a normalised basis.

Condensed Consolidated statement of financial position

	As at 31 December		
	2017[1]	2016	Change
	Rm	Rm	%
Assets			
Cash, cash balances and balances with central banks	48,669	50,006	(3)
Investment securities	111,409	114,315	(3)
Loans and advances to banks	55,426	49,789	11
Trading portfolio assets	132,183	96,236	37
Hedging portfolio assets	2,673	1,745	53
Other assets	20,959	25,542	(18)
Current tax assets	314	894	(65)
Non-current assets held for sale	1,308	823	59
Loans and advances to customers	749,772	720,309	4
Reinsurance assets	892	985	(9)
Investments linked to investment contracts	18,936	18,816	1
Investments in associates and joint ventures	1,235	1,065	16
Investment property	231	478	(52)
Property and equipment	15,178	14,643	4
Goodwill and intangible assets	4,591	4,049	13
Deferred tax assets	1,291	1,328	(3)
Total assets	1,165,067	1,101,023	6
Liabilities			
Deposits from banks	67,390	53,192	27
Trading portfolio liabilities	64,047	47,429	35
Hedging portfolio liabilities	1,123	2,064	(46)
Other liabilities	31,317	27,696	13
Provisions	2,945	3,005	(2)
Current tax liabilities	352	244	44
Non-current liabilities held for sale	48	9	>100
Deposits due to customers	689,867	674,865	2
Debt securities in issue	137,948	139,714	(1)
Loans from Absa Group Companies	9,950	-	100
Liabilities under investment contracts	30,585	29,198	5
Policyholder liabilities under insurance contracts	4,617	4,469	3
Borrowed funds	15,895	15,673	1
Deferred tax liabilities	675	1,185	(43)
Total liabilities	1,056,759	998,743	6
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	1,691	1,693	(0)
Share premium	3,949	4,467	(12)
Retained earnings	87,784	81,604	8
Other reserves	4,240	5,293	(20)
Total capital and reserves attributable to ordinary equity holders	97,664	93,057	5
Non-controlling interest - ordinary shares	4,500	4,579	(2)
Non-controlling interest - preference shares	4,644	4,644	-
Non-controlling interest - Tier 1 capital	1,500	-	100
Total equity	108,308	102,280	6
Total liabilities and equity	1,165,067	1,101,023	6

(1) 2017 figures are reported on a normalised basis.

Normalised statement of changes in equity	For the year ended 31 December 2017																
	Number of ordinary shares	Share capital	Share premium	Retained earnings	Total other reserves	General credit risk reserve	Available-for-sale reserve	Cash flow hedging reserve	Foreign currency translation reserve	Foreign insurance subsidiary regulatory reserve	Share-based payment reserve	Associates' and joint ventures' reserve	Capital and reserves attributable to ordinary equity holders	Non-controlling interest - ordinary shares	Non-controlling interest - preference shares	Non-controlling interest - Additional Tier 1 Capital	Total equity
	'000	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Balance at the beginning of the reporting period	846,675	1,693	4,467	81,604	5,293	757	377	(144)	2,353	6	892	1,052	93,057	4,579	4,644	-	102,280
Total comprehensive income	-	-	-	15,133	(1,060)	-	68	794	(1,922)	-	-	-	14,072	516	362	48	14,998
Profit for the period	-	-	-	15,305	-	-	-	-	-	-	-	-	15,305	789	362	48	16,504
Other comprehensive income	-	-	-	(172)	(1,060)	-	68	794	(1,922)	-	-	-	(1,233)	(273)	-	-	(1,506)
Dividends paid during the reporting period	-	-	-	(8,821)	-	-	-	-	-	-	-	-	(8,821)	(567)	(362)	-	(9,750)
Distributions paid during the reporting period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(48)	(48)
Shares issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,500	1,500
Purchase of Group shares in respect of equity-settled share-based payment ar	-	-	(741)	12	-	-	-	-	-	-	-	-	(729)	-	-	-	(729)
Elimination of the movement in treasury shares held by Group entities	(1,121)	(2)	(519)	-	-	-	-	-	-	-	-	-	(520)	-	-	-	(520)
Movement in share-based payment reserve	-	-	742	-	(185)	-	-	-	-	-	(185)	-	557	(4)	-	-	553
Transfer from share-based payment reserve	-	-	742	-	(742)	-	-	-	-	-	(742)	-	-	-	-	-	-
Value of employee services	-	-	-	-	525	-	-	-	-	-	525	-	525	(4)	-	-	521
Conversion from cash-settled schemes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax	-	-	-	-	32	-	-	-	-	-	32	-	32	-	-	-	32
Movement in general credit risk reserve	-	-	-	(22)	22	22	-	-	-	-	-	-	-	-	-	-	-
Share of post-tax results of associates and joint ventures	-	-	-	(170)	170	-	-	-	-	-	-	170	-	-	-	-	-
Disposal of non-controlling interest[1]	-	-	-	-	-	-	-	-	-	-	-	-	-	(24)	-	-	(24)
Non-controlling interest arising from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shareholder contribution - fair value of investment[2]	-	-	-	48	-	-	-	-	-	-	-	-	48	-	-	-	48
Balance at the end of the reporting period	845,554	1,691	3,949	87,784	4,240	779	445	650	431	6	707	1,222	97,664	4,500	4,644	1,500	108,308

For the year ended 31 December 2016

Statement of changes in equity	Number of ordinary shares	Share capital	Share premium	Retained earnings	Total other reserves	General credit risk reserve	Available-for-sale reserve	Cash flow hedging reserve	Foreign currency translation reserve	Foreign insurance subsidiary regulatory reserve	Share-based payment reserve	Associates' and joint ventures' reserve	Capital and reserves attributable to ordinary equity holders	Non-controlling interest - ordinary shares	Non-controlling interest - preference shares	Non-controlling interest - Additional Tier 1 Capital	Total equity
	'000	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Balance at the beginning of the reporting period	**845,725**	**1,691**	**4,250**	**75 ,785**	**7,566**	**727**	**560**	**(1,870)**	**6,461**	**22**	**729**	**937**	**89,292**	**4,711**	**4,644**	**-**	**98,647**
Total comprehensive income	-	-	-	14,496	(2,565)	-	(183)	1,726	(4,108)	-	-	-	11,931	403	351	-	12,685
Profit for the period	-	-	-	14,708	-	-	-	-	-	-	-	-	14,708	788	351	-	15,847
Other comprehensive income	-	-	-	(212)	(2,565)	-	(183)	1,726	(4,108)	-	-	-	(2,777)	(385)	-	-	(3,162)
Dividends paid	-	-	-	(8,536)	-	-	-	-	-	-	-	-	(8,536)	(562)	(351)	-	(9,449)
Purchase of Group shares in respect of equity-settled share-based payment arrangements	-	-	(409)	(12)	-	-	-	-	-	-	-	-	(421)	-	-	-	(421)
Elimination of the movement in treasury shares held by Group entities	950	2	151	-	-	-	-	-	-	-	-	-	153	-	-	-	153
Movement in share-based payment reserve	-	-	409	-	163	-	-	-	-	-	163	-	572	2	-	-	574
Transfer from share-based payment reserve	-	-	409	-	(409)	-	-	-	-	-	(409)	-	-	-	-	-	-
Value of employee services	-	-	-	-	495	-	-	-	-	-	495	-	495	2	-	-	497
Conversion from cash-settled schemes	-	-	-	-	37	-	-	-	-	-	37	-	37	-	-	-	37
Deferred tax	-	-	-	-	40	-	-	-	-	-	40	-	40	-	-	-	40
Movement in general credit risk reserve	-	-	-	(30)	30	30	-	-	-	-	-	-	-	-	-	-	-
Movement in foreign insurance subsidiary regulatory reserve	-	-	-	16	(16)	-	-	-	-	(16)	-	-	-	-	-	-	-
Share of post-tax results of associates and joint ventures	-	-	-	(115)	115	-	-	-	-	-	-	115	-	-	-	-	-
Acquisition of a subsidiary	-	-	66	-	-	-	-	-	-	-	-	-	66	25	-	-	91
Balance at the end of the reporting period	**846,675**	**1,693**	**4,467**	**81,604**	**5,293**	**757**	**377**	**(144)**	**2,353**	**6**	**892**	**1,052**	**93,057**	**4,579**	**4,644**	**-**	**102,280**

Condensed consolidated statement of cash flows

	Note	For the year ended 31 December 2017[1] Rm	2016 Rm	Change %
Net cash generated from operating activities		**10,655**	6,962	53
Net cash utilised in investing activities		**(1,718)**	(4,201)	(59)
Net cash utilised in financing activities		**(9,512)**	(7,509)	27
Net decrease in cash and cash equivalents		**(575)**	(4,748)	(88)
Cash and cash equivalents at the beginning of the reporting period	1	**17,734**	21,366	(17)
Effect of foreign exchange rate movements on cash and cash equivalents		**161**	1,116	(86)
Cash and cash equivalents at the end of the reporting period	2	**17,320**	17,734	(2)

Notes to the condensed consolidated statement of cash flows

1. Cash and cash equivalents at the beginning of the reporting period			
Cash and cash equivalents with central banks	**13,141**	12,899	2
Loans and advances to banks	**4,593**	8,467	(46)
	17,734	21,366	(17)
2. Cash and cash equivalents at the end of the reporting period			
Cash and cash equivalents with central banks	**13,518**	13,141	3
Loans and advances to banks	**3,802**	4,593	(17)
	17,320	17,734	(2)

(1) 2017 figures are reported on a normalised basis.

Overview of results for financial year ended 31 December 2017

On a normalised basis, the Issuer's headline earnings grew 4% to R15,558 million in 2017 from R14,980 million in 2016 and diluted headline earnings per ordinary shares ("**HEPS**") rose 4% to 1,837.7 cents in 2017 from 1,769.4 cents in 2016. The Group's normalised RoE was 16.4% in 2017 from 16.6% in 2016 and its return on assets increased to 1.38% in 2017 from 1.34% in 2016. Revenue grew 1% to R72.9 billion in 2017, with net interest income and non-interest income rising 1% from the 2016 position. Revenue growth improved to 3% in the second half in 2017. The Group's net interest margin (on average interest-bearing assets) remained flat at 4.95% in 2017. Loans and advances to customers grew 4% to R750 billion, while deposits due to customers rose 2% to R690 billion in 2017. With operating expenses growing 4% in 2017, the normalised cost-to-income ratio increased to 56.8% in 2017 from 55.2% in 2016, and pre-provision profit decreased 3% to R31.5 billion in 2017. The stronger Rand reduced Group revenue by 2% and headline earnings by 3% in 2017. In constant currency, pre-provision profit declined 1%, and grew 2% in the second half of 2017. Credit impairments fell 20% to R7.0 billion in 2017, resulting in a 0.87% credit loss ratio in 2017 from 1.08% in 2016. The ratio of NPLs to gross loans and advances improved to 3.7% in 2017 from 3.9% in 2016, and portfolio provisions decreased to 70 bps in 2017 of performing loans from 79 bps in 2016, although macroeconomic overlays increased 2% to R1.4 billion in 2017. The Group's NAV per share increased 5% to 11,550 cents in 2017 on a normalised basis and it declared a 4% higher full year dividend per share ("**DPS**") of 1,070 cents compared to 2016.

Excluding normalisation, the Issuer's IFRS headline earnings declined 4% to R14,313 million in 2017 from R14,980 million in 2016 and diluted HEPS decreased 4% to 1,716.5 cents in 2017 from the 2016 position. The Group's RoE fell to 14.2% in 2017, largely due to the additional capital, and its return on assets declined to 1.27% in 2017 from 1.34% in 2016. Net interest income increased 2% and non-interest income increased by 1%, resulting in 1% higher total revenue in 2017. Operating expenses grew 8%, increasing the cost to income ratio to 59.1% in 2017 from 55.2% in 2016 and pre-provision profit decreased 8% to R30.0 billion in 2017. The Group's NAV per share rose 19% to 13,018 cents in 2017, given Barclays Bank PLC's Separation contribution in equity.

South African Banking headline earnings grew 4% to R12,200m in 2017. Within this, RBB South Africa headline earnings rose 1% to R8,874 million in 2017 due to 16% lower credit impairments and improved second half revenue growth. Retail Banking headline earnings remained flat at R6,546 million, while Business Banking grew 1% to R2,328 million in 2017. CIB rose 16%, given 5% higher pre-provision profits and 44% lower credit impairments in 2017. Corporate rose 8% to R1,143 million and Investment Banking increased 22% to R2,183 million in 2017. Rest of Africa Banking headline earnings grew 7% to R2,954 million, or 24% in constant currency in 2017. RBB Rest of Africa declined 6%, despite rising 19% in constant currency in 2017, while CIB Rest of Africa grew 8% and 21% in constant currency in 2017. WIMI's headline earnings decreased 8% to R1,156 million in 2017, reflecting higher catastrophe event claims, unwinding of a life deferred tax asset raised in 2016 and a single client credit impairment in Wealth.

Group performance

Statement of financial position

Total assets increased 6% to R1,165 billion at 31 December 2017 on a normalised basis, due to 37% higher trading portfolio assets and 11% growth in loans and advances to banks compared to the 2016 position.

Loans and advances to customers

Net loans and advances to customers increased 4% to R750 billion, or 5% on a constant currency basis in 2017. South African Banking loans rose 5% to R666 billion in 2017. Retail Banking South Africa's loans grew 2% to R383 billion, reflecting 8% growth in VAF and 6% higher Personal Loans, while Card and Payments declined 1% and Home Loans remained flat in 2017. Business Banking South Africa's loans rose 7% to R63 billion in 2017. CIB South Africa's loans grew 8% to R219 billion in 2017, including 16% growth in Corporate and 4% in the Investment Bank. Rest of Africa Banking loans remained flat at R78 billion in 2017, despite increasing 9% in constant currency.

Loans and advances to customers by segment

	As at 31 December		
	2017	**2016**	**Change**
	Rm	**Rm**	**%**
South Africa Banking			
Net loans and advances to customers	**665,959**	636,154	5
Gross loans and advances to customers	**681,019**	651,862	4
RBB South Africa			
Net loans and advances to customers	**446,894**	434,139	3
Gross loans and advances to customers	**460,564**	448,019	3
Retail Banking South Africa			
Home loans	**224,892**	225,158	(0)
Vehicle and Asset Finance	**101,092**	93,630	8
Card and Payments	**37,167**	37,522	(1)
Personal Loans	**17,132**	16,164	6
Transactional and Deposits	**3,211**	2,606	23
Other	**1**	2	(50)
Net loans and advances to customers	**383,495**	375,082	2
Gross loans and advances to customers	**395,296**	387,027	2
Business Banking South Africa			
Net loans and advances to customers	**63,399**	59,057	7
Gross loans and advances to customers	**65,268**	60,992	7
CIB South Africa			
Net loans and advances to customers	**219,065**	202,015	8
Gross loans and advances to customers	**220,455**	203,843	8
Rest of Africa Banking			
Net loans and advances to customers	**77,863**	77,877	(0)

Loans and advances to customers by segment

	As at 31 December		
	2017	**2016**	**Change**
	Rm	**Rm**	**%**
Gross loans and advances to customers	**81,479**	81,810	(0)
WIMI			
Net loans and advances to customers	**5,004**	5,660	(12)
Gross loans and advances to customers	**5,192**	5,731	(9)
Head Office, Treasury and other operations in South Africa			
Net loans and advances to customers	**946**	618	53
Gross loans and advances to customers	**956**	622	54
Total loans and advances to customers			
Net loans and advances to customers	**749,772**	720,309	4
Gross loans and advances to customers	**768,646**	740,025	4

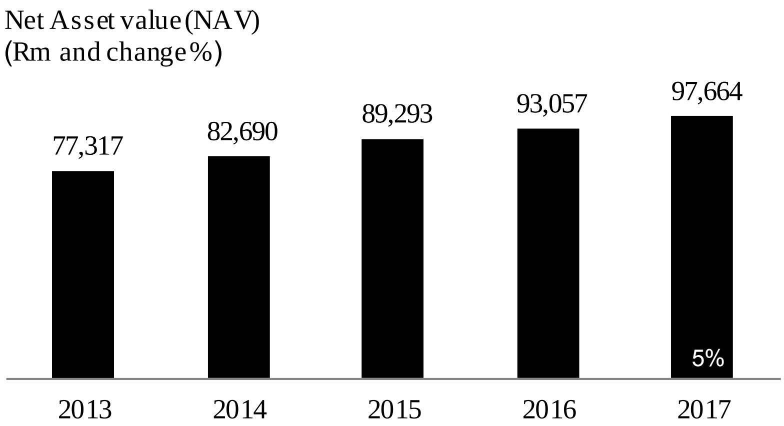
Funding

The Group's liquidity position remains strong, with liquid assets and other sources of liquidity growing 11% to R213 billion in 2017, which equates to 31% of customer deposits. The Group's three-month average LCR for the fourth quarter of 2017 was 107.5%, comfortably above the minimum hurdle of 80% during 2017. The Group's deposits due to customers grew 2% to R690 billion or 4% in constant currency in 2017. Loans to deposit and debt securities ratio increased to 90.6% in 2017. Deposits due to customers constituted 77% of total funding in 2017. Retail Banking South Africa increased deposits 6% to R187 billion and Business Banking rose 4% to R114 billion, while CIB's grew 2% to R177 billion in 2017. Rest of Africa Banking deposits decreased 3% to R109 billion in 2017, despite growing 6% in constant currency.

Total funding mix	As at 31 December **2017**	As at 31 December 2016
	%	%
Deposits due to customers	**77.1**	77.8
South Africa Banking	**53.4**	53.0
RBB South Africa	**33.6**	33.0
Retail Banking South Africa	**20.9**	20.4
Business Banking South Africa	**12.7**	12.6
CIB South Africa	**19.8**	20.0
Rest of Africa Banking	**12.1**	12.9
WIMI	**0.6**	0.6
Head Office, Treasury and other operations in South Africa	**11.0**	11.3
Barclays Separation	**-**	-
Deposits from banks	**7.5**	6.1
Debt securities in issue	**15.4**	16.1
	100.0	100.0
Key risk metrics	**2017**	2016
Loan-to-deposit (%)	**90.6**	88.4
LCR (%)	**107.5**	95.8
NSFR (%)	**>100**	>100

Net asset value

The Group's normalised NAV rose 5% to R98 billion and its NAV per share grew 5% to 11,550 cents in 2017. During 2017 it generated retained earnings of R15.1 billion, from which it paid R8.8 billion in ordinary dividends. Its foreign currency translation reserve reduced to R0.4 billion in 2017 from R2.4 billion in 2016.



Capital to risk-weighted assets

Group RWAs increased 5% to R737 billion at 31 December 2017, mainly due to increased credit risk RWAs. The Group remains well capitalised, comfortably above minimum regulatory capital requirements. The Group's normalised CET1 and total capital adequacy ratios were 12.1% and 14.9% respectively in 2017 (from 12.1% and 14.8% in 2016). The Group generated 2.2% of CET1 capital internally during 2017. The implementation of IFRS 9 accounting is expected to reduce the Issuer's CET1 ratio by no more than 35 bps upon implementation and will increase the Issuer's impairment stock by approximately 30%. Declaring a 4% higher full year DPS of 1,070 cents on a dividend cover of 1.7 times in 2017 took into account the difficult and volatile macroeconomy, the Group's strong capital position, internal capital generation, strategy and growth plans.

	Board target ranges		**IFRS Group performance**	**Total group normalised performance**	**IFRS Group performance**
Group	**%**	**Year-on-Year trend**	**2017**	**2017**	2016
Statutory capital ratios (includes unappropriated profits) (%)					
CET1..	**10.0 - 11.5**	^	**13.5**	12.1	12.1
Tier 1..	**11.5 - 13.0**	^	**14.1**	12.8	12.6
Total..	**14.0 - 15.5**	^	**16.1**	14.9	14.8

Statement of comprehensive income

The commentary below refers to normalised financial results.

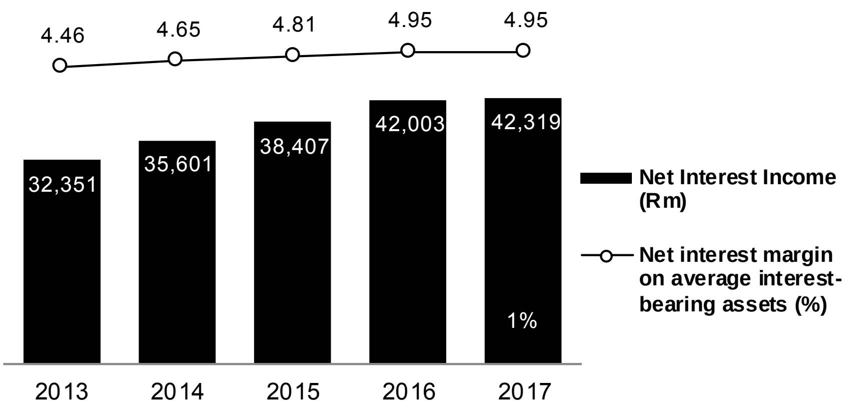
Net interest income

NII increased 1% to R42,319 million in 2017 from R42,003 million in 2016, while average interest-bearing assets grew 1% in 2017. The Group's net interest margin (to average interest-bearing assets) was unchanged at 4.95% in 2017. NII grew 3% on a constant currency basis in 2017.

Loan pricing reduced the Group's margin by 2 bps in 2017, primarily due to the impact of lower National Credit Act caps on unsecured retail portfolios in South Africa. Loan composition reduced the margin by 3 bps in 2017, given a higher proportion of CIB loans. The Group's deposit margin increased 1 basis point, largely due to improved pricing and mix in corporate. The structural hedge released R258 million to the income statement, in line with its 2016 contribution. Despite the interest rate cut in South Africa in July 2017, the capital and deposit endowment benefit increased 3 bps, as these balances grew faster than interest-bearing assets. Rest of Africa reduced the Group margin by 2 bps in 2017 mainly reflecting regulatory caps in Kenya and its lower weighting in the overall composition due to the stronger Rand.

South Africa Banking's net interest margin narrowed to 3.37% in 2017 from 3.47% in 2016 and Rest of Africa Banking's decreased to 7.18% in 2017 from 7.25% in 2016.

Net interest income and net interest margin (Rm and change %)



Non-interest income

Non-interest income grew 1% to R30,581 million in 2017 from R30,391 million in 2016 to account for 42% of total revenue. On a constant currency basis, the growth was 2% in 2017.

Non-interest income	**For the year ended 31 December 2017**	For the year ended 31 December 2016	Change
	Rm	Rm	%
	30,581	30,391	1
Net fee and commission income	**21,711**	20,723	5
Net insurance premium income	**6,598**	6,986	(6)
Net claims and benefits incurred on insurance contracts	**(3,334)**	(3,691)	(10)
Changes in investment and insurance contract liabilities	**(2,113)**	(493)	>100
Gains and losses from banking and trading activities	**5,172**	5,691	(9)
Gains and losses from investment activities	**1,905**	51	>100
Other operating income	**642**	1,124	(43)

Net fee and commission income grew 5% to R21,711 million in 2017, which represented 71% of total non-interest income. Electronic banking fees and commissions increased 3% to R5,185 million and cheque accounts fees rose 14% to R4,943 million in 2017. Credit card fees and commissions increased 1% to R2,624 million and savings accounts decreased 10% to R2,062 million in 2017. Card merchant income grew 8% to R1,890 million. Investment, markets execution and investment banking fees increased 42% to R568 million in 2017.

Net trading declined 9% to R5,172 million in 2017, reflecting lower South Africa trading revenue and the impact of the strong Rand.

Within other operating income, there was a non-headline foreign currency translation reserve gain of R320 million in the first half of 2016, which did not recur.

South Africa Banking's non-interest income grew 4% to R21,366 million in 2017, 70% of the Group total. Retail Banking South Africa increased 6% to R13,519 million, as Transactional and Deposits grew 7% and Card and Payments 3% in 2017, including 11% growth in acquiring volumes. Business Banking's non-interest income increased 4% to R3,663 million in 2017, with 9% higher growth excluding equities. CIB South Africa declined 1% to R4,184 million in 2017, with Corporate up 10% and the Investment Bank down 6% due to lower Markets revenue.

Rest of Africa Banking's non-interest income declined 7% to R4,853 million in 2017 due entirely to the strong Rand, as constant currency growth was 3%. CIB Rest of Africa declined 6% to R2,297 million in 2017, but increased 5% in constant currency. RBB Rest of Africa fell 8% to R2,550 million in 2017, which was 1% higher in constant currency compared to the 2016 position.

WIMI's non-interest revenue grew 6% to R5,128 million in 2017, reflecting 6% higher Life Insurance net premium income and policyholder and reserving adjustments recognised in 2016 which did not recur.

Impairment losses on loans and advances

Credit impairments decreased 20% to R7,022 million in 2017 from R8,751 million in 2016, which improved the Group's credit loss ratio to 0.87% in 2017 from 1.08% in 2016 of gross customer and bank loans and advances. Credit impairments included collection costs of R289 million.

Group NPLs decreased 1% to R30,891 million, or 3.75% of gross loans and advances in 2017 from 3.94% in 2016. Total NPL coverage declined to 43.1% in 2017 from 44.2% in 2016. Total balance sheet provisions decreased 4% to R18,874 million in 2017 partially reflecting the write-off of an exposure in CIB South Africa during 2016. Portfolio provisions declined 7% to R5,560 million in 2017, constituting 0.70% of total performing loans in 2017 from 0.79% in 2016, largely due to lower model-driven impairments. Macroeconomic overlays grew 2% to R1.4 billion in 2017.

South Africa Banking credit impairments decreased 20% to R5,605 million in 2017, resulting in a 0.80% credit loss ratio in 2017 from 1.03% in 2016. Retail Banking credit impairments declined 12% to R4,764 million in 2017, reducing its credit loss ratio to 1.20% in 2017 from 1.39% in 2016, due to the improved quality of new loans, better collection strategies and reduced store card sales. Home Loans' charge fell 25% to R689 million in 2017, a 0.30% credit loss ratio in 2017 from 0.40% in 2016. VAF's credit impairments declined 19% to R847 million in 2017, improving its credit loss ratio to 0.87% in 2017 from 1.14%. in 2016. Card and Payments credit impairments decreased 18% to R1,924 million in 2017, resulting in a 4.53% credit loss ratio in 2017 from 5.41% in 2016. Personal Loans' charge rose 12% to R1,112 million in 2017, reflecting stricter write-off criteria, which increased its credit loss ratio to 6.09% in 2017 from 5.68% in 2016.

Business Banking South Africa credit impairments fell 53% to R274 million in 2017, reflecting lower early arrears and improved collections. Its credit loss ratio decreased to 0.43% in 2017 from 0.98% in 2016.

CIB South Africa credit impairments decreased 44% to R567 million in 2017 from R1,020 million in 2016, due to a large single name exposure in 2016. Its credit loss ratio normalised to 0.24% in 2017 from a high base of 0.44% in 2016.

Rest of Africa Banking credit impairments fell 26%, or 18% in constant currency, to R1,289 million in 2017 from R1,732 million in 2016. Its credit loss ratio improved to 1.34% in 2017 from 1.62% in 2016. RBB Rest of Africa's charge fell 30%, or 23% in constant currency, to R950 million in 2017 reflecting increased focus on collections. CIB Rest of Africa's credit impairments decreased 11%, or 3% in constant currency in 2017, due to an adjustment to emergence periods and some specific exposures in the base.

	For the year ended 31 December		
Charge to the statement of comprehensive income by market segment	**2017**	2016	Change
	Rm	Rm	%
South Africa Banking			
Impairments Charge	**5,605**	7,042	(20)
Credit loss ratio (%)	**0.80**	1.03	
RBB South Africa			
Impairments Charge	**5,038**	6,022	(16)
Credit loss ratio (%)	**1.10**	1.33	
Retail Banking South Africa			
Card and Payments	**1,924**	2,345	(18)
Home Loans	**689**	922	(25)
Personal Loans	**1,112**	994	12
Transactional and Deposits	**193**	131	47
Vehicle and Asset Finance	**847**	1,047	(19)
Other	**(1)**	1	<(100)
Impairments Charge	**4,764**	5,440	(12)

Credit loss ratio (%)	**1.20**	1.39	
Business Banking South Africa			
Impairments Charge	**274**	581	(53)
Credit loss ratio (%)	**0.43**	0.98	
CIB South Africa			
Impairments Charge	**567**	1,020	(44)
Credit loss ratio (%)	**0.24**	0.44	
Rest of Africa Banking			
Impairments Charge	**1,289**	1,732	(26)
Credit loss ratio (%)	**1.34**	1.62	
WIMI			
Impairments Charge	**120**	10	>100
Credit loss ratio (%)	**1.58**	0.13	
Head Office, Treasury and other operations in South Africa			
Impairments Charge	**8**	(33)	<(100)
Impairments charge to the statement of comprehensive income	**7,022**	8,751	(20)
Credit loss ratio on gross loans and advances	**0.87**	1.08	

Operating expenses

Group operating expenses grew 4% to R41,403 million in 2017 from R39,956 million in 2016, resulting in a 56.8% cost-to-income ratio in 2017 from 55.2% in 2016. In constant currency operating expenses increased 6% in 2017.

Staff costs grew 5% and accounted for 56% of total expenses in 2017. Salaries rose 5% or 7% in constant currency, while total incentives grew 4% in 2017. Headcount increased 1%, largely due to technology hires in South Africa, while rest of Africa declined 4% in 2017.

Non-staff costs grew 2% in 2017. Professional fees fell 2% to R1,699 million, while telephone and postage declined 7% and printing and stationary decreased 9% in 2017. Operating leases on properties decreased 4% to R1,606 million and property costs rose 1% to R1,731 million in 2017. Marketing costs grew 8% to R1,709 million in 2017, reflecting retail product campaigns and the shared growth initiative. Total IT-related spend grew 8% to R7,362 million in 2017 and constituted 18% of Group expenses. Amortisation of intangible assets rose 1% to R650 million, while cash transportation increased 13% to R1,089 million in 2017. The 19% growth in depreciation in 2017 reflects investment in technology and optimisation of the corporate property portfolio and branch network.

Breakdown of operating expenses

	For the year ended 31 December		
	2017	2016	Change
	Rm	Rm	%
Administration fees	**499**	722	(31)
Amortisation of intangible assets	**650**	641	1
Auditors' remuneration	**276**	319	(13)
Cash transportation	**1,089**	963	13
Depreciation	**1,984**	1,670	19
Equipment costs	**444**	461	(4)
Information Technology	**3,143**	3,131	0
Marketing costs	**1,709**	1,585	8
Operating lease expense on properties	**1,606**	1,665	(4)
Other	**2,035**	1,737	17
Printing and Stationery	**367**	405	(9)
Professional fees	**1,699**	1,742	(2)
Property costs	**1,731**	1,718	1
Staff costs	**23,138**	22,090	5
Bonuses	**2,058**	1,902	8
Deferred cash and share-based payments	**712**	755	(6)
Other	**1,197**	1,179	2
Salaries and current service costs on post-retirement benefit funds	**18,684**	17,878	5
Training costs	**487**	376	30
Telephone and postage	**1,033**	1,107	(7)

Breakdown of operating expenses

	For the year ended 31 December		
	2017	2016	Change
Total	**41,403**	39,956	4

South Africa Banking costs grew 6% to R30,102 million in 2017. RBB South Africa increased 7% in 2017, reflecting continued investment in frontline staff, marketing campaigns and retail product launches, plus digital and channels. CIB South Africa expenses grew 2% in 2017, reflecting efficiency initiatives.

Rest of Africa Banking expenses decreased 2% in 2017 due to the strong Rand. Its costs increased 7% in constant currency, with CIB growing 12% and RBB rising 5% in 2017. Operating expenses increased in the second half of 2017, given incremental IT costs after Barclays Bank PLC's sell down. Excluding these, costs were contained below inflation, allowing Rest of Africa Banking to maintain a stable cost-to-income ratio of 57.6% in 2017.

WIMI's costs grew 3% to R3,631 million, with continuing line costs increasing 4% in 2017.

Other expenses decreased 12% to R1,876 million, reflecting 53% lower 'Other impairments' to R322 million and 9% higher indirect taxation of R1,554 million in 2017.

Taxation

The Group's taxation expense increased 7% to R6,265 million in 2017, slightly above the 5% growth in pre-tax profit, resulting in a 27.5% effective tax rate in 2017 from 26.9% in 2016. The increase largely reflects 56% growth in non-tax deductible expenses.

Segment performance

The segmental disclosure has changed to reflect the Group's leadership structure and the way in which businesses are run along geographic rather than divisional lines.

Performance per market segment	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**	**Change %**
Income (Rm)			
South Africa Banking	53,345	52,209	2
RBB South Africa	42,724	41,932	2
CIB South Africa	10,621	10,277	3
Rest of Africa Banking	15,617	16,044	(3)
RBB Rest of Africa	9,297	10,132	(8)
CIB Rest of Africa	6,318	5,927	7
Head Office, Treasury and other operations	2	(15)	<(100)
WIMI	5,490	5,221	5
Head Office, Treasury and other operations in South Africa	(1,552)	(1,080)	44
	72,900	72,394	1
Headline earnings (Rm)			
South Africa Banking	12,200	11,678	4
RBB South Africa	8,874	8,822	1
CIB South Africa	3,326	2,856	16
Rest of Africa Banking	2,954	2,756	7
RBB Rest of Africa	670	709	(6)
CIB Rest of Africa	2,348	2,174	8
Head Office, Treasury and other operations in Rest of Africa	(64)	(127)	(50)
WIMI	1,156	1,258	(8)
Head Office, Treasury and other operations in South Africa	(752)	(712)	6
	15,558	14,980	4

South Africa Banking

Headline earnings grew 4% to R12,200 million in 2017, due to 20% lower credit impairments, as pre-provision profits declined 2% to R23,243 million in 2017. Revenue grew 2% to R53,345 million, with non-interest income increasing 4% in 2017. Costs grew 6% to R30,102 million in 2017, resulting in a 56.4% cost-to-income ratio in 2017 from 54.4% in 2016. Its credit loss ratio fell to 0.80% in 2017 from 1.03% in 2016, as all three divisions improved. South Africa Banking generated a return on regulatory capital ("**RoRC**") of 20.8% and constituted 75% of total normalised headline earnings excluding the group centre in 2017.

RBB South Africa

Headline earnings increased marginally to R8,874 million in 2017, largely due to 16% lower credit impairments. Non-interest income grew 5%, while NII was flat due to margin compression in 2017. Operating expenses rose 7% in 2017, reflecting continued investment in systems and frontline staff. RBB South Africa accounted for 54% of normalised headline earnings excluding the group centre and generated a 23.5% RoRC in 2017.

Retail Banking South Africa

Headline earnings remained flat at R6,546 million in 2017, as pre-provision profits declined 3%, which was offset by 12% lower credit impairments in 2017. However, headline earnings grew 12% in the second half of 2017, as new loan production and revenue momentum improved. Although Transactional and Deposits' non interest income grew 7% in 2017, higher credit impairments and 9% cost growth resulted in earnings falling 8% to R2,470 million in 2017. Home Loans' earnings rose 5% to R1,715 million in 2017, reflecting cost containment, strong non-interest income growth and 25% lower credit impairments in 2017. Card earnings grew 3% to R1,601 million in 2017, largely due to lower credit impairments and growth in acquiring revenue. VAF earnings grew 20% to R963 million in 2017, on 19% lower credit impairments and solid non-interest income and loan growth. Lower costs drove the 3% rise in Personal Loans earnings to R436 million in 2017. Retail Banking South Africa accounted for 40% of normalised headline earnings excluding the group centre and generated a 23.1% RoRC in 2017.

Business Banking South Africa

Headline earnings increased 1% to R2,328 million, as credit impairments dropped 53% in 2017. Revenue growth improved in the second half of 2017, but pre-provision profits declined as costs grew 11% in 2017 given continued investment in frontline staff and systems. Non-interest income rose 9% excluding equities in 2017. Business Banking South Africa generated 14% of overall normalised headline earnings excluding the group centre and produced a 27.7% RoRC in 2017.

CIB South Africa

Headline earnings increased 16% to R3,326 million in 2017, largely due to a 44% reduction in credit impairments off a high base in 2017. Pre-provision profits grew 5% as 3% revenue growth exceeded 2% higher cost in 2017s. Corporate earnings grew 8% to R1,143 million as 9% revenue growth produced 15% higher preprovision profits in 2017. Investment Bank earnings increased 22% to R2,183 million in 2017, largely due to 60% lower credit impairments and reduced costs in 2017. CIB South Africa contributed 20% of total normalised headline earnings excluding the group centre and generated a 15.9% RoRC in 2017.

Rest of Africa Banking

Headline earnings grew 7%, or 24% in constant currency, to R2,954 million in 2017, due to positive constant currency operating Jaws and 26% lower credit impairments in 2017. Pre-provision profits increased 9% in constant currency in 2017. Revenue fell 3% to R15,617 million, masking 8% growth in constant currency in 2017. While costs fell 2% to R9,000 million in 2017, it rose 7% in constant currency, resulting in a 57.6% cost-to-income ratio in 2017. Credit impairments fell 26% to R1,289 million in 2017, resulting in a 1.34% credit loss ratio in 2017 from 1.62% in 2016. Rest of Africa Banking accounted for 18% of total normalised headline earnings excluding the group centre and generated a 16.6% RoE in 2017.

RBB Rest of Africa

Headline earnings fell 6% to R670 million in 2017, despite increasing 19% in constant currency in 2017. Constant currency revenue growth of 2% reflected margin compression from regulatory changes in Kenya in 2017. Costs grew 5% in constant currency, resulting in a 72.4% cost-to-income ratio in 2017. Credit impairments decreased 23% in constant currency in 2017, improving its credit loss ratio to 2.22% in 2017 from 2.92% in 2016. RBB Rest of Africa contributed 4% of total normalized headline earnings excluding the group centre in 2017.

CIB Rest of Africa

Headline earnings grew 8% to R2,348 million, or 21% in constant currency in 2017. Revenue increased 7% to exceed 3% higher costs in 2017. These grew 18% and 12% in constant currency respectively to produce a 36.5% cost-to-income ratio in 2017. Pre-provision profits increased 9% in 2017. Credit impairments fell 3% in constant currency in 2017. Corporate earnings grew 18% or 32% in constant currency to R1.7 billion in 2017. Rand strength reduced Investment Bank's earnings, which declined 10% to R0.7 billion in 2017, despite rising 2% in constant currency in 2017. CIB Rest of Africa contributed 14% of total normalised headline earnings excluding the group centre in 2017.

WIMI

Headline earnings decreased 8% to R1,156 million, while continuing business lines declined 10% in 2017. South African earnings decreased 17% to R1,137 million and Rest of Africa returned to profitability, with earnings of R19 million in 2017. Gross operating income grew 2% to R6,171 million and costs rose 3% to R3,279 million in 2017. Life insurance earnings fell 9% in 2017 due to the unwinding of a deferred tax asset in 2016. Despite strong 16% growth in assets under management to R335billion in 2017, the Investment cluster earnings were impacted by margin compression resulting in 2% growth in earnings in 2017. Wealth management earnings declined to a R49 million loss in 2017 due to a credit impairment on a single client. Short-term insurance earnings grew 2% in 2017, despite experiencing significantly higher catastrophe event claims. Excluding these events, its underwriting margin in South Africa improved to 8.7% in 2017. WIMI's RoE was 20.1% and it generated 7% of total earnings excluding the group centre in 2017.

CREDIT RATINGS

Credit ratings	Standard and Poor's Barclays Africa Group	Standard and Poor's Absa Bank Limited	Moody's Barclays Africa Group	Moody's Absa Bank Limited	Fitch Barclays Africa Group	Fitch Absa Bank Limited
National						
Short-term..........................	-	**zaA -1 +**	**Prime -1.za**	**Prime -1.za**	**F1 + (zaf)**	**F1 + (zaf)**
Long-term..........................	-	**zaAA -**	**Aa3.za**	**Aa1.za**	**AA(zaf)**	**AA(zaf)**
Local currency						
Short-term..........................	-	-	**Not - Prime**	**Prime -3**	**B**	**B**
Long-term..........................	-	-	**Ba1**	**Baa3**	**BB+**	**BB+**
Outlook	-	-	**Stable**	**Stable**	**Stable**	**Stable**
Foreign currency						
Short-term..........................	-	-	**Not - Prime**	**Prime -3**	**B**	**B**
Long-term..........................	-	-	**Ba1**	**Baa3**		
Outlook	-	-	**Stable**	**Stable**	**BB+**	**BB+**
Baseline credit assessment						
Group credit profile	-	-	-	**baa3**		
Counterparty risk...............	-	-	-	**Baa2 (cr)/P – 2 (cr)**		

On 23 January 2018, the Issuer requested Standard & Poor's to withdraw its 'zaBBB+/zaA-2' long-term and short-term South Africa national scale ratings. Standard & Poor's will continue to provide the long-term and short-term South Africa national scale ratings for Absa.

EXCHANGE CONTROLS

The information below is not intended as legal advice and it does not purport to describe all of the considerations that may be relevant to a prospective purchaser of the Notes. Prospective purchasers of the Notes that are not South African residents or emigrants from the Common Monetary Area (as defined below) to South Africa are urged to seek further professional advice in regard to the purchase of Notes.

Exchange controls restrict the export of capital from South Africa, Namibia and the Kingdoms of Swaziland and Lesotho (collectively the "**Common Monetary Area**"). These exchange controls are administered by the FSD of the SARB and regulate transactions involving South African residents. The purpose of exchange controls is to mitigate the decline of foreign capital reserves in South Africa. The Issuer expects South African exchange controls will continue to operate in the foreseeable future. The Government of South Africa has, however, committed itself to relaxing exchange controls gradually and significant relaxation has occurred in recent years. It is the stated objective of the South African authorities to achieve equality of treatment between South African residents and non-South African residents in relation to inflows and outflows of capital. This gradual approach towards the abolition of exchange controls adopted by the Government of South Africa is designed to allow the economy to adjust more smoothly to the removal of controls that have been in place for a considerable period of time. Exchange control requirements are in place under the Exchange Control Regulations, 1961 (the "**Exchange Control Regulations**"), which are promulgated under the Currency and Exchange Act (9 of 1933).

No South African residents or an offshore subsidiary of a South African resident may subscribe for or purchase any of the Notes or beneficially own or hold any of the Notes unless specific approval has been obtained from the FSD by such persons or such subscription, purchase or beneficial holding or ownership is otherwise permitted under the South African Exchange Control Regulations or the rulings promulgated thereunder (including, without limitation, the rulings issued by the FSD providing for foreign investment allowances applicable to persons who are residents of South Africa under the applicable exchange control laws of South Africa).

As at the date of this Prospectus, the prior written approval of the FSD is required for the issuance of the Notes by the Issuer. The Issuer has obtained the required approvals of the FSD.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used by the Issuer for its general corporate purposes and to further strengthen the Issuer's regulatory capital base, and will not be on lent to the general public of the Republic of South Africa.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in that country or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of South Africa of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

South Africa

Withholding Tax

Under current taxation law in South Africa, all payments made under the Notes to South African tax-resident Noteholders will be made free of withholding or deduction for or on account of any taxes, duties, assessments or governmental charges in South Africa. A withholding tax on South African sourced interest (see the section headed "*Income Tax*" below) paid to or for the benefit of a "foreign person" (being any person that is not a South African tax-resident) applies at a rate of 15% of the amount of interest in terms of section 50A-50H of the South African Income Tax Act, 1962 (the "**Income Tax Act**"). The withholding tax could be reduced by the application of relevant double taxation treaties. The withholding tax legislation exempts, *inter alia*, from the withholding tax on interest any amount of interest paid to a foreign person in respect of any debt listed on a "recognised exchange" as defined in paragraph 1 of the Eighth Schedule to the Income Tax Act. The regulated market of the London Stock Exchange would qualify as such an exchange, and therefore, subject to any legislative changes, the interest paid on the Notes listed on the London Stock Exchange will not be subject to interest withholding tax under the Income Tax Act. A foreign person will also be exempt from the withholding tax on interest if:

(a) that foreign person is a natural person who was physically present in South Africa for a period exceeding 183 days in aggregate during the twelve-month period preceding the date on which the interest is paid; or

(b) the debt claim in respect of which that interest is paid is effectively connected with a permanent establishment of that foreign person in South Africa, if that foreign person is registered as a taxpayer in South Africa.

Foreign persons are subject to normal South African income tax on interest sourced in South Africa unless exempted under Section 10(1)(h) of the Income Tax Act (see the section headed "*Income Tax*" below).

*Securities Transfer Tax ("**STT**")*

No STT is payable on the issue or transfer of the Notes under the South African Securities Transfer Tax Act, 2007, because they do not constitute securities (as defined) for the purposes of that Act.

*Value-Added Tax ("**VAT**")*

No VAT is payable on the issue or transfer of the Notes. The Notes constitute "debt securities" as defined in section 2(2)(iii) of the South African Value-Added Tax Act, 1991 (the "**VAT Act**"). The issue, allotment, drawing, acceptance, endorsement or transfer of ownership of a debt security is a financial service, which is exempt from VAT in terms of section 12(a) of the VAT Act.

Income Tax

Under current taxation law effective in South Africa a "resident" (as defined in section 1 of the Income Tax Act) is subject to income tax on worldwide income. Accordingly, all Noteholders who are "residents" of South Africa will generally be liable to pay income tax, subject to available deductions, allowances and exemptions, on any interest earned pursuant to the Notes.

Non-residents of South Africa are subject to income tax on all income derived from a source, or deemed to be from a source, within South Africa (subject to domestic exemptions or relief in terms of an applicable double taxation treaty).

Interest income is from a South African source if that amount:

(a) is incurred by a South African tax resident, unless the interest is attributable to a permanent establishment which is situated outside of South Africa; or

(b) is derived from the utilisation or application in South Africa by any person of any funds or credit obtained in terms of any form of "interest-bearing arrangement".

The Issuer is a South African tax resident and the Notes will constitute an "interest-bearing arrangement". Accordingly, the interest paid to the Noteholders will be from a South African source and subject to South African income tax unless such interest is exempt from income tax under section 10(1)(h) of the Income Tax Act (see below).

Under section 10(1)(h) of the Income Tax Act interest received by or accruing to a Noteholder who, or which, is not a resident of South Africa during any year of assessment is exempt from income tax, unless:

(a) that person is a natural person who was physically present in South Africa for a period exceeding 183 days in aggregate during the twelve-month period preceding the date on which the interest is received or accrued by or to that person; or

(b) the debt from which the interest arises is effectively connected to a permanent establishment of that person in South Africa.

Interest as defined in section 24J of the Income Tax Act (including the premium or discount) may qualify for the exemption under section 10(1)(h) of the Income Tax Act. If a Noteholder does not qualify for the exemption under section 10(1)(h) of the Income Tax Act, exemption from, or reduction of any South African income tax liability may be available under an applicable double taxation treaty.

Purchasers are advised to consult their own professional advisers as to whether the interest income earned on the Notes will be exempt under section 10(1)(h) of the Income Tax Act or under an applicable double taxation treaty.

Under section 24J of the Income Tax Act, broadly speaking, any discount or premium to the nominal amount of a Note is treated as part of the interest income on the Note. Section 24J of the Income Tax Act deems interest income to accrue to a Noteholder on a day-to-day basis until that Noteholder disposes of the Note. The day-to-day basis accrual is determined by calculating the yield to maturity and applying this rate to the capital involved for the relevant tax period.

To the extent that the disposal of the Note gives rise to an "adjusted gain on transfer or redemption of an instrument" or an "adjusted loss on transfer or redemption of an instrument" (as envisaged in section 24J of the Income Tax Act), the normal principles of capital and revenue are to be applied in determining whether such adjusted gain or adjusted loss should be subject to income tax or capital gains tax in terms of the Income Tax Act.

Section 24JB of the Income Tax Act contains specific provisions relating to the fair value taxation of financial instruments for "covered persons" (as defined in section 24JB of the Income Tax Act). Noteholders should seek advice as to whether this provision may apply to them.

Section 8F of the Income Tax Act applies to "hybrid debt instruments", and section 8FA of the Income Tax Act applies to "hybrid interest". Sections 8F and 8FA provides that interest incurred on a hybrid debt instrument and hybrid interest are, for purposes of the Income Tax Act, deemed to be a dividend in specie. If either of these provisions apply, the tax treatment of the interest paid under the Notes will differ from what is set out above and such payments may be subject to dividends tax as a result of the deemed classification as dividends in specie. These provisions apply from 1 April 2014 in respect of amounts incurred on or after this date.

Both sections 8F and 8FA contain an exemption for Tier 2 capital instruments issued by a controlling company of a bank (as contemplated in the regulations issued in terms of section 90 of the Banks Act). The Issuer is a "controlling company" (as defined in section 1 of the Banks Act) and therefore to the extent that the Notes issued qualify as Tier 2 capital instruments (as contemplated in the regulations issued in terms of section 90 of the Banks Act), sections 8F and 8FA will not apply.

Purchasers of Notes are advised to consult their own professional advisers to ascertain whether the abovementioned provisions may apply to them.

Capital Gains Tax

Capital gains and losses of residents of South Africa on the disposal of Notes are subject to capital gains tax, unless the Notes are purchased for re-sale in the short term as part of a scheme of profit making, in which case the proceeds will be subject to income tax. Any discount or premium on acquisition which has already been treated as interest for income tax purposes, under section 24J of the Income Tax Act will not be taken into account when determining any capital gain or loss. If the Notes are disposed of or redeemed prior to or on maturity, an "adjusted gain on transfer or redemption of an instrument", or an "adjusted loss on transfer or redemption of an instrument", as contemplated in section 24J of the Act, must be calculated. Any such adjusted gain or adjusted loss is deemed to have been incurred or to have accrued in the year of assessment in which the transfer or redemption occurred. The calculation of the adjusted gain or adjusted loss will take into account, inter alia, all interest which has already been deemed to accrue to the Noteholder over the term that the Note has been held by the Noteholder. Under section 24J(4A) of the Income Tax Act, where an adjusted loss on transfer or redemption of an instrument realised by a holder of a Note includes any amount representing interest that has previously been included in the income of the holder, that amount will qualify as a deduction from the income of the holder during the year of assessment in which the transfer or redemption takes place and will not give rise to a capital loss.

Capital gains tax under the Eighth Schedule to the Income Tax Act will not be levied in relation to Notes disposed of by a person who is not a resident of South Africa unless the Notes disposed of are attributable to a permanent establishment of that person in South Africa.

To the extent that a Noteholder constitutes a "covered person" (as defined in section 24JB of the Income Tax Act) and section 24JB applies to the Notes, the Noteholder will be taxed in accordance with the provisions of section 24JB of the Act and the capital gains tax provisions would not apply.

Purchasers are advised to consult their own professional advisers as to whether a disposal of Notes will result in capital gains tax consequences.

Definition of Interest

The references to "interest" above mean "interest" as understood in South African tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Terms and Conditions of the Notes or any related documentation.

The proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has ceased to participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including South Africa) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional notes (as described under "*Terms and Conditions of the Notes - Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

The Joint Bookrunners have, pursuant to a subscription agreement (the "**Subscription Agreement**") dated on or about 23 April 2018, severally agreed, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100% of their principal amount less certain commissions on the principal amount of the Notes. In addition, the Issuer shall reimburse the Joint Bookrunners for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Bookrunners to terminate it in certain circumstances prior to payment being made to the Issuer. In addition, the Issuer has agreed to indemnify the Joint Bookrunners against certain liabilities, damages, costs, losses or expenses incurred in connection with the issue of the Notes.

The Joint Bookrunners and their respective affiliates have performed and expect to perform in the future various financial advisery, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates, and for which they may have received or may in the future receive customary fees. Each of the Joint Bookrunners and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer and its affiliates in the ordinary course of their respective businesses.

United Kingdom

Each Joint Bookrunner has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act, 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States of America

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each of the Joint Bookrunners has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes within the United States.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(b) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

South Africa

Each Joint Bookrunner has severally represented, warranted and agreed that it will not offer or sell any Notes and/or solicit any offers for subscription for or sale of any of the Notes in South Africa other than in accordance with the South African Exchange Control Regulations, 1961, promulgated under the Currency and Exchanges Act, 1933, the policies and directives of the FSD of SARB (the "**Exchange Control Regulations**") and the Companies Act in such a manner that does not result in the offering or issuance of the Notes being classified as an "offer to the public" as defined in the Companies Act. Further, each Joint Bookrunner has severally represented, warranted and agreed that it will not offer or sell any Notes and/or solicit any offers for subscription for or sale of any of the Notes in contravention of the Banks Act, the Commercial Paper Regulations promulgated under the Banks Act or any other applicable laws and regulations of the Republic of South Africa in force from time to time.

In particular, each Joint Bookrunner has severally represented, warranted and agreed that it will not offer Notes for subscription, or otherwise sell any Notes, to any person who, or which, is a "resident" (as defined in the Exchange Control Regulations) other than in strict compliance with the Exchange Control Regulations in effect from time to time, and, without prejudice to the foregoing, that it will take all reasonable measures available to it to ensure that no Note will be purchased by, or sold to, or beneficially held or owned by, any such "resident" other than in strict compliance with the Exchange Control Regulations in effect from time to time.

This Prospectus does not, nor does it intend to, constitute a "registered prospectus" (as that term is defined in section 95(1)(k) of the Companies Act) prepared and registered under the Companies Act, and accordingly no offer of Notes will be made or any Notes sold to any prospective investors in South Africa other than pursuant to section 96(1) of the Companies Act and provided further that such offer or sale is in compliance with the Exchange Control Regulations and/or applicable laws and regulations of South Africa in force from time to time.

Hong Kong

Each Joint Bookrunner has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions Ordinance (Cap. 32)) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Joint Bookrunner has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each Joint Bookrunner has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Switzerland

Each Joint Bookrunner has undertaken and agreed that it has not publicly offered, sold or advertised and will not publicly offer, sell or advertise any Notes, directly or indirectly, in, into or from Switzerland and acknowledges that any offering or marketing material relating to the Notes does not constitute a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and that any offering or marketing material relating to the Notes may not be publicly distributed or otherwise made publicly available in Switzerland.

GENERAL

Each Joint Bookrunner has undertaken that it will (to the best of its knowledge and belief) comply in all material respects with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus or any related offering material. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Bookrunner to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 8 December 2017.

Legal and Arbitration Proceedings

2. Save as disclosed in *Risk Factors – Legal Proceedings*, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries.

Significant/Material Change

3. Since 31 December 2017 there has been no material adverse change in the prospects of the Issuer or the Issuer and its Subsidiaries, nor any significant change in the financial or trading position of the Issuer or the Issuer and its Subsidiaries.

Auditors

4. The 2016 Financial Statements of the Issuer were jointly audited without qualification by EY of 102 Rivonia Road, Sandton, Johannesburg, South Africa and PwC of 2 Eglin Road, Sunninghill, Johannesburg, South Africa. The 2017 Financial Statements of the Issuer were jointly audited without qualification by EY and KPMG of 85 Empire Rd, Parktown, Johannesburg, 2193, South Africa.

5. Each of EY, KPMG and PwC is registered with the Independent Regulatory Board for Auditors.

Documents on Display

6. Copies of the following documents may be inspected during normal business hours at the registered office of the Issuer and the Principal Paying Agent (each as set out on the last page of this Prospectus) for the life of this Prospectus:

(a) the constitutive documents of the Issuer;

(b) this Prospectus;

(c) the Agency Agreement and the Trust Deed; and

(d) the audited consolidated and separate financial statements of the Issuer for the years ended 31 December 2016 and 31 December 2017.

Yield

7. 6.250% on a semi-annual basis. The yield is calculated at the Issue Date as the yield to the Call Date on the basis of the Issue Price. It is not an indication of future yield.

Codes

8. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS1799058174, the Common Code is 179905817, the FISN Code is BARCLAYS AFRICA/EUR NT 22001231 SU and the CFI code is DYFXXR.

Legal Entity Identifier

9. The Legal Entity Identifier (LEI) code of the Issuer is 2138006IPPRD4N6XLT30.

COMMERCIAL PAPER REGULATIONS UNDER THE SOUTH AFRICAN BANKS ACT

DISCLOSURE REQUIREMENTS IN TERMS OF PARAGRAPH 3(5) OF THE COMMERCIAL PAPER REGULATIONS PUBLISHED UNDER THE SOUTH AFRICAN BANKS ACT, 1990, AS AMENDED, IN RELATION TO THIS ISSUE OF THE NOTES

The Issuer is required to make the disclosure set out below pursuant to paragraph 3(5) of the exemption notice published in terms of the South African Banks Act, 1990 (the "Banks Act") under Government Notice 2172 in Government Gazette 16167 of 14 December 1994 (the "Commercial Paper Regulations") exempting the designation of certain activities from falling within the meaning of "the business of a bank" (as that term is defined in the Banks Act).

1. Paragraph 3(5)(a)

The "*ultimate borrower*" (as defined in the Commercial Paper Regulations) is Barclays Africa Group Limited.

2. Paragraph 3(5)(b)

The Issuer is a going concern and can in all circumstances be reasonably expected to meet its commitments under the Notes.

3. Paragraph 3(5)(c)

The auditors of the Issuer are KPMG Inc. and Ernst & Young Inc.

4. Paragraph 3(5)(d)

As at the date of this Prospectus (but excluding, for the avoidance of doubt, the issue of the Notes):

(a) the Issuer has commercial paper in the amount of ZAR 11.722 billion in issue; and

(b) the Issuer estimates that it will issue commercial paper in the amount of up to ZAR 5 billion during the remainder of the current financial year, ending 31 December 2018.

5. Paragraph 3(5)(e)

All information that may reasonably be necessary to enable the investor to ascertain the nature of the financial and commercial risk of its investment in the Notes is contained in this Prospectus.

6. Paragraph 3(5)(f)

There has been no material adverse change in the Issuer's financial position since the date of its last audited financial statements.

7. Paragraph 3(5)(g)

The Notes issued will be listed.

8. Paragraph 3(5)(h)

The net proceeds of the issue of the Notes will be applied by the Issuer for its general corporate purposes and to further strengthen the Issuer's regulatory capital base, and will not be on lent to the general public of the Republic of South Africa.

9. Paragraph 3(5)(i)

The obligations of the Issuer in respect of the Notes are unsecured.

10. Paragraph 3(5)(j)

Ernst & Young Inc., one of the joint statutory auditors of the Issuer, have confirmed that nothing has come to their attention to indicate that this issue of Notes issued under this Prospectus will not comply in all respects with the relevant provisions of the Commercial Paper Regulations.

FINANCIAL STATEMENTS AND AUDITORS' REPORTS

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Barclays Africa Group Limited

Annual consolidated and separate financial statements for the reporting period ended 31 December 2017

BARCLAYS

Contents

Annual financial statements

Barclays Africa Group Limited
(1986/003934/06)

Annual consolidated and separate financial statements for the reporting period ended 31 December 2017.

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

Directors' approval

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' responsibility statement set out on page 11, is made to distinguish, for the benefit of shareholders, the respective responsibilities of the directors and of the auditors in relation to the consolidated and separate financial statements of Barclays Africa Group Limited and its subsidiaries (the Group).

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

To enable the directors to meet these responsibilities::

- All directors and senior management develop an environment whereby all directors and employees endeavour to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that, in all reasonable circumstances, is above reproach.
- The Board sets standards and management implements systems of internal control and accounting as well as information systems aimed at providing reasonable assurance that both on- and off-statements of financial position are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The Board and management identify all key areas of risk across the Group and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems, and discipline are applied and managed within predetermined procedures and constraints.
- The Group's internal audit and compliance functions, which operate unimpeded and independently from operational management and have unrestricted access to the Group Audit and Compliance Committee (GACC), appraise, evaluate and, when necessary, recommend improvements to the systems of internal control, accounting and compliance practices, based on plans that, combined with the efforts of the Group's risk functions, take cognisance of the relative degrees of risk of each function or aspect of the business.
- The GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC is satisfied that the external auditors are independent.
- The Board approves the Enterprise Risk Management Framework (ERMF) through recommendation by the Group Risk Capital Management Committee (GRCMC).
- The Board, through the GACC which is assisted by the GRCMC in respect of risk matters, reviewed the compliance practices and procedures to enable the Board to discharge their regulatory responsibilities, by overseeing the plan and progress management makes in improving compliance in respect of Know Your Customer, Anti-Money Laundering and Sanctions requirements; and by considering that the Group's systems and processes appropriately reflect the current legal and regulatory environment, refer to note 54.
- The Group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

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

The financial statements of the Group and the Company have been prepared in accordance with the provisions of the Companies Act and the Banks Act, Johannesburg Stock Exchange (JSE) listings requirements and the South African Institute of Chartered Accountants (SAICA) financial reporting guides, and comply with the requirements of International Financial Reporting Standards (IFRS), and all applicable legislation.

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

It is the responsibility of the independent joint external auditors to report on the financial statements. Their report to the shareholders of the Group and the Company is set out on page 6 to 11 of this report.

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

W E Lucas-Bull
Group Chairman

M Ramos
Chief Executive Officer (CEO)

Johannesburg

28 February 2018

Group Audit and Compliance Committee report

The Group Audit and Compliance Committee (GACC) is pleased to submit this report in respect of the current reporting period to the shareholders of the Group. This report includes the requirements of section 94(7)(f) of the Companies Act, No. 71 of 2008 (as amended) (the Companies Act), the King IV Report on Corporate Governance for South Africa,™ 2016 (King IV) and other regulatory requirements.

The GACC serves as the audit committee for the Group. The separate audit committees of material subsidiaries are overseen by the GACC, to which all major issues are escalated. The GACC, together with the chairmen of these audit committees, reviews the control environment of material subsidiaries. The composition of the GACC and the terms of reference is set out in the governance summary of the Group's 2017 Integrated Report.

The members of the audit committee, as a whole, have the necessary financial literacy, skills and experience to execute their duties effectively and they are independent, non-executive members of the governing body. Further information on the membership and composition of the GACC, its terms of reference and its procedures, is set out in the corporate governance statement available on the Group's website.

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 KPMG Inc. (KPMG) and Ernst & Young Inc. (EY) as joint external auditors for the current reporting period;
- Ensured the appointment of the external auditors complied with the Companies Act, the JSE Listings Requirements and all other applicable legal and regulatory requirements;
- Reviewed, together with management, the external audit plan to address significant focus areas, which similarly receive focus by the GACC and which will be reported in the current financial statements, and specifically considered the external auditors' findings in this regard;
- Reviewed and approved the external audit plan, the budgeted fee for the current reporting period and the terms of engagement of the external auditors;
- Reviewed and assessed the quality of the external audit process, including receiving confirmation that there was no restriction on scope or access, and concluded that the process had been satisfactory;
- Reviewed the external auditors' reports and obtained assurances from the external auditors that adequate accounting records were maintained at all times;
- Ensured that adequate time was set aside for private discussions with the external auditors;
- Confirmed that the external auditors would attend and address queries at any general shareholders' meeting;
- Reviewed and approved the Group's policy on allowable non-audit services permitted to be provided by the external auditors;
- Approved proposed engagements, including proposed fees, with the external auditors for the provision of non-audit services taking into account the non-audit services policy. These engagements were evaluated by either the Committee Chairman or the Committee as a whole who, before confirming any approval, assured themselves that there was justifiable reason for engaging the auditor and that its independence and objectivity would not be threatened;
- Considered if any reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act, No. 26 of 2005, and determined that there were no such reportable irregularities;
- Reviewed the findings and recommendations of the external auditors and confirmed that no unresolved issues of concern exist between the Group and the external auditors in relation to the Group or any of its business units and subsidiaries;
- Following the appointment of KPMG as one of the Group's joint auditors for the reporting period ended 31 December 2017, the Committee ensured that KPMG obtained independence from the Group by 30 June 2016, enabling it to familiarise itself with the Group and receive a structured, formal handover from PwC. To ensure KPMG's independence, and to allow the Committee to assess whether any non-audit work could be conducted by KPMG during the reporting period, both in terms of type and scale, the Group exited all relationships or assignments that might have prevented KPMG obtaining independent status and has implemented procedures to manage the types of relationships and assignments that KPMG provides going forward. The independence of both EY and KPMG has been confirmed at the date of this report;
- In order to assure the quality of the audit, the GACC secured additional support, enhanced quality processes and quality reviews from KPMG South Africa and from KPMG International. The audit team has proven to be satisfactory in terms of their audit quality, and the level of technical expertise and challenge to management.

In respect of the financial statements and accounting practices:

- Confirmed the going-concern basis as appropriate for the preparation of the interim financial results and annual financial statements;
- Reviewed and recommended the interim financial results and annual financial statements, prior to submission to and approval by the Board and satisfied itself that they fairly present the consolidated financial position and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and Interpretations of IFRS, and the SAICA Reporting Guides;
- Reviewed and recommended for approval by the Board the reporting changes contained in the announcements released on the Stock Exchange News Services (SENS) on 23 February 2017 and 28 July 2017. The GACC satisfied itself that the changes disclosed in the annual financial statements and SENS result in fair presentation of the consolidated financial position as presented in the annual financial statements and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and interpretations of IFRS, and SAICA's Reporting Guides;
- Reviewed and recommended the interim and final dividend proposals for approval by the Board;
- Reviewed the solvency and liquidity tests undertaken for specific transactions, dividend declarations and financial assistance;
- Reviewed significant accounting and reporting issues, including complex or unusual transactions, sustainability of the control environment; significant judgmental areas, and recent professional and regulatory pronouncements, and ascertained their impact on the financial statements;

Group Audit and Compliance Committee report

Activities of the GACC *(continued)*

- Considered the accounting policies and practices and the controls of the Group to ensure the afore-mentioned are adhered to. The GACC is satisfied that they are appropriate and comply in all material respects with the relevant provisions of the Companies Act, IFRS and the Interpretations of IFRS;
- Reviewed the tax governance philosophy and assessed status;
- Reviewed significant matters which are not a normal part of the Group's business, but which are referred to the Committee by the Board or management;
- Considered the valuation of investments of the Group and Absa Bank Limited and recommended it to the Board for approval; and
- Reviewed the project plan and progress on the implementation of King IV.

In respect of internal control and internal audit:

- Reviewed and approved the updated Barclays Africa Group Limited Internal Audit charter, noting the changes to the purpose, authority and responsibility of Internal Audit;
- Reviewed the current reporting period's internal audit plan, including the adequacy of Internal Audit's (IA) skills, resources and budget;
- Reviewed the scope, nature and effectiveness of the work of IA and the performance of IA against its objectives and the internal audit charter, including receiving confirmation that there was no restriction on scope or access, and noted the completion of the current reporting period's 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 as appropriate;
- Noted internal quality reviews by IA employees performed during the reporting period, which proved satisfactory IA performance. An independent review will be undertaken in 2018 in terms of International Internal Audit Standards;
- Considered a special report on the fraud risk management capability across the Group;
- 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 validity, accuracy and completeness of the financial information. Where areas of improvement were identified by IA, management has completed corrective actions, or is in the process of implementing corrections. Progress is tracked to completion by IA and it actively encourages completion of ongoing remediation initiatives and embedment of controls, and of the principles of the ERMF, to ensure that the improved control environment rating is not only maintained, but also strengthened;
- The principles and practices of King IV revolve around the role and responsibilities of BAGL's governance forums. Internal Audit have audited the processes followed to ensure that the Board and Board committees apply the King IV principles;
- Assessed the competency of the Chief Internal Auditor to be appropriate.

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

- Reviewed and approved the Group's compliance monitoring plan, compliance methodology and structure, the Group's compliance coverage plan and the Group's compliance charter;
- Reviewed compliance practices and procedures for enabling the directors of the Group to discharge their regulatory responsibilities;
- Recommended the Banks Act, No. 94 of 1990 (the Banks Act) section 64B(2)(e) statement as to the Directors' Affairs Committee for review, and to the Board for approval;
- Considered compliance with Regulation 40(4) of the Banks Act, including the annual review of material malfunction, and recommended this to the Board for approval;
- Reviewed and approved the regulatory compliance risk control framework and applicable compliance policies, which include the requirements for the Group to comply with applicable laws, rules, codes and standards;
- Satisfied itself that the functioning of Group Compliance is in line with relevant regulatory requirements, including without limitation, section 60A and regulation 49 of the Banks Act; Financial Advisory and Intermediary Services Act, No. 37 of 2002 (FAIS), section 17 and regulation 4, regulation 5 and Board Notice 126 and 127, Financial Intelligence Centre Act, No. 38 of 2001 (FICA), section 42 and King IV, 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 adequate time was set aside for discussions with the Chief Internal Auditor and Chief Compliance officer;
- Considered and reviewed the adequacy of the resources and budget available to Group Compliance;
- Ensured that procedures are in place for receiving and treating complaints in terms of the Companies Act and other applicable acts regarding accounting practices, the internal audit of the Group, the content or auditing of the Group's financial statements, the internal financial controls of the Group or any related matters (including internal, anonymous complaints from employees or any other person);

Group Audit and Compliance Committee report

Activities of the GACC *(continued)*

- Considered any significant compliance risk matters reported by Group Compliance and monitored progress in rectifying these matters;
- Ensured procedures are in place for receiving reports from internal lawyers (and, where relevant, external lawyers) relating to breaches of laws and regulations;
- Received confirmation that all significant control issues, are reported in a timely manner to the relevant the Group governance structures;
- Reviewed and monitored the Group's approach to, and compliance with, section 404 of the Sarbanes-Oxley Act (SOx);
- Reviewed the Group's Compliance report on the overall status of compliance in the Group and any significant breakdowns that could cause material loss or penalty; and
- Ensured that appropriate training is provided to the GACC and the Group's subsidiary audit committees.

In respect of risk management:

- Reviewed the reports identifying material control issues that required, or are subject to, remedial attention and which summarised the actions being taken to resolve these issues;
- Reviewed the Chief Risk Officer's report, including the key risk and combined assurance assessments, as well as the risk and control assessments;
- Reviewed the Chief Risk Officer's operational risk and control reports, considered progress and monitored remedial action for the control environment;
- Noted actions of Operational Risk in embedding the three lines of defence and in minimising operational losses, including fraud;
- Together with the GRCMC, oversaw the plan and progress of management in improving compliance in respect of Know Your Customer and Anti-money Laundering requirements;
- The Group has established a platform for preventing and detecting fraud and other irregularities. The GACC has been part of reviewing the plans that management has in looking to safeguard the assets of the Group, especially the resilience of core infrastructure to protect against increasingly sophisticated cybercrime.

In respect of combined assurance:

- Oversight over the design, implementation and sustainability of the combined assurance model, including compliance with King IV;
- Review of the Group's combined assurance coverage plan and delivery thereof; and
- Oversight of assurance testing results, including Management's response to any control issues identified through testing.

In respect of IFRS 9 implementation:

- Assessment of the auditors' skills, knowledge and resources to address the key sources of complexity, judgement and uncertainty;
- Review of the IFRS 9 parallel run results in comparison with IAS 39 results;
- Review of the external audit plan for IFRS 9 models, controls, data, proxies, key estimations and judgements;
- Review of external audit findings on material models, data inputs and key policies in accordance with the external audit plan; and
- Evaluation of the neutrality, clarity and comprehensibility of disclosures.

In respect of external annual reporting:

- Reviewed stakeholder feedback on the Group's 2016 Integrated Report;
- Considered and approved the GACC report within the annual financial statements in compliance with the Companies Act;
- Considered and approved the proposal by management on the combined assurance approach for published, annual and external interim reports; and
- Through the Disclosure sub-Committee, reviewed and approved the Group's 2017 Integrated Report, taking into consideration factors and risks that may impact on the integrity of the integrated report, and recommend to the Board for approval and publication.

Regulatory and corporate governance requirements

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

- Completed the annual assessment of the suitability for re-appointment of the Group's current audit firms and designated individual partner including confirmation that appointed external auditors are duly accredited on the JSE's list of auditors; and
- Determined that the Group Financial Director, J P Quinn, has appropriate expertise and experience.

Pursuant to King IV, 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 KPMG and EY are independent of the Group. This conclusion was arrived at by taking, inter alia, the following factors into account:

- Representations from KPMG and EY confirming their independence and that nothing had taken place which would impair this at any time, including obtaining confirmation that no restrictions had been placed upon KPMG or EY that limited their scope or access;
- The auditors did not, except as external auditors or in providing permitted non-audit services, receive any other remuneration or benefit from the Group; the criteria for independence set by the Independent Regulatory Board for Auditors and international regulatory bodies were satisfied;
- The auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditors;
- The auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- The GACC received a letter of confirmation from each of the joint external auditors to confirm that they meet all the requirements for independence and that the auditor's report thereon is included in the annual consolidated financial statements.

Conclusion

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

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

The GACC reviewed the Group and separate Company financial statements for the year ended 31 December 2017 and recommended them for approval to the board on 28 February 2018.

On behalf of the GACC

C Beggs

Chairman of the GACC

Johannesburg

28 February 2018

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 2017, 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

28 February 2018

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

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Barclays Africa Group Limited (the group and company) set out on pages 16 to 215, which comprise the consolidated and separate statements of financial position as at 31 December 2017, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the reporting period then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies, but excludes the sections marked as 'unaudited' in notes 51, 58, 63.1, 63.7 and Annexure A: Embedded value report for Life Insurance entities.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Barclays Africa Group Limited as at 31 December 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the reporting period then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td>Consolidated financial statements only</td><td colspan="2">Impairment of loans and advances to customers
The disclosure associated with Retail Credit Risk and Wholesale Credit Risk is set out in the financial statements in the following notes:
• Note 1.2.1 – Approach to credit risk and impairment of loans and advances (page 25)
• Note 9 – Impairment losses on loans and advances to customers (page 57)
• Note 63.2 – Credit risk (page 142)</td></tr>
<tr><td></td><td>Impairment allowances represent management's best estimate of the losses incurred within the loans and advances portfolios at reporting date.

The impairment allowances on loans and advances are significant in the context of the consolidated financial statements due to the estimation uncertainty inherent in the impairment allowances as well as the significant judgement required in determining the value of the impairment allowances. Furthermore, models used to determine credit impairments are complex with certain inputs not fully observable. Management applies impairment model adjustments to these outputs which can be highly subjective. The estimation uncertainty is heightened due to the ongoing volatility in the South African and the wider African economies.

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

Retail portfolio
A significant portion of the retail impairment is calculated on a portfolio basis. In calculating the impairment allowance on a portfolio basis, statistical models are used. The following inputs to these models require significant management judgement:
• The probability of default (PD);
• The exposure at default (EAD);
• The loss given default (LGD); and
• The emergence periods (EP) between the occurrence of an impairment event and the recognition of an individual or collective impairment.</td><td>We considered the appropriateness of the accounting policies and assessed the loan impairment methodologies applied, and compared these to the requirements of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). We obtained an understanding of management's process over credit origination, credit monitoring and credit remediation and tested the relevant key controls identified within these processes.

Where impairment allowances were calculated on a modelled basis we have performed the following audit procedures, in conjunction with the auditors' credit risk experts:
• Assessed the design and implementation of the models, including assessing the appropriateness of significant assumptions applied and the quality of the observable data used to derive model parameters in relation to our understanding of industry norms;
• Evaluated the reasonableness and robustness of the impairment modelling methodology, applied by management to determine the probability of default and loss given default used to compute portfolio impairment allowances by processing management's data through our independent models with respect to certain portfolios; and
• Assessed the appropriateness of management's additional adjustments in light of recent economic events and circumstances and other factors that might not yet be fully reflected in the modelled results by independently assessing the reasonability of assumptions and judgements made by management.

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

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

Level	Key audit matter	How our audit addressed the matter
	Wholesale and Corporate Portfolio A significant proportion of Wholesale and Corporate loans and advances are assessed for recoverability on an individual basis. Significant judgements, estimates and assumptions have been applied by management to: • Determine if the loan or advance is impaired; • Evaluate adequacy and recoverability of collateral; • Determine the expected cash flows to be collected; and • Estimate the timing of the future cash flows.	**Wholesale and Corporate Portfolio** Where specific impairments have been raised we considered the impairment indicators, uncertainties and assumptions applied by management. In addition we considered management's assessment of the recoverability of the exposure and supporting collateral with reference to current economic performance, assumptions most commonly used in the industry, and comparison with external evidence or historical trends. We challenged the valuation of impairment losses for a sample of loans and advances that had been incurred, including developing our own expectation of the amount of the impairment allowance. We inspected a sample of legal agreements and supporting documentation to confirm the existence and legal right to collateral. We assessed collateral valuation techniques applied against the Group policy and industry standards. We selected a sample of loans and advances for which no impairment indicators were identified and considered the appropriateness of the conclusions reached, including using external evidence to substantiate our views.
Consolidated and separate financial statements	**Valuation of complex instruments** The disclosure associated with the valuation of complex instruments is set out in the financial statements in the following notes: • Note 1.2.3 – Fair value measurements (page 28) • Note 61 – Fair value disclosures (page 130) (consolidated financial statements) • Note 24 – Fair value disclosures (page 214) (separate financial statements)	
	Valuation of certain financial instruments (such as derivatives and investment securities) requires greater judgement and involves estimation to determine the appropriate valuation techniques to apply and to source relevant and reliable inputs. Fair value measurement of financial instruments significantly affects profit or loss and disclosures of financial risks in the financial statements. Fair value calculations, specifically level 3 financial instruments, are dependent on various sources of external and internal data and on sophisticated modelling techniques used to value financial instruments disclosed as Level 3 in the financial statements, which are evolving as markets become more sophisticated. Due to the magnitude of financial instruments carried at fair value and the significant judgements applied by management in determining the fair values, this has been identified as an area of most significance in the current year audit of the consolidated and separate financial statements.	We obtained an understanding of management's processes to identify that correct independent market inputs are used in the models and tested the relevant key controls in place to ensure the correct use of the independent market inputs in the models. Our audit risk, and transaction advisory experts applied their expertise to a sample of financial instruments and assessed the appropriateness of the valuation models used with reference to approaches commonly used in the industry. We assessed the judgements and estimates applied by management against our understanding of current market practice and conditions. We also obtained independently-sourced inputs where available, which were compared against the inputs used by management. Where valuation inputs are unobservable, we used our valuation experts to assess the reasonability of the valuation inputs based on supportable and comparable information and compared these to management's valuation inputs. We assessed key assumptions and modelling approaches in estimating credit value adjustments (CVA) and funding value adjustments (FVA) against current market practice. We evaluated gains or losses on significant settled deals to assess the calibration of mark-to-model values.

Level	Key audit matter	How our audit addressed the matter
Consolidated financial statements only	**Valuation of policyholder liabilities under insurance contracts (insurance liabilities)** The disclosure associated with valuation of insurance liabilities is set out in the financial statements in the following notes: • Note 1.10 – Classification of insurance and investment contracts (page 42) • Note 24 – Policyholder liabilities under insurance contracts (page 67)	
	Uncertainty exists about the recognition and measurement of the liabilities arising from claims made under short-term and long-term insurance contracts. The valuation of insurance liabilities has been identified as an area of most significance in the current year audit of the consolidated financial statements due to valuation complexity, significant judgements applied by management and the significance of these balances to the consolidated financial statements. Specific areas of focus included the insurance reserving assumptions and methodologies used to determine the incurred but not yet reported claims (IBNR) and insurance policyholder liabilities in Wealth Investment Management and Insurance. Significant judgements, estimates and assumptions have been applied by management to determine: • The level of claims provision and provision for unexpired claims; • Assumptions around future mortality, morbidity, discontinuance rates, and reasonable expectations of benefits and guaranteed benefits and expenses; and • The rate applied to discount future profits.	We obtained an understanding of management's process over reconciliations that govern the valuation of the insurance liabilities and tested the relevant key controls in place over the process. Together with our actuarial experts: • We evaluated the models and significant assumptions applied by management's actuaries in the valuation of the insurance liabilities against the results of our independent model output and assumptions; • We challenged the underlying assumptions applied by management's actuaries and the methodologies applied in deriving the value of insurance liabilities with reference to economic conditions and performance and other methodologies commonly used; and • We tested the valuation of selected insurance liabilities by comparing our own modelled results to management's assessment.
Consolidated financial statements only	**Complexity in application of hedge accounting** The disclosure associated with hedge accounting applied is set out in the financial statements in the following notes: • Note 1.7.12 – Hedge accounting (page 39) • Note 59.6 – 59.8 – Derivatives (page 124)	
	The Group is exposed to financial risks through its diverse product offerings and operations in multiple geographic locations. Hedge accounting is applied on certain portfolios to manage these financial risks. We regard this as an area of most significance in the current year audit of the consolidated financial statements due to the complexities associated with monitoring and application of hedge accounting. The valuation of underlying hedged items and hedging instruments, along with the calculation of hedge effectiveness and hedge reserve balances can involve complex quantitative models and significant judgement associated with assumptions and hedge accounting methodologies that increase the risk of potential error. Furthermore, the accounting treatment results in significant balances for the Group that arise as a result of the election to apply hedge accounting.	We considered the appropriateness and consistent application of the accounting policies and assessed the hedge accounting methodologies applied; and compared these to the requirements of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). We obtained an understanding of management's hedge accounting process and tested the relevant key controls in place over the process and the hedge accounting effectiveness models. We assessed the reasonability of the inputs and assumptions used in the hedging models by comparing these to external information and market data. Our treasury and risk experts applied their knowledge and experience to independently re-performing the modelled calculations on a sample basis and compared the results to management's results for the year.

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

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td>Consolidated financial statements only</td><td colspan="2">Uncertain tax positions
The disclosure associated with taxation is set out in the financial statements in the following notes:
• Note 1.2.8 – Process of determination, and use of estimates, assumptions and judgements-income taxes (page 34)
• Note 16 – Deferred tax (page 63)
• Note 40 – Indirect taxation (page 81)
• Note 41 – Taxation expense (page 81)</td></tr>
<tr><td></td><td>As detailed within the process of determination, and use of estimates, assumptions and judgements note, management is required to apply significant judgement regarding the accounting for uncertain tax positions where tax authorities may have indicated disagreement with the Group's tax treatment.

We regard this as an area of most significance in the current year audit of the consolidated financial statements given:
• The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax is subject to periodic challenges by tax authorities during the normal course of business including transaction- related taxes; and
• Where an amount of tax payable is uncertain, the Group establishes provisions based on the Group's estimate of the probable amount of the recovery or liability which involves estimation uncertainty and judgement.</td><td>We focused our audit effort on identifying and understanding the nature of the uncertain tax positions and the key controls and governance process surrounding such positions.

With the assistance of our tax experts, we assessed the nature and the extent of the tax exposures and the reasonableness of management's and their external expert's conclusions on whether exposures are probable, contingent or remote. Where exposures are assessed as probable, we evaluated the reasonableness of the amounts provided with respect to those exposures as well as assessed the probabilities of the uncertain tax position materialising with discussions and communications with the relevant tax authorities and external opinions received.

We considered the appropriateness of the Group's tax disclosures regarding uncertain tax positions and tax-related notes 1.2.8, 16, 40 and 41 to the consolidated financial statements against the requirements of the relevant accounting standards.</td></tr>
</table>

Other Information

The directors are responsible for the other information. The other information comprises the Group Audit and Compliance Committee Report, the Company Secretary's certificate to the shareholders of Barclays Africa Group Limited, the Directors' Report, as required by the Companies Act of South Africa and the Directors' approval, the 'unaudited' sections in notes 51, 58, 63.1 and 63.7 and Annexure A: Embedded value reports of the Life Insurance entities, which we obtained prior to the date of this report, and the Integrated Report and supplementary fact sheets, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditors' report thereon.

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst &Young Inc. has been the joint auditor of Barclays Africa Group Limited for 25 years and that KPMG Inc. has been the joint auditor of Barclays Africa Group Limited for one year.

Ernst + Young Inc.

Ernst & Young Inc.
Director: E van Rooyen CA(SA)
Registered Auditor

102 Rivonia Road
Sandton
28 February 2018

KPMG Inc

KPMG Inc.
Director: P Fourie CA(SA)
Registered Auditor

85 Empire Road
Parktown

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 12 African countries and employs 41 703 people. The address of the registered office of the Group is the 7th Floor, Barclays Towers West, 15 Troye Street, Johannesburg, 2001.

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

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

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

The consolidated and separate financial statements were approved for issue by the Board Finance Committee, a committee of the board, on 28 February 2018

The financial statements present the financial positions, results of operations and cash flows of the Group and the Company for the reporting period ended 31 December 2017.

Group Audit and Compliance Committee report

Refer to page 2.

Group results

Main business and operations

The Group recorded a decrease of 4,45% in headline earnings to **R14 313m** (2016: R14 980m) for the reporting period. Headline earnings per share (HEPS) decreased by 4% to **1 716,7 cents** (2016: 1 796,6 cents) and diluted HEPS by 4% to **1 716,5 cents** (2016: 1 796,4 cents). Refer to note 43 for the headline earnings note.

Some comparative segmental information contained in this set of financial statements has been restated due to business portfolio changes, refer to notes 1.21 and 58.1 for further details.

Headline earnings was derived from the following activities:

	Group	
	2017 Rm	2016 Rm
South Africa Banking	**12 200**	11 678
RBB South Africa	**8 874**	8 822
Retail Banking South Africa	**6 546**	6 524
Business Banking South Africa	**2 328**	2 298
CIB South Africa	**3 326**	2 856
Rest of Africa Banking	**2 954**	2 756
WIMI	**1 156**	1 258
Head Office, Treasury and other operations in South Africa	**(752)**	(712)
Barclays separation	**(1 245)**	—
Headline earnings (refer to note 43)	**14 313**	14 980

Note

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

Re-election of retiring directors

In line with international best practice, the Group has a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting (AGM). Yolanda Cuba, M J (Mohamed) Husain and Trevor Munday will be required to retire in terms of the above arrangement.

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

Details of the members of the Board:

Name	Position as director	Current reporting period appointments and resignations
T Abdool-Samad	Independent non-executive director	Appointed 1 February 2018
C Beggs	Independent non-executive director	
P A Clackson (British)	Non-executive director	Resigned 30 April 2017
Y Z Cuba	Independent non-executive director	
A B Darko (Ghanaian)	Independent non-executive director	
M P Fandeso	Independent non-executive director	Appointed 1 September 2017
D J Hodge (British)	Non-executive director	Appointed 1 May 2017
D W P Hodnett	Deputy Chief Executive Officer	
M J Husain	Independent non-executive director	
W E Lucas-Bull	Independent non-executive director, Chairman	
P B Matlare	Deputy Chief Executive Officer	
M S Merson (British)	Independent non-executive director	
T S Munday	Lead Independent Director	
D Naidoo	Independent non-executive director	
P S O'Flaherty	Independent non-executive director	
F Okomo-Okello (Kenyan)	Independent non-executive director	
J P Quinn	Financial Director	
M Ramos	Chief Executive Officer	
A V Vaswani (Singaporean)	Non-executive director	Resigned 30 June 2017
R van Wyk	Independent non-executive director	Appointed 1 February 2017

Shareholder information

	2017 Number of shares/notes	2017 % holding	2016 Number of shares/notes	2016 % holding
Public and non-public shareholders				
Ordinary shares				
Public				
Barclays Bank PLC (UK)	**126 145 303**	**14,88**	424 723 090	50,10
Public Investment Corporation (SA)	**55 635 169**	**6,56**	58 125 786	6,86
Other	**650 780 797**	**76,77**	363 621 366	42,88
Non-public	**15 189 410**	**1,79**	1 280 437	0,16
Treasury shares[1]	**14 912 864**	**1,76**	1 075 595	0,13
Directors (refer to note 26,2)	**276 546**	**0,03**	204 842	0,03
Total	**847 750 679**	**100**	847 750 679	100
Additional Tier 1 Capital				
Public[2]	**1**	**100**	—	—

Notes

[1] **1 712 984** shares held by Absa Life Limited (2016: 873 831); **1 110 723** (2016: 201 764) shares held in trust for shared-based payments; and 13 089 157 shares held by the Absa empowerment trust in pursuance of a future Broad-Based Black Economic Empowerment structure.

[2] The Additional Tier 1 Capital notes represent perpetual, subordinated instruments redeemable in full at the option of Barclays Africa Group Limited (the issuer) on 12 September 2022 subject to regulatory approval. Interest is paid at the discretion of the issuer and is non-cumulative. In addition, if certain conditions are reached, the regulator may prohibit the issuer from making interest payments. Accordingly, the instruments are classified as equity instruments.

Directors' and officers' personal financial interests in contracts

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

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

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

Directors' and prescribed officers' emoluments

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

Subsidiaries, associates and joint ventures

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

Acquisitions and disposals

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

Acquisitions during the current reporting period

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

Acquisitions during the prior reporting period

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

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

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

Disposals during the current and prior reporting periods

Apart from non-current assets/liabilities held for sale disposed of (refer to note 7) there were no other disposals of businesses that were finalised during the current reporting period. The cash consideration received on disposals included in non-current assets/liabilities held for sale was R205m.

Barclays Separation

As part of the separation, Barclays PLC sold ordinary Barclays Africa Group Limited shares representing 12,2% and 33,7% of issued ordinary share capital in May 2016 and June 2017 respectively. Barclays PLC currently holds 126,2m ordinary Barclays Africa Group Limited shares representing 14,9% of issued ordinary shares. The remaining 85,1% of the shares are widely held on the JSE.

Barclays PLC contributed £765 million to the Group, primarily in recognition of the investments required for the Group to separate from Barclays PLC. This contribution will be invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Group over time.

Barclays PLC contributed cash of R1 891m to be used in the furtherance of the Group's objective of establishing Broad-Based Black Economic Empowerment structure. The cash was contributed to the independent Absa Empowerment Trust, whose subsidiary purchased 12 716 260 BAGL shares. In terms of the requirements of IFRS, these shares have been accounted for as treasury shares and eliminated against the Group's share capital.

CLS Group Holding AG shares were transferred to Barclays PLC for no consideration in 2005. During the current reporting period these shares were transferred back to the Group for a nominal consideration of one British Pound (GBP). The shares have been recognised at a fair value of R48m. The related credit has been recognised in equity as a shareholder contribution.

Dividends

- On 23 February 2017, a final dividend of 570 cents per ordinary share was announced to ordinary shareholders registered on 7 April 2017.
- On 28 July 2017, an interim dividend of 475 cents per ordinary share was announced to ordinary shareholders registered on 8 September 2017.
- On 28 February 2018, a final dividend of 595 cents per ordinary share was approved. The dividend was announced on 1 March 2018 to ordinary shareholders registered on 13 April 2018. This dividend is payable on 16 April 2018.

Special resolutions

The following special resolutions were passed by the Company's ordinary shareholders at the AGM held on 17 May 2017, in accordance with the Companies Act:

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

  Resolved to approve the proposed remuneration to be payable to non-executive directors from 1 May 2017 to and including the last day of the month preceding the date of the next AGM thereafter.

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

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

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

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

Company Secretary

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

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

Telephone: (+27 11) 350 5347

Email: groupsec@barclaysafrica,com

Auditors

EY and KPMG were appointed as auditors of the Group for the 2017 reporting period, effective 1 January 2017. E van Rooyen (EY) and P Fourie (KPMG) are the individual registered auditors that have undertaken the audit.

Authorised and issued share capital

Authorised

The authorised share capital of the Company of **R1 760 935 000** (2016: R1 760 935 000) consists of **880 467 500** (2016: 880 467 500) ordinary shares of R2,00 each.

Issued

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

847 750 679 (2016: 847 750 679) ordinary shares of R2,00 each.

No preference shares are currently in issue by the Company.

Consolidated statement of financial position

as at 31 December

		Group	
	Note	2017 Rm	2016 Rm
Assets			
Cash, cash balances and balances with central banks	2	**48 669**	50 006
Investment securities	3	**111 409**	114 315
Loans and advances to banks	4	**55 426**	49 789
Trading portfolio assets	5	**132 183**	96 236
Hedging portfolio assets	5	**2 673**	1 745
Other assets	6	**20 960**	25 542
Current tax assets		**314**	894
Non-current assets held for sale	7	**1 308**	823
Loans and advances to customers	8,9	**749 772**	720 309
Reinsurance assets	10	**892**	985
Investments linked to investment contracts	11	**18 936**	18 816
Investments in associates and joint ventures	12	**1 235**	1 065
Investment properties	13	**231**	478
Property and equipment	14	**15 303**	14 643
Goodwill and intangible assets	15	**5 377**	4 049
Deferred tax assets	16	**1 291**	1 328
Total assets		**1 165 979**	1 101 023
Liabilities			
Deposits from banks	17	**67 390**	53 192
Trading portfolio liabilities	18	**64 047**	47 429
Hedging portfolio liabilities	18	**1 123**	2 064
Other liabilities	19	**31 744**	27 696
Provisions	20	**3 041**	3 005
Current tax liabilities		**57**	244
Non-current liabilities held for sale	7	**48**	9
Deposits due to customers	21	**689 867**	674 865
Debt securities in issue	22	**137 948**	139 714
Liabilities under investment contracts	23	**30 585**	29 198
Policyholder liabilities under insurance contracts	24	**4 617**	4 469
Borrowed funds	25	**15 895**	15 673
Deferred tax liabilities	16	**557**	1 185
Total liabilities		**1 046 919**	998 743
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	26	**1 666**	1 693
Share premium	26	**10 498**	4 467
Retained earnings		**91 882**	81 604
Other reserves	27	**4 370**	5 293
		108 416	93 057
Non-controlling interest – ordinary shares		**4 500**	4 579
Non-controlling interest – preference shares	28.1	**4 644**	—
Non-controlling interest – Additional Tier 1 Capital	28.2	**1 500**	4 644
Total equity		**119 060**	102 280
Total liabilities and equity		**1 165 979**	1 101 023

Consolidated statement of comprehensive income

for the reporting period ended 31 December

		Group	
	Note	2017 Rm	2016 Rm
Net interest income		**42 644**	42 003
Interest and similar income	29	**85 929**	85 114
Interest expense and similar charges	30	**(43 285)**	(43 111)
Non-interest income		**30 661**	30 391
Net fee and commission income		**21 711**	20 723
Fee and commission income	31	**24 724**	23 972
Fee and commission expense	31	**(3 013)**	(3 249)
Net insurance premium income	32	**6 598**	6 986
Net claims and benefits incurred on insurance contracts	33	**(3 334)**	(3 691)
Changes in investment and insurance contract liabilities	34	**(2 113)**	(493)
Gains and losses from banking and trading activities	35	**5 246**	5 691
Gains and losses from investment activities	36	**1 905**	51
Other operating income	37	**648**	1 124
Total income		**73 305**	72 394
Impairment losses on loans and advances	9.1	**(7 022)**	(8 751)
Operating income before operating expenditure		**66 283**	63 643
Operating expenditure	38	**(43 304)**	(39 956)
Other expenses		**(2 270)**	(2 120)
Other impairments	39	**(648)**	(690)
Indirect taxation	40	**(1 622)**	(1 430)
Share of post-tax results of associates and joint ventures	12.1	**170**	115
Operating profit before income tax		**20 879**	21 682
Taxation expense	41	**(5 857)**	(5 835)
Profit for the reporting period		**15 022**	15 847
Profit attributable to:			
Ordinary equity holders		**13 823**	14 708
Non-controlling interest – ordinary shares		**789**	788
Non-controlling interest – preference shares		**362**	351
Non-controlling interest – Additional Tier 1 Capital		**48**	—
		15 022	15 847
Earnings per share:			
Basic earnings per share (cents)	42.1	**1 657,8**	1 764,0
Diluted earnings per share (cents)	42.2	**1 657,6**	1 763,8

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Group 2017 Rm	Group 2016 Rm
Profit for the reporting period		**15 022**	15 847
Other comprehensive income			
Items that will not be reclassified to profit or loss		**(179)**	(220)
Fair value losses arising from changes in own credit risk on liabilities measured at fair value through profit or loss		**(147)**	—
Movement in retirement benefit fund assets and liabilities		**(32)**	(220)
Decrease in retirement benefit surplus	44	**(91)**	(120)
Decrease/(increase) in retirement benefit deficit	44	**45**	(141)
Deferred tax	16	**14**	41
Items that are or may be subsequently reclassified to profit or loss		**(1 327)**	(2 942)
Movement in foreign currency translation reserve		**(2 219)**	(4 529)
Differences in translation of foreign operations		**(2 271)**	(4 209)
Release to profit or loss		**52**	(320)
Movement in cash flow hedging reserve		**794**	1 726
Fair value gains		**1 465**	2 721
Amount removed from other comprehensive income and recognised in profit or loss		**(365)**	(321)
Deferred tax	16	**(306)**	(674)
Movement in available-for-sale reserve		**98**	(139)
Fair value gains/(losses)		**154**	(197)
Released to profit or loss	35	**67**	(3)
Deferred tax	16	**(123)**	61
Total comprehensive income for the reporting period		**13 516**	12 685
Total comprehensive income attributable to:			
Ordinary equity holders		**12 590**	11 931
Non-controlling interest – ordinary shares		**516**	403
Non-controlling interest – preference shares		**362**	351
Non-controlling interest – Additional Tier 1 Capital		**48**	—
		13 516	12 685

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Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm
Balance at the beginning of the reporting period	846 675	1 693	4 467	81 604	5 293	757
Total comprehensive income	—	—	—	13 650	(1 060)	—
Profit for the period	—	—	—	13 823	—	—
Other comprehensive income	—	—	—	(173)	(1 060)	—
Dividends paid during the reporting period	—	—	—	(8 821)	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Issuance of Additional Tier 1 Capital	—	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(741)	12	—	—
Elimination of movement in treasury shares held by Group entities	(13 837)	(27)	(2 385)	—	—	—
Movement in share-based payment reserve	—	—	742	—	(55)	—
Transfer from share-based payment reserve	—	—	742	—	(742)	—
Value of employee services	—	—	—	—	655	—
Deferred tax	—	—	—	—	32	—
Movement in general credit risk reserve	—	—	—	(22)	22	22
Share of post-tax results of associates and joint ventures	—	—	—	(170)	170	—
Disposal of non-controlling interest[1]	—	—	—	—	—	—
Barclays separation[2]	—	—	8 415	3 690	—	—
Barclays Separation – Empowerment Trust[3]	—	—	—	1 891	—	—
Shareholder contribution – fair value of investment[4]	—	—	—	48	—	—
Balance at the end of the reporting period	832 838	1 666	10 498	91 882	4 370	779
Note	26	26	26			27

Notes

[1] The Group disposed of its controlling stake in a non-core subsidiary which was classified as held for sale.

[2] As part of the disinvestment, Barclays PLC contributed R12,1bn in recognition of the investments required for the Group to separate from Barclays PLC. The contribution meets the definition of a transaction with a shareholder and was recognised in equity on the date that the Group became entitled to the contribution.

[3] As part of the separation, Barclays PLC contributed cash of R1 981m to the independent Absa Empowerment Trust to allow for its subsidiary to purchase 12 716 260 BAGL shares (1,5%) in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure. In terms of IFRS, these shares have been accounted for as treasury shares and eliminated against the Group's share capital. Refer to note 26.

[4] CLS Group Holding AG shares were transferred to Barclays PLC for no consideration in 2005. During the current reporting period these shares were transferred back to the Group for a nominal consideration of one British Pound Sterling (GBP). The shares have been recognised at a fair value of R48m. The related credit has been recognised in equity as a shareholder contribution

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2017

Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest – Additional Tier 1 Capital Rm	Total equity Rm
377	(144)	2 353	6	892	1 052	93 057	4 579	4 644	—	102 280
68	794	(1 922)	—	—	—	12 590	516	362	48	13 516
—	—	—	—	—	—	13 823	789	362	48	15 022
68	794	(1 922)	—	—	—	(1 233)	(273)	—	—	(1 506)
—	—	—	—	—	—	(8 821)	(567)	(362)	—	(9 750)
—	—	—	—	—	—	—	—	—	(48)	(48)
—	—	—	—	—	—	—	—	—	1 500	1 500
—	—	—	—	—	—	(729)	—	—	—	(729)
—	—	—	—	—	—	(2 412)	—	—	—	(2 412)
—	—	—	—	(55)	—	687	(4)	—	—	683
—	—	—	—	(742)	—	—	—	—	—	—
—	—	—	—	655	—	655	(4)	—	—	651
—	—	—	—	32	—	32	—	—	—	32
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	170	—	—	—	—	—
—	—	—	—	—	—	—	(24)	—	—	(24)
—	—	—	—	—	—	12 105	—	—	—	12 105
—	—	—	—	—	—	1 891	—	—	—	1 891
—	—	—	—	—	—	48	—	—	—	48
445	650	431	6	837	1 222	108 416	4 500	4 644	1 500	119 060
27	27	27	27	27	27			28.1	28.2	

Consolidated statement of changes in equity

for the reporting period ended 31 December

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

Notes

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

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

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2016

General credit risk reserve Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total equity Rm
727	560	(1 870)	6 461	22	729	937	89 292	4 711	4 644	98 647
—	(183)	1 726	(4 108)	—	—	—	11 931	403	351	12 685
—	—	—	—	—	—	—	14 708	788	351	15 847
—	(183)	1 726	(4 108)	—	—	—	(2 777)	(385)	—	(3 162)
—	—	—	—	—	—	—	(8 536)	(562)	(351)	(9 449)
—	—	—	—	—	—	—	(421)	—	—	(421)
—	—	—	—	—	—	—	153	—	—	153
—	—	—	—	—	163	—	572	2	—	574
—	—	—	—	—	(409)	—	—	—	—	—
—	—	—	—	—	495	—	495	2	—	497
—	—	—	—	—	37	—	37	—	—	37
—	—	—	—	—	40	—	40	—	—	40
30	—	—	—	—	—	—	—	—	—	—
—	—	—	—	(16)	—	—	—	—	—	—
—	—	—	—	—	—	115	—	—	—	—
—	—	—	—	—	—	—	66	25	—	91
757	377	(144)	2 353	6	892	1 052	93 057	4 579	4 644	102 280
27	27	27	27	27	27	27			28.1	

Consolidated statement of cash flows

for the reporting period ended 31 December

	Note	Group 2017 Rm	Group 2016 Rm
Cash flow from operating activities			
Interest received		**82 688**	85 093
Interest paid		**(41 604)**	(42 326)
Fees and commission received		**24 724**	23 972
Fees and commission paid		**(3 013)**	(3 249)
Insurance premiums and claims		**1 153**	2 731
Net trading and other expenses		**(3 036)**	(2 620)
Cash payments to employees and suppliers		**(40 990)**	(37 409)
Dividends received from banking and trading activities		**149**	56
Income taxes paid		**(6 371)**	(6 012)
Cash flow from operating activities before changes in operating assets and liabilities		**13 700**	20 236
Net (increase)/decrease in trading and hedging portfolio assets		**(28 457)**	49 876
Net (increase) in loans and advances to customers		**(40 191)**	(37 184)
Net (increase)/decrease in other assets		**(3 977)**	20 804
Net decrease/(increase) in insurance and investment securities		**104**	(13 019)
Net increase in trading and hedging portfolio liabilities		**15 748**	5 005
Net increase/(decrease) in insurance and investment contracts		**1 550**	(45 382)
Net increase/(decrease) in amounts due to customers and banks		**37 858**	(8 092)
Net increase in other liabilities		**3 131**	14 718
Net cash (utilised in)/generated from operating activities		**(534)**	6 962
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale		**1 146**	173
Net increase in investments linked to investment contracts		**695**	160
Dividends received from investments in associates and joint ventures		**—**	15
Dividends received from investments linked to investment contracts		**398**	313
Acquisition of associates and joint ventures, net of cash		**—**	(7)
Purchase of investment properties	13	**(1)**	(28)
Proceeds from disposal of investment properties		**265**	83
Purchase of property and equipment	14	**(3 263)**	(4 116)
Proceeds from disposal of property and equipment		**598**	749
Purchase of intangible assets	15	**(2 630)**	(1 515)
Proceeds from disposal of intangible assets	15	**158**	6
Acquisition and disposal of businesses and other similar transactions, net of cash		**—**	(34)
Net cash utilised in investing activities		**(2 634)**	(4 201)
Cash flow from financing activities			
Purchase of own shares		**(521)**	153
Purchase of Group shares in respect of equity-settled share-based payment schemes		**(729)**	(421)
Issue of Additional Tier 1 Capital		**1 500**	—
Barclays PLC contribution		**12 105**	—
Proceeds from borrowed funds		**2 841**	2 381
Repayment of borrowed funds		**(2 805)**	—
Distributions paid to Tier 1 Capital holders		**(48)**	(173)
Dividends paid		**(9 750)**	(9 449)
Net cash generated from/(utilised in) financing activities		**2 593**	(7 509)
Net decrease in cash and cash equivalents		**(575)**	(4 748)
Cash and cash equivalents at the beginning of the reporting period		**17 734**	21 366
Effect of foreign exchange rate movements on cash and cash equivalents		**161**	1 116
Cash and cash equivalents at the end of the reporting period	55	**17 320**	17 734

1. Summary of significant accounting policies

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

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

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

Own credit requirements of IFRS 9 Financial Instruments (IFRS 9)

On 1 January 2017 the Group early adopted the requirement to present in other comprehensive income the effects of changes in the fair value, which relate to own credit of financial liabilities designated at fair value through profit or loss. The impact of this change has been detailed in the Statement of comprehensive income and has no impact on opening reserves/retained earnings. Comparatives have not been restated.

Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows (IAS 7))

The amendments require additional disclosures regarding changes in an entity's liabilities from financing activities, including both cash and non-cash changes.

The amendments resulted in additional disclosures being presented by the Group.

Recognition of deferred tax assets for unrealised tax losses (Amendments to IAS 12 Income Taxes (IAS 12))

The amendments clarify the accounting for deferred tax assets relating to unrealised losses on debt instruments measured at fair value, provide guidance on the estimation of future tax profits from the sale of assets for more than their carrying values, and clarify that the assessment of deductible temporary differences is performed separately per type of tax loss.

The amendments have no significant impact on the Group as the Group currently accounts for taxation in the manner envisaged by these amendments.

Annual improvements (2014-2016 Cycle)

These consist of non-urgent but necessary clarifications and amendments to the following standards of IFRS:
› IFRS 12 Disclosure of Interests in Other Entities

The clarification did not have a significant impact on the financial statements of the Group as disclosures are already provided in terms of these requirements.

1.1 Basis of presentation

The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out as follows. These policies have been consistently applied. The consolidated and separate financial statements have been prepared under the historical cost convention modified to include the fair valuation of investment property and particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies. They are stated in millions of Rand (Rm), the presentation and functional currency of the Group.

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

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

1.2.1 Approach to credit risk and impairment of loans and advances

The Group has an established governance process with respect to its approach to credit risk management and any resultant impairment of loans and advances. The governance process includes the existence of the BAGL Models Committee (MC) (a board committee), Retail and Business Bank Models Forum (RBBMF) and the Corporate and Investment Bank Models Committee (CIBMC) whose remit includes:

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

The aforementioned committees also approve post model adjustments applied to models. Retail impairment allowances are subject to quarterly impairment adequacy reviews and approval by the Retail Impairment Adequacy Forum. Wholesale impairment allowances are subject to monthly impairment adequacy reviews and approval by the Wholesale Impairment Governance Forum.

The consideration of credit risk is a fundamental process for the Group as it ultimately determines impairment losses. This section describes the process and assumptions used in estimating impairment allowances.

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

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

Approach to credit modelling/internal ratings

The principal objective of credit measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Group is exposed from the level of individual facilities up to the total portfolio level. Integral to this is the calculation of internal credit parameters that are used for credit risk management purposes and in the calculation of regulatory capital (RC), economic capital (EC) and impairment requirements. The key credit parameters used in this process are:

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

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

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

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

Internal and vendor-supplied credit models are used to estimate the key credit parameters of PD, LGD and EAD. The Bank uses different modeling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers. PD, LGD and EAD estimates can be calculated to represent different views of the credit cycle, which are used in different applications. For example, PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months. EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under normal conditions.
These parameters are used for the following credit risk management purposes:

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

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

Retail portfolio

Ratings assigned across each retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter. The rating is used in decisions concerning underwriting and account management, and is used to calculate Regulatory Capital, Economic Capital and impairments. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- Internal risk estimates of PD, EAD and LGD are grounded in historical experience and is reliant on historical data.
- PDs are assigned at account level. Through the cycle as well as point in time PD estimates are calculated and used for different purposes. Point in time PD estimates are used for impairment purposes, while through the cycle estimates are used for capital calculations.
- EADs are assigned at account level and is based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.
- LGD are assigned at account level and is based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default, recovery strategies, cure and write-off rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

Wholesale portfolio

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

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

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

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

Validation of models

Models undergo independent validation when new models have been developed (initial validation) and on an annual basis (ongoing validation). Retail models are approved by the Retail and Business Bank Chief Risk Officer (RBB CRO) supported by the RBBMF. Wholesale models are approved by the Chief Credit Risk Officer (CCO) supported by the CIBMC. The most material models require approval by the BAGL MC. In addition, a process is in place to perform post model adjustments as needed or when management applies its discretion.

Default grades

The Group uses two types of PDs, namely:

- TTC PD, which reflects the Group's assessment of the borrower's long-run average propensity to default in the next year; and
- PIT PD, which reflects current economic, industry and borrower circumstances.

Both types of PDs are used extensively in the Group's decision-making processes. For communication and comparison purposes, the Group's 21 default grades (DGs), were mapped to external agency rating equivalents as well as the South African Reserve Bank's (SARB) 26 grade PD scale used for regulatory reporting purposes.

DG grading represents a TTC view of the distribution of the book at a specific point in time. The indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

- DG 1 – 9: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BBB- rating and better.
- DG 10 – 19: financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies. When converted to a rating agency equivalent, these ratings correspond to a BB+ to B- rating.
- DG 20 – 21: the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well defined weaknesses that exacerbate the PD. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.

Approach to impairment of loans and advances

- The Group's accounting policy for losses arising from the impairment of loans and advances is described in note 1.7.6. Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the reporting date.

For the purpose of a collective evaluation of impairment, financial assets are allocated to groups, based on similar risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for such groups of assets, being indicative of the counterparty's ability to pay amounts due under the contractual terms of the assets.

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

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

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

An emergence period concept is applied to ensure that only impairments that exist at the reporting date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event (unidentified impairment) and the impairment being identified at an individual account level (identified impairment). The emergence periods, based on actual experience, vary across businesses and are reviewed annually. The PD for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This PD is then applied to all exposures in respect of which no identified impairments have been recognised.

The impairment allowance also takes into account the expected severity of loss at default, or the LGD, which is the amount outstanding that is written off and is therefore not recoverable. Recovery varies by product and depends, for example, on the level of security held in relation to each loan as well as the Group's position relative to other claimants. Two key aspects in the cash flow calculation are the valuation of all security and the timing of all asset realisations, after allowing for all collection and recovery costs. These characteristics are relevant to the estimation of future cash flows for such groups of assets, being indicative of the counterparty's ability to pay amounts due under the contractual terms of the assets. LGD estimates are based on historical loss experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the reporting date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected in the statistical models. Historical loss experience data is then adjusted to add current economic conditions into the data set, which conditions did not exist at the time of loss experience and/or to remove the effects of conditions in the historical period that do not currently exist.

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

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

This key area of judgement is subject to uncertainty and is highly sensitive to factors such as loan portfolio growth, product mix, unemployment rates, bankruptcy trends, loan product features, economic conditions, 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.

Identified impairments on financial assets

A retail identified impairment is triggered when a contractual payment is missed. This is not the same as the non-performing definition which applies to loans in a legal process or the regulatory default definition. The impairment calculation is based on a roll-rate approach where the percentage of assets moving from the initial delinquency state to default is derived from statistical probabilities, based on experience.

The PD is calculated within a certain outcome period. The outcome period is defined as the timeframe within which assets default.

Recovery amounts and contractual interest rates are calculated using a weighted average for the relevant portfolio.

In the retail portfolio, the identified impairment is calculated on a collective basis. For accounting purposes, these accounts are considered to be identified collective impairments.

In the wholesale portfolio (including Business Bank and Wealth), the identified impairment is calculated on accounts reflected on management's early watch lists triggered by a specific event, such as the conclusion of insolvency proceedings or other formal recovery actions, making it possible to quantify the extent of the advance that is beyond a realistic prospect of recovery. Nonetheless, non-performing loans and advances are reviewed at least quarterly, ensuring that irrecoverable loans and advances are written off in a timely and systematic way and in compliance with local regulations.

Assets are only written off once all necessary procedures have been completed and the amount of loss has been determined. Recoveries of amounts previously written off are reversed and accordingly decrease the amount of the reported impairment charge in the statement of comprehensive income. Refer to notes 9 and 63.2.

1.2.2 Goodwill impairment

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

The recoverable amount in the aforementioned calculation is based on the value in use for the CGU.

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

- The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects at the time of the assessment.
- Growth rates in the impairment calculations range from 3% to 10% (2016: 1,5% to 5,4%) and projected cash flow periods approximate 5 years (2016: 5 years).
- 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 judgment and are subject to uncertainty.

The range of discount rates used in the impairment calculations is 12,70% – 17,83% (2016: 13,56% – 13,93%).

Note 15 includes details of the amount recognised by the Group as goodwill..

1.2.3 Fair value measurements

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

Valuation inputs

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

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

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

Quoted market prices – Level 1

Fair values are classified as Level 1 if they have been determined using observable prices in an active market. Such fair values are determined with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs – Level 2

Fair values classified as Level 2 have been determined using models for which inputs are fair values other than quoted prices included within level 1 that are observable either directly or indirectly in an active market.

A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

Valuation technique using significant unobservable inputs – Level 3

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

Financial assets and financial liabilities

The Group has an established control framework with respect to the measurement of fair values. The framework includes a Traded Risk and Valuation Committee and an Independent Valuation Control team (IVC), which is independent from the front office. The Traded Risk and Valuation Committee, which comprises representatives from senior management, will formally approve valuation policies and any changes to valuation methodologies. Significant valuation issues are reported to the GACC. The Traded Risk and Valuation Committee is responsible for overseeing the valuation control process and will therefore consider the appropriateness of valuation techniques and inputs for fair value measurement.

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

Investment properties

The fair value of investment properties is determined based on the most appropriate methodology applicable to the specific property. Methodologies include the market comparable approach that reflects recent transaction prices for similar properties, discounted cash flows and income capitalisation methodologies. In estimating the fair value of the properties, the highest and best use of the properties is taken into account. Where possible, the fair value of the Group's investment properties is determined through valuations performed by independent external valuators. When the Group's internal valuations are different to that of the independent external valuers, detailed procedures are performed to substantiate the differences, whereby the IVC verifies the procedures performed by front office and considers the appropriateness of any differences to independent external valuations.

Judgemental inputs on valuation of principal instruments

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Debt securities and treasury and other eligible bills

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

Equity instruments

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

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

Derivatives

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

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

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

Loans and advances

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

Deposits, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives.

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

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

Fair value adjustments

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

Bid-offer valuation adjustments

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

Uncollateralised derivative adjustments

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

Model valuation adjustments

Valuation models are reviewed under the 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 at least annually.

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

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

Measurement of assets and liabilities at Level 2

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

Category of asset/liability	Valuation techniques applied	Significant observable inputs
Loans and advances to banks	Discounted cash flow models	Interest rates and/or money market curves
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discounted cash flow models	Underlying price of market traded instruments and/or interest rates
Derivative assets		
Commodity derivatives	Discounted cash flow, option pricing, futures pricing and/or Exchange Traded Fund (ETF) models	Spot prices of physical or futures, interest rates and/or volatility
Credit derivatives	Discounted cash flow and/or option pricing models	Interest rates, recovery rates, credit spreads and/or quanto ratios
Equity derivatives	Discounted cash flow model, option pricing and/or futures pricing models	Spot price, interest rate, volatility and/or dividend stream
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	Spot prices, interest rates and/or volatility
Interest rate derivatives	Discounted cash flow and/or option pricing models	Interest rate curves, repurchase agreement curves, money market curves and/or volatility
Money market assets	Discounted cash flow models	Money market curves and/or interest rates
Loans and advances to customers	Discounted cash flow models	Interest rates and/or money market curves
Investment securities and investments linked to investment contracts	Listed equity: market bid price Other items: discounted cash flow models	Underlying price of market traded instruments and/or interest rate curves
Deposits from banks	Discounted cash flow models	Interest rates and/or money market curves
Deposits due to customers	Discounted cash flow models	Interest rates and/or money market curves
Debt securities in issue, liabilities under investment contracts and other liabilities	Discounted cash flow models	Underlying price of market traded instruments and/or interest rate curves

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

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

Measurement of assets and liabilities at Level 3

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

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	2017 Range of estimates utilised for the unobservable inputs	2016 Range of estimates utilised for the unobservable inputs
Loans and advances to customers	Discounted cash flow and/or dividend yield models	Credit spreads	**0,3% to 2,3%**	0,5% to 5%
Investment securities and investments linked to investment contracts	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Risk adjusted yield curves, future earnings, marketability discounts and/or comparator multiples	**Discount rates between 7% to 9%, comparator multiples between 5 and 10,5**	Discount rate of 13%, comparator multiples between 5 and 10,5
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	**3% to 15%**	1,2% to 11,16%
Derivative assets				
Credit derivatives	Discounted cash flow and/or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	**0% to 90%**	0% to 40%
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Volatility and/or dividend streams (greater than 3 years)	**15,09% to 64,67%**	17,82% to 67,71%
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	African basis curves (greater than 1 year)	**(28)% to 29,5%**	(16,6)% to 13,1%
Interest rate derivatives	Discounted cash flow and/or option pricing models	Real yield curves (greater than 1 year), repurchase agreement curves (greater than 1 year), funding spreads	**0,25% to 10,69%**	0,31% to 3,38%
Deposits due to customers	Discounted cash flow models	Barclays Africa Group Limited's funding spreads (greater than 5 years)	**0,2% to 1,9%**	(0,27)% to 2,13%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	**0,2% to 1,9%**	(0,27)% to 2,13%
Investment properties	Discounted cash flow models	Estimates of periods in which rental units will be disposed of	**1 to 6 years**	1 to 10 years
		Annual selling price escalations	**6%**	1% to 7%
		Annual rental escalations	**6%**	1% to 7%
		Expense ratios	**n/a**	25% to 50%
		Vacancy ratio	**n/a**	1% to 7%
		Income capitalisation rates	**7,75% to 8%**	10% to 11%
		Risk adjusted discount rates	**11% to 15%**	14%

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

For debt securities in issue held at amortised cost, a further significant input would be the underlying price of the market traded instrument, refer to note 61.

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

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

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

1.2.4 Impairment of available-for-sale financial assets

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

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

Refer to note 39.

1.2.5 Consolidation of structured or sponsored entities

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

Structured entities

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

Assessment of agent versus principal

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

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

Assessment of sponsored entities

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

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

Refer to notes 49 and 50.

1.2.6 Post-retirement benefits

The valuations of and contributions towards defined benefit pension plans are determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. The year-end balances of subsidiaries' post-retirement benefit obligations are affected by the closing foreign currency exchange rates.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Exposure to actuarial risks

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

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

Investment risk

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

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

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

Inflation/pension increase risk

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

Longevity risk

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

Salary risk

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

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

Measurement risk

The IAS 19 Employee Benefits (IAS 19) liabilities are determined using various assumptions about future experience.

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

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

Regulatory risk

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

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

1.2.7 Provisions

Various assumptions are applied in arriving at the carrying value of provisions that are recognised in terms of the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

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

1.2.8 Income taxes

The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and 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 provisions for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. The carrying amount of any resulting provisions will be sensitive to the manner in which tax matters are expected to be resolved, and the stage of negotiations or discussion with the relevant tax authorities. There may be significant uncertainty around the final outcome of tax proceedings, which in many instances, will only be concluded after a number of years. Management estimates are informed by a number of factors including, inter alia, the progress made in discussions or negotiations with the tax authorities, the advice of expert legal counsel, precedent set by the outcome of any previous claims, as well as the nature of the relevant tax environment. A current case relates to preference share investments made by a group company with independent third party financial institutions. Based on extensive work by senior counsel in preparation for a court case scheduled in 2018, BAGL is confident of successfully defending the challenge from the South African tax authority.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made. These risks are managed in accordance with the Group's Tax Risk Framework.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and ongoing developments will determine the recognition of deferred tax. The most significant management assumption in determining the deferred tax asset to be recognised is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the Group in order to utilise the deferred tax assets.

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

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

1.2.9 Share-based payments

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

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

Equity-settled share-based payment arrangements

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

Cash-settled share-based payment arrangements

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

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

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

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

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

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

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

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

1.2.11 Liabilities arising from claims made under life insurance contracts

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

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

1.2.12 Offsetting financial assets and financial liabilities

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

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

The above are considered to ensure the Group's financial assets and liabilities are presented accurately in accordance with the characteristics of the items in question as resources or obligations of the entity. Refer to note 48.

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

1.3 Consolidation

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

1.3.1 Subsidiaries

Subsidiaries are all entities (including SEs) over which the Group has control. The Group controls and hence consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.The Group will only consider potential voting rights that are substantive when assessing whether it controls another entity.

In order for the right to be substantive, the holder must have the practical ability to exercise that right. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consolidation of SEs is considered at inception, based on the arrangements in place and the assessed risk exposures at that time. The assessment of control is based on the consideration of all facts and circumstances.

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

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

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

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

1.3.2 Investments in associates and joint ventures

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

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

Investments in associates and joint ventures are accounted for at cost less impairment in the separate financial statements of Barclays Africa Group Limited.

1.3.3 Structured entities (SE)

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

1.3.4 Common control

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

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

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

1.4 Segment reporting

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

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

1.5 Foreign currencies

1.5.1 Foreign currency translations

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

1.5.2 Foreign currency transactions

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

1.6 Earnings per share

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

1.7 Financial instruments

The Group applies IAS 39 for the recognition, classification and measurement and derecognition of financial assets and financial liabilities, for the impairment of financial assets and for hedge accounting. The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date. All financial instruments are measured initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

1.7.1 Financial instruments at fair value through profit or loss

Financial instruments classified as held for trading

In accordance with IAS 39, all assets and liabilities held for trading purposes are held at fair value with gains and losses from changes in fair value taken to 'gains and losses from banking and trading activities' in profit or loss.

Financial instruments designated at fair value through profit or loss

Financial assets and financial liabilities may be designated at fair value, with gains and losses taken to profit or loss in 'gains and losses from banking and trading activities' and 'gains and losses from investment activities' depending on the nature of the instrument. However, changes in fair value attributable to own credit for financial liabilities designated at fair value through profit or loss are recognised in OCI. These gains and losses are not recycled to profit or loss. The Group has the ability to make the fair value designation when this reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by the Group on the basis of its fair value, or includes terms that have substantive derivative characteristics.

Derivatives

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

1.7.2 Available-for-sale financial assets

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

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

1.7.3 Loans and receivables

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

1.7.4 Embedded derivatives

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

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

1.7 Financial instruments (continued)

1.7.5 Financial liabilities

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

1.7.6 Impairment of financial assets

Financial assets held at amortised cost

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

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

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

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

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

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

Following impairment, interest income is recognised at the original effective interest rate on the reduced carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans. The impairment allowance contains a net present value adjustment that represents the time value of money of expected cash flows. Such time value of money reduces as the point of cash flow is approached. The time-based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets. Uncollectable loans are written off against the related allowance for loan impairment on completion of the Group's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to impairment losses on loans and advances in profit or loss.

Identified impairment

Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows of that instrument being assessed are taken into account, for example, the business prospects for the customer, the fair value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements by management are made in this process. Refer to note 1.2.1 in this regard.

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

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

Unidentified impairment

An impairment allowance is recognised when observable data indicates there is a measurable decrease in the estimated future cash flows from a group of financial assets since the original recognition of those assets, even though the decrease cannot yet be identified for the individual assets in the group. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition that has already occurred, but will only be identifiable at a borrower level at a future date. The purpose of collective assessment of impairment is to test for latent losses on a portfolio of loans that have not been evidenced individually.

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

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

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

1.7 *Financial instruments (continued)*

Available-for-sale debt instruments

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in equity (through OCI) is removed from equity (through OCI) and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Available-for-sale equity instruments

Where there has been a prolonged or significant decline in the fair value of an equity instrument below its acquisition cost, it is deemed to be impaired. The cumulative net loss that has been previously recognised directly in equity (through OCI) is removed from equity (through OCI) and recognised in profit or loss. Further declines in the fair value of equity instruments after impairment are recognised in profit or loss. Reversals of impairment of equity instruments are not recognised in profit or loss. Increases in the fair value of equity instruments after impairment are recognised directly in OCI.

1.7.7 Subordinated debt

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

1.7.8 Offsetting of financial assets and financial liabilities

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

1.7.9 Derecognition of financial assets

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

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

1.7.10 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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

1.7.11 Day One profits or losses

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

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

1.7.12 Hedge accounting

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

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

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

1.7 Financial instruments (continued)

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

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

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

Fair value hedge accounting

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

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

Cash flow hedge accounting

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

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

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

Hedges of a net investment in a foreign operation

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

1.7.13 Repurchase and reverse repurchase agreements

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

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

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

1.7 Financial instruments (continued)

1.7.15 Loan commitments

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

1.7.16 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument.

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

Any increase in the liability relating to guarantees is recognised in profit or loss. Any liability remaining is credited to profit or loss when the guarantee is discharged, cancelled or expires.

1.8 Share capital

1.8.1 Ordinary share capital

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

1.8.2 Preference share capital

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

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

1.9 Revenue recognition

1.9.1 Net interest income

Interest income on loans and advances at amortised cost, available-for-sale debt investments, and interest expense on financial liabilities held at amortised cost, are calculated using the effective interest method which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

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

1.9.2 Net trading income

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

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

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

1.9.3 Net fee and commission income

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

1.9.4 Net investment income

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

1.9.5 Instalment credit agreements

Leases, instalment credit and rental agreements are regarded as leases. Rentals and instalment receivables, less unearned finance charges, are included under loans and advances. Finance charges are recognised as 'interest and similar income' in profit or loss over the terms of the lease using the effective interest rate method (before tax) which reflects a constant periodic rate of return.

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

1.10 Classification of insurance and investment contracts

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

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

1.10.1 Insurance contracts

Short-term insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

Liability adequacy test

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

Deferred policy acquisition costs

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

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

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

Changes in the expected patterns of consumption of future benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in 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 profit or loss. 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 earned which corresponds to the reinsurance unearned premium reserve.

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

Salvage and subrogation reimbursements

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

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

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

1.10 Classification of insurance and investment contracts

Life insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

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

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

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

Benefits are recorded as an expense when they are incurred.

Valuation methodology

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

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

Liability adequacy test

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

Reinsurance contracts held

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

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

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

Receivables and payables related to insurance and investment contracts

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

Philosophy on release of profits on the valuation basis

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

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

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

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

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. whether the premiums will actually be received and is in line with the profit recognition policy whereby profit is not recognised in advance.

Value of business acquired

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

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

1.10.2 Investment contracts

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

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

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

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

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

1.11 Commodities

Commodities where the Group has a shorter-term trading intention are carried at fair value less costs to sell in accordance with the broker-trader exception in IAS 2 Inventories (IAS 2).

The fair value for commodities is determined primarily using data derived from markets in 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 Business Combinations (IFRS 3) and IAS 36.

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

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

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

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

1.12.2 Intangible assets other than goodwill

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

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

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

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

	Customer lists and relationships	Computer software development costs	Other
Useful lives	Finite	Finite	Finite
Amortisation method used.	Amortised over the period of the expected use on a straight-line basis.	Amortised over the period of the expected use from the related project on a straight-line basis.	Amortised over the period of the expected use on a straight-line basis.
Internally generated or acquired	Acquired	Internally generated	Acquired
Annual amortisation rate (%)	8 – 20	20 – 33	10

1.13 Property and equipment

1.13.1 Property and equipment not subject to lease agreements

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

Item	Annual depreciation rate (%)
Computer equipment	14 – 25
Freehold property	2
Furniture and other equipment	10 – 15
Motor vehicles	25
Leasehold improvements	10 – 15

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

1.13.2 Property and equipment subject to lease agreements

Finance leases

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

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

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

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

1.13 Property and equipment (continued)

Operating leases

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

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

1.13.3 Investment properties

The Group initially recognises investment properties at cost, and subsequently at fair value at each reporting date reflecting market conditions at the reporting date. Gains and losses on measurement are included in profit or loss.

1.14 Repossessed properties

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

The properties acquired are initially recorded at cost, which is the lower of their fair value (less costs to sell) and the carrying amount of the loan (net of impairment allowance) at the date of exchange. They are subsequently measured at the lower of the carrying amount or net realisable value. No depreciation is charged in respect of these properties. Any subsequent write-down of the acquired properties to net realisable value is recognised in the statement of comprehensive income, in 'other impairments'. Any subsequent increase in net realisable value, to the extent that it does not exceed the cumulative write-down, is also recognised in 'other impairments'.

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

1.15 Non-current assets held for sale

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

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss until finally sold.

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

1.16 Cash and cash equivalents

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

1.17 Provisions, contingent liabilities and commitments

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

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

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

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

1.18 Employee benefits

1.18.1 Post-retirement benefits

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

Defined contribution schemes

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

Defined benefit schemes

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

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

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

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

Interest is calculated by applying the discount rate to the opening net defined liability or asset, taking into account any changes in the net defined liability or asset during the period as a result of contribution and benefit payments.

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

Post-employment medical aid plans

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

1.18.2 Staff costs

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

1.18.3 Share-based payments

The Group operates equity-settled and cash-settled share-based payment plans.

Employee services settled in equity instruments

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

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

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

Recharge arrangements that exist between entities within the Group do not impact the nature of the share-based payment transaction, and therefore do not affect the classification as either equity-settled or cash-settled. Group entities account for intergroup recharges within equity.

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

1.18 Employee benefits (continued)

Employee services settled in cash

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

1.19 Tax

1.19.1 Current tax

Income tax payable on taxable profits (current tax) is recognised as an expense in the reporting period in which the profits arise. Withholding taxes are also treated as income taxes. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period.

Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

1.19.2 Deferred tax

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

1.19.3 Dividends withholding tax

Dividends are taxed at 20% in the hands of certain of the recipients of the dividends, rather than in the hands of the declarer of the dividend. As such, for dividends declared and paid by the Group, the Group does not recognise tax on dividends declared.

1.19.4 Value added tax (VAT)

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

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

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

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

1.20 Treasury shares

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

1.21 Reporting changes overview

The financial reporting changes that have had an impact on the Group's results for the comparative reporting period ended 31 December 2016 include changes in reportable segments.

1.21.1 Changes in reportable segments

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

1.21.2 Adoption of the own credit exemption of IFRS 9

The Group adopted the requirement to present the effects of changes in the fair value, which relate to own credit, of financial liabilities designated at fair value through profit or loss in other comprehensive income at 1 January 2017. The impact of this change has been detailed in the statement of comprehensive income and has no impact on opening reserves/retained earnings. Comparatives have not been restated.

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

1.22 New standards and interpretations not yet adopted

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

IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement with effect from 1 January 2018. IFRS 9 includes requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The impairment requirements will lead to significant changes in the accounting for financial instruments. BAGL will not restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7 Financial Instruments: Disclosures. Any change in the carrying value of financial instruments upon initial application of IFRS 9 will be recognised in equity.

BAGL has a jointly accountable risk and finance implementation and governance programme with representation from all impacted departments. The programme is responsible for the robustness of models, data accuracy, taxation, regulatory capital and other process and system impacts as a result of IFRS 9. The parallel run of IFRS 9 and IAS 39 impairment models commenced in February 2017, which included model, process and output validation, testing, calibration and analysis.

Based on analysis performed, the effects of the new classification and measurement requirements under IFRS 9 will not have a significant impact on retained income upon transition. The specific requirements of IFRS 9 relating to the presentation of gains and losses on financial liabilities designated at fair value were early adopted at the beginning of the current reporting period. The effects of changes in the credit risk of liabilities' are presented in other comprehensive income with the remaining effect presented in profit or loss in the current period.

Impairment

IFRS 9 introduces a revised impairment model which will require entities to recognise expected credit losses ('ECL') based on unbiased forward-looking information. This replaces the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss has already been incurred and would measure the loss based on the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. This presents a change from the scope of the IAS 39 impairment model which excludes loan commitments and financial guarantee contracts (these were covered by IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

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

Exposures would be divided into 3 stages as follows:

Stage 1: Exposures where a significant increase in credit risk has not occurred since origination. For these exposures a 12 month expected credit loss will be recognized.

Stage 2: Exposures for which a significant increase in credit risk has occurred since origination. BAGL will assess whether a significant increase in credit risk has occurred based on qualitative and quantitative drivers; as well as exposures that are more than 30 days past due contractual payment date. Qualitative drivers include being marked as high risk or being reflected on management's watch list. Quantitative drivers include the change in an asset's cumulative weighted average lifetime probability of default. BAGL will not rely on the low credit risk exemption which provides that facilities classified as investment grade have not significantly deteriorated. Management overlays will be applied only if consistent with the principles of identifying significantly deteriorated assets. Lifetime expected credit losses will be recognized for these assets.

Stage 3: Exposures which meets the definition of default. BAGL has aligned its definition of default with Regulatory Capital CRR Article 178, which considers exposures that are more than 90 days past due, forbearance, as well as indicators that an exposure is unlikely to pay. Lifetime expected credit losses will be recognized for these assets.

Expected credit losses are the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non linear relationship between forward looking economic scenarios and their associated credit losses, a range of at least three forward looking economic scenarios will be considered to ensure a sufficient unbiased representative sample of the complete distribution is included in determining the expected loss. The process to develop scenarios will align to the existing stress testing scenario development process. Scenarios will be approved by the Group Credit and Impairment Committee, reviewed by the Credit Concentration Risk Committee; and ultimately reviewed by the GACC.

Management adjustments are made to model outputs where the modelling output does not cater for known or estimated factors, for instance specific forecasted economic expectations or political events.

Per IFRS 9 principles, the gross carrying amount of an exposure is the contractual amount owing from the counterparty; whereas the amortised cost reflects the expected cash flows discounted using the original effective interest rate. Hence the expected credit loss provision, which is the difference between the gross carrying amount and amortised cost, would reflect the expected cash shortfalls discounted by the original effective interest rate.

Consequently, the expected credit loss provision per IFRS 9 includes contractual interest in respect of stage 3 assets; where previously such interest was excluded from the gross carrying amount presented.

As a result of the alignment of the regulatory definition of default with stage 3 per IFRS 9, interest will be recognised on a net basis for exposures that are 90 days past contractual due date or have evidenced certain indicators that they are unlikely to pay. Consequently, interest income will reduce.

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

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

The revised impairment model is expected to have a material financial impact on the existing impairment provisions previously recognised in terms of the requirements of IAS 39. It is estimated that the increase on IAS 39 impairment stock (including contractual interest suspended) will be in the region of 30%, on a pre-tax basis. Based on the current requirements of Basel III, the increase in the accounting impairment provisions is not expected to reduce the Group's Common Equity Tier 1 (CET1) capital ratio by more than 35bps, on 1 January 2018, before taking into account the impact of the regulatory transitional arrangement. Barclays Africa Group Limited has elected to utilise the transition period of three years for phasing in the regulatory capital impact of IFRS 9. IFRS 9 has been considered in the Group's capital planning.

The reasons for the change in impairment provisions are as follows:

- The removal of the emergence period that was necessitated by the incurred loss model of IAS 39. All stage 1 assets will carry a 12 month expected credit loss provision. This differs from IAS 39 where unidentified impairments were typically measured with an emergence period of between three to twelve months.
- The provisioning for lifetime expected credit losses on stage 2 assets; where some of these assets would not have attracted a lifetime expected credit loss measurement per IAS 39.
- The inclusion of forecasted macroeconomic scenarios into the expectation of credit losses;
- The inclusion of expected credit losses on items that would not have been impaired under IAS 39, such as loan commitments and financial guarantees.

Classification and measurement

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

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

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

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

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

Other financial assets are required to be measured at fair value through profit and loss if they are held for the purposes of trading, if their contractual cash flows do not meet the 'solely payments of principal and interest' criterion, or if they are managed on a fair value basis and the Group maximises cash flows through sale. IFRS 9 allows an entity to irrevocably designate a financial asset as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (that is, an accounting mismatch).

An entity is permitted to make an irrevocable election for non-traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but other gains or losses are not reclassified to profit or loss upon derecognition.

The accounting for financial liabilities remains largely unchanged, except for financial liabilities designated at fair value through profit and loss. Gains and losses on such financial liabilities are required to be presented in other comprehensive income, to the extent that they relate to changes in own credit risk. The Group early adopted this requirement in 2017.

Adoption of the new classification and measurement rules will require a limited number of reclassifications to be effected as at 1 January 2018, but will not require a significant adjustment to the gross carrying values of the Group's financial assets and financial liabilities. Initial application of the new requirements will therefore have an insignificant impact on the Group's retained income as at 1 January 2018. Explanations of the reclassifications that will be required are provided below:

- Certain financial assets, including loans and advances in CIB and investments in WIMI were designated at FVTPL under IAS 39 because they were managed on a fair value basis. In terms of IFRS 9, these assets are now required to be measured at FVTPL, rather than being voluntarily designated as such. This is because they are held within a business model in which they are managed and their performance is evaluated on a fair value basis.
- Certain debt securities are held by Treasury in a separate portfolio to meet everyday liquidity needs. These were classified as available for sale under IAS 39.Treasury seeks to minimise the cost of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. This investment strategy may result in sales activity. The Group considers that under IFRS 9 these securities are held within a business model in which the objective is achieved by both collecting contractual cash flows and selling financial assets. These instruments have therefore been classified as measured at FVOCI under IFRS 9.

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

1.22 New standards and interpretations not yet adopted (continued)

- In a particular jurisdiction within Rest of Africa, a small portfolio of debt securities held by Treasury are currently classified as available for sale, but will be reclassified to amortised cost under IFRS 9. It is not possible to evidence an ability to sell these securities, and as such, the portfolio is aligned to having a business model where the objective is to collect contractual cash flows.
- Certain debt instruments in CIB that were previously bifurcated and recognised as a separate loan at amortised cost and a derivative. These are now required to be classified as FVTPL due to their cash flows not consisting solely of payments of principal and interest.
- Certain debt securities held by Insurance entities within Rest of Africa, are currently classified under IAS 39 as available for sale, but will be reclassified to amortised cost under IFRS 9. This reclassification is required because the securities are neither held within a portfolio whose business model is to manage the securities and evaluate their performance on a fair value basis, nor is it possible to evidence an adequate frequency and volume of sales pertaining to these securities. As such the portfolio is aligned to having a business model where the objective is to collect the contractual cash flows.

In October 2017, the IASB issued an amendment to IFRS 9 Prepayment Features with Negative Compensation. Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain). The amendment clarifies how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Under the amendments, the sign of the prepayment amount is not relevant. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. This amendment is effective on 1 January 2019 and is not expected to have a significant impact on the Group.

Hedge Accounting

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

BAGL will continue to apply IAS 39 hedge accounting, although it will implement the amended IFRS 7 hedge accounting disclosure requirements.

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

These are:

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

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

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

IFRS 15 Revenue from Contracts with Customers (IFRS 15) provides a single, principles based five-step model to be applied to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

The five steps in the model are as follows:

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

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

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

IFRS 15 is applicable to reporting periods beginning on or after 1 January 2018. The Group will apply the modified retrospective approach. The initial application of IFRS 15 is not expected to have a significant impact on the Group's financial statements.

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

1.22 New standards and interpretations not yet adopted (continued)

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

Applying the revised model, a lessee is required to recognise:

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

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

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

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

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

IFRS 17 Insurance Contracts (IFRS 17) replaces IFRS 4 Insurance Contracts and requires all insurance contracts to be accounted for in a consistent manner. Insurance obligations are required to be accounted for using current values instead of historical cost. The information is required to be updated regularly, providing users with more useful information.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021. An entity may elect to transition using a modified retrospective approach or a fair value transition approach should the fully retro approach be inpracticable. The Group is in the process of assessing the impact.

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

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

IFRIC 23 Uncertainty over Income Tax Treatments clarifies application and recognition principles when there is uncertainty over income tax treatments. The interpretation provides certain transition relief and is effective for reporting periods beginning on or after 1 January 2019. The Group is in the process of assessing the impact.

	Group 2017 Rm	Group 2016 Rm
2. Cash, cash balances and balances with central banks		
Balances with other central banks	**10 281**	13 395
Balances with the SARB	**19 109**	18 552
Coins and bank notes	**13 519**	13 141
Money market assets	**5 760**	4 918
	48 669	50 006

Included above are money market assets of **R1 898m** (2016: R1 578m) which are linked to investment contracts (refer to note 23.1).

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

	Group 2017 Rm	Group 2016 Rm
3. Investment securities		
Government bonds	**34 321**	46 781
Listed equity instruments	**2 859**	3 144
Money market assets	**5**	26
Other debt securities	**35 123**	29 062
Treasury bills	**36 812**	32 365
Unlisted equity and hybrid instruments	**2 289**	2 937
	111 409	114 315

Government bonds valued at **R12 922m** (2016: R10 374m) have been pledged with the SARB and other Central Banks.

R12 922m (2016: R10 006m) of this amount relates to repurchase agreements.

	Group 2017 Rm	Group 2016 Rm
4. Loans and advances to banks		
Loans and advances to banks	**55 426**	49 789

Included above are reverse repurchase agreements of **R15 279m** (2016: R18 768m) and other collateralised loans of **R529m** (2016: R635m) relating to securities borrowed.

5. Trading and hedging portfolio assets

	Group 2017 Rm	Group 2016 Rm
Commodities	**2 051**	1 485
Debt instruments	**34 978**	23 753
Derivative assets (refer to note 59.4)	**56 853**	45 153
Commodity derivatives	**1 105**	797
Credit derivatives	**165**	184
Equity derivatives	**2 544**	1 607
Foreign exchange derivatives	**15 886**	15 210
Interest rate derivatives	**37 153**	27 355
Equity instruments	**23 662**	17 883
Money market assets	**14 639**	7 962
Total trading portfolio assets	**132 183**	96 236
Hedging portfolio assets (refer to note 59.6)	**2 673**	1 745
	134 856	97 981

Trading portfolio assets with carrying values of **R7 571m** (2016: R13 820m) and **R6 278m** (2016: R2 649m) were pledged as security for repurchase and scrip lending agreements respectively. These assets are pledged for the duration of the respective agreements.

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

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

6. Other assets

	Group 2017 Rm	Group 2016 Rm
Accounts receivable and prepayments	**13 932**	17 488
Deferred costs	**483**	553
Deferred acquisition costs (refer to note 6.1)	**316**	430
Other deferred costs	**167**	123
Inventories	**409**	431
Cost	**415**	433
Write-down	**(6)**	(2)
Retirement benefit fund surplus (refer to note 44)	**474**	553
Settlement accounts	**5 662**	6 517
	20 960	25 542

6.1 Deferred acquisition costs

	Group 2017 Rm	Group 2016 Rm
Balance at the beginning of the reporting period	**430**	238
Additions	**261**	623
Amortisation charge	**(370)**	(427)
Foreign exchange movement	**(5)**	(4)
Balance at the end of the reporting period	**316**	430

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

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

	Group 2017 Rm	Group 2016 Rm
Non-current assets held for sale		
Balance at the beginning of the reporting period	823	1 700
Disposals	(1 315)	(173)
Transfer to cash, cash balances and balances with central banks	—	(33)
Transfer to loans and advances to banks	—	(48)
Transfer to other assets	—	(20)
Transfer to reinsurance assets	—	(140)
Transfer to investment securities	—	(1 140)
Transfer from cash, cash balances and balances with central banks	61	2
Transfer from loans and advances to customers	1 118	—
Transfer from loans and advances to banks	49	—
Transfer from other assets	24	73
Transfer from goodwill and intangibles assets (refer to note 15)	26	—
Transfer from investment securities	547	—
Transfer from investment properties (refer to note 13)	—	748
Transfer from property and equipment (refer to note 14)	4	—
Fair value adjustments on investment securities	(80)	(201)
Fair value adjustments on investment properties	51	—
(Decrease)/Increase in other assets	—	55
Balance at the end of the reporting period	1 308	823
Non-current liabilities held for sale		
Balance at the beginning of the reporting period	9	233
Disposals	(26)	—
Transfer to other liabilities	—	(93)
Transfer to policyholder liabilities under insurance contracts	—	(140)
Transfer from other liabilities	65	9
Balance at the end of the reporting period	48	9

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

- Retail Banking South Africa transferred loans and advances to customers of R1 118m and property and equipment of R1m to non-current assets held for sale. The Commercial Property Finance (CPF) Equity division in Business Banking South Africa disposed of a subsidiary with assets of R373m and liabilities of R26m out of non-current assets and non-current liabilities held for sale respectively. Business Banking South Africa further disposed of two investment properties with a total carrying value of R475m.
- Rest of Africa banking transferred property and equipment with a carrying value of R3m to non-current assets held for sale.
- CIB South Africa transferred investment securities with a carrying value of R547m to non-current assets held for sale. Prior to its disposal at a carrying value of R467m, a negative fair value adjustment of R80m was applied to the investment securities.
- WIMI transferred two subsidiaries to non-current assets and non-current liabilities held for sale. The subsidiaries held assets of R139m and R14m, and liabilities of R34m and R14m respectively.

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

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

	Group 2017 Rm	Group 2016 Rm
8. Loans and advances to customers		
Corporate overdrafts and specialised finance loans	**10 107**	8 285
Credit cards	**40 339**	41 000
Foreign currency loans	**27 914**	29 478
Instalment credit agreements, (refer to note 8.1)	**79 534**	76 219
Gross advances	**98 547**	94 488
Unearned finance charges	**(19 013)**	(18 269)
Loans to associates and joint ventures (refer to note 49.5)	**26 054**	20 183
Microloans	**4 938**	4 636
Mortgages	**278 126**	270 876
Other advances	**21 056**	25 636
Overdrafts	**39 652**	39 920
Overnight finance	**20 547**	15 574
Personal and term loans	**90 987**	86 206
Preference shares	**17 813**	17 443
Reverse repurchase agreements (Carries)	**19 316**	16 116
Wholesale overdrafts	**92 263**	88 453
Gross loans and advances to customers	**768 646**	740 025
Impairment losses on loans and advances (refer to note 9)	**(18 874)**	(19 716)
	749 772	720 309

The Group has securitised certain loans and advances to customers, the total value of these securitised assets is **R4 152m** (2016: R5 851m). Included above are collateralised loans of **R253m** (2016: R191m) relating to securities borrowed.

The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Other advances include working capital solutions, collateralised loans and specialised products in Rest of Africa.

	Group 2017 Gross advances Rm	2017 Unearned finance charges Rm	2017 Net advances Rm	2016 Gross advances Rm	2016 Unearned finance charges Rm	2016 Net advances Rm
8.1 Instalment credit agreements						
Maturity analysis						
Less than one year	**29 262**	**(7 292)**	**21 970**	28 895	(7 124)	21 771
Between one and five years	**65 483**	**(11 537)**	**53 946**	62 859	(10 986)	51 873
More than five years	**3 802**	**(184)**	**3 618**	2 734	(159)	2 575
	98 547	**(19 013)**	**79 534**	94 488	(18 269)	76 219

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

The majority of the leases are denominated in South African Rand. The average term of the finance leases entered into is five years.

Under the terms of the lease agreements, no contingent rentals are payable.

Unguaranteed residual values of instalment credit agreements at the reporting date are **R7 783m** (2016: R7 010m).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R1 821m** (2016: R1 660m).

	Group 2017 Rm	Group 2016 Rm
9. Impairment losses on loans and advances to customers		
Comprising:		
Identified impairments	16 335	16 806
Unidentified impairments	2 539	2 910
	18 874	19 716
Note	8	8

Group 2017

Reconciliation of allowance for impairment losses on loans and advances to customers	Retail Banking South Africa Rm	Business Banking South Africa Rm	CIB South Africa Rm	Rest of Africa Banking Rm	WIMI Rm	Head Office, Treasury and other operations in South Africa Rm	Total Rm
Balance at the beginning of the reporting period	11 945	1 935	1 828	3 933	71	4	19 716
Net present value unwind on non-performing book	(642)	(71)	—	—	—	—	(713)
Exchange differences	—	—	—	(331)	—	—	(331)
Transfer between segments	—	(1)	1	—	—	—	—
Amounts written-off	(4 975)	(387)	(1 006)	(1 411)	(5)	1	(7 783)
Impairment raised/(reversed) – identified	5 556	444	653	1 339	121	—	8 113
Impairment raised/(reversed) – unidentified	(83)	(51)	(86)	86	1	5	(128)
	11 801	1 869	1 390	3 616	188	10	18 874

2016[1]

Reconciliation of allowance for impairment losses on loans and advances to customers	Retail Banking South Africa Rm	Business Banking South Africa Rm	CIB South Africa Rm	Rest of Africa Banking Rm	WIMI Rm	Head Office, Treasury and other operations in South Africa Rm	Total Rm
Balance at the beginning of the reporting period	10 676	1 793	772	3 754	65	40	17 100
Net present value unwind on non-performing book	(601)	(98)	—	—	—	—	(699)
Exchange differences	—	—	—	(521)	—	—	(521)
Transfer between segments	(4)	(16)	20	—	—	—	—
Amounts written-off	(4 294)	(442)	(2)	(1 187)	(7)	—	(5 932)
Impairment raised/(reversed) – identified	6 010	591	839	1 575	38	—	9 053
Impairment raised/(reversed) – unidentified	158	107	199	312	(25)	(36)	715
	11 945	1 935	1 828	3 933	71	4	19 716

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

9. Impairment losses on loans and advances to customers (continued)

	Group 2017 Rm	Group 2016 Rm
9.1 Statement of comprehensive income charge		
Impairments raised during the reporting period	**7 985**	9 768
Identified impairments	**8 113**	9 053
Unidentified impairments	**(128)**	715
Recoveries of loans and advances previously written-off	**(963)**	(1 017)
	7 022	8 751

	Group 2017 Rm	Group 2016 Rm
10. Reinsurance assets		
Insurance contracts (refer to note 24)	**892**	985
Life insurance contracts	**114**	93
Short-term insurance contracts	**778**	892
	892	985

Included in 'other assets – accounts receivables and prepayments' is **R624m** (2016: R531m) relating to amounts receivable from reinsurers for claims made against them.

	Group 2017 Rm	Group 2016 Rm
11. Investments linked to investment contracts		
Debt instruments	**557**	506
Derivative instruments (refer to note 59.3)	**59**	39
Listed equity instruments	**16 152**	15 117
Money market instruments	**2 168**	2 085
Unlisted equity and hybrid instruments	**—**	1 069
	18 936	18 816

	Group 2017 Rm	Group 2015 Rm
12. Investments in associates and joint ventures		
Unlisted investments	**1 235**	1 065
12.1 Movement in carrying value of associates and joint ventures accounted for under the equity method		
Balance at the beginning of the reporting period	**1 065**	1 000
Share of current reporting period post-tax results	**170**	115
Share of current reporting period results before taxation	**222**	152
Taxation on reporting period results	**(52)**	(37)
Net movement resulting from acquisitions, disposals and transfers	**—**	7
Dividends received	**—**	(15)
Impairment (refer to note 39)	**—**	(42)
Balance at the end of the reporting period	**1 235**	1 065

12. Investments in associates and joint ventures (continued)

12.2 *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	**2017 Rm**	2016 Rm	**2017 Rm**	2016 Rm
Post-tax profit/(loss) from continuing operations	**8**	(32)	**162**	147
Total comprehensive income	**8**	(32)	**162**	147

In the previous reporting period the Group disposed of its entire 49% shareholding in Rainfin (Pty) Ltd with a carrying value of Rnil.

	Group	
	2017 Rm	2016 Rm
12.3 Analysis of carrying value of associates and joint ventures accounted for under the equity method		
Unlisted investments		
Shares at cost	**100**	100
Share of post-acquisition reserves	**1 135**	965
	1 235	1 065

	Group					
	2017			2016		
	Associates Rm	**Joint ventures Rm**	**Total Rm**	Associates Rm	Joint ventures Rm	Total Rm
12.4 Carrying value of associates and joint ventures						
Equity accounted	**208**	**1 027**	**1 235**	201	864	1 065
Designated at fair value through profit or loss	**20**	**444**	**464**	21	437	458
	228	**1 471**	**1 699**	222	1 301	1 523

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

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

	Group 2017 Rm	Group 2016 Rm
13. Investment properties		
Balance at the beginning of the reporting period	**478**	1 264
Additions	**1**	28
Change in fair value	**54**	84
Disposals/Transfers	**(260)**	(83)
Foreign exchange movements	**(42)**	(67)
Transfer to non-current assets held for sale (refer to note 7)	**—**	(748)
Balance at the end of the reporting period	**231**	478

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.

	Group 2017 Cost Rm	2017 Accumulated depreciation and/or impairments Rm	2017 Carrying value Rm	2016 Cost Rm	2016 Accumulated depreciation and/or impairments Rm	2016 Carrying value Rm
14. Property and equipment						
Computer equipment	**8 279**	**(4 514)**	**3 765**	7 546	(3 988)	3 558
Freehold property	**6 601**	**(541)**	**6 060**	6 848	(477)	6 371
Furniture and other equipment	**9 835**	**(4 874)**	**4 961**	8 553	(4 534)	4 019
Leasehold property	**1 146**	**(697)**	**449**	1 550	(923)	627
Motor vehicles	**123**	**(55)**	**68**	149	(81)	68
	25 984	**(10 681)**	**15 303**	24 646	(10 003)	14 643

Group 2017

Reconciliation of property and equipment	**Opening balance Rm**	**Additions Rm**	**Disposals Rm**	**Transfer from investment properties Rm**	**Transfers[1] Rm**	**Transfer to Non-current assets held for sale Rm**	**Foreign exchange movements Rm**	**Depreciation Rm**	**Impairments charge Rm**	**Closing balance Rm**
Computer equipment	**3 558**	**929**	**(18)**	**—**	**244**	**(1)**	**(19)**	**(928)**	**—**	**3 765**
Freehold property	**6 371**	**1 804**	**(53)**	**—**	**(2 001)**	**(3)**	**(1)**	**(52)**	**(5)**	**6 060**
Furniture and other equipment	**4 019**	**441**	**(367)**	**—**	**1 757**	**—**	**289**	**(962)**	**(216)**	**4 961**
Leasehold property	**627**	**73**	**(104)**	**—**	**—**	**—**	**(123)**	**(24)**	**—**	**449**
Motor vehicles	**68**	**16**	**(13)**	**—**	**—**	**—**	**19**	**(22)**	**—**	**68**
	14 643	**3 263**	**(555)**	**—**	**—**	**(4)**	**165**	**(1 988)**	**(221)**	**15 303**
Note				13		7		38	39	

Note

[1] During the current reporting period, an amount of R2 001m of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' (R244m) and 'Furniture and other equipment' (R1 757m) in accordance with the nature of these assets.

14. Property and equipment (continued)

Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfer from investment properties Rm	Transfers Rm	Transfer to Non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Impairments charge Rm	Closing balance Rm
	Group									
	2016									
Computer equipment	3 048	1 309	(14)	—	—	—	(21)	(764)	—	3 558
Freehold property	6 187	474	(301)	18	—	—	31	(38)	—	6 371
Furniture and other equipment	3 097	2 089	(255)	—	—	—	(129)	(783)	—	4 019
Leasehold property	881	167	(153)	—	—	—	(210)	(58)	—	627
Motor vehicles	39	66	(6)	—	—	—	(4)	(27)	—	68
	13 252	4 105	(729)	18	—	—	(333)	(1 670)	—	14 643
Note				13		7		38	39	

Included in the above additions is **R1 130m** (2016: R2 111m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction.

R2 001m (2016: Rnil) of assets under construction relating to computer equipment and furniture and other equipment was brought in to use during the reporting period. **R402m** (2016: R989m) of assets under construction relating to freehold property was brought in to use during the reporting period.

During the current reporting period, a decision was made to dispose of certain property and equipment. As a result these property and equipment were impaired to zero.

During the prior reporting period certain Investment property was transferred to Property and Equipment due to a change in the use of the assets.

15. Goodwill and intangible assets

	Group					
	2017			2016		
	Cost Rm	**Accumulated amortisation and/or impairments Rm**	**Carrying value Rm**	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
Computer software development costs	**8 934**	**(4 587)**	**4 347**	6 700	(3 805)	2 895
Customer lists and relationships	**667**	**(614)**	**53**	674	(611)	63
Goodwill	**1 016**	**(187)**	**829**	1 081	(165)	916
Other	**258**	**(110)**	**148**	269	(94)	175
	10 875	**(5 498)**	**5 377**	8 724	(4 675)	4 049

Reconciliation of goodwill and intangible assets	**Opening balance Rm**	**Additions Rm**	**Additions through business combinations**	**Disposals Rm**	**Foreign exchange movements Rm**	**Amortisation Rm**	**Impairment charge Rm**	**Transfers Rm**	**Closing balance Rm**
	Group								
	2017								
Computer software development costs	**2 895**	**2 630**	**—**	**(157)**	**(17)**	**(616)**	**(384)**	**(5)**	**4 347**
Customer lists and relationships	**63**	**—**	**—**	**—**	**—**	**(10)**	**—**	**—**	**53**
Goodwill	**916**	**—**	**—**	**—**	**(28)**	**—**	**(38)**	**(21)**	**829**
Other	**175**	**—**	**—**	**—**	**(2)**	**(24)**	**—**	**—**	**148**
	4 049	**2 630**	**—**	**(157)**	**(47)**	**(650)**	**(422)**	**(26)**	**5 377**
Note			57.1			38	39		

15. Goodwill and intangible assets (continued)

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

The majority of computer software development costs were internally generated with the remainder externally acquired. Included in computer software development costs is **R3 110m** (2016: R1 581m) relating to assets under construction.

The impairment incurred during the current reporting period mainly relates to internally generated software, Barclays.Net which was fully impaired.

During the prior reporting period, two of the Group's intangible assets were impaired. An acquired customer list was fully impaired following an adjustment to the interest rate outlook for the related business. The second impairment relates to the costs previously spent by the Group on the Virtual Bank initiative.

In calculating the impairment to be recognised, the Group determined the value in use based on a discounted cash flow methodology.

	Group 2017 Rm	Group 2016 Rm
Composition of goodwill		
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
Absa Asset Management Proprietary Limited	**30**	30
Barclays Bank of Mauritius Limited	**38**	40
Barclays Bank of Ghana Limited	**65**	65
Glenrand MIB employee benefits and healthcare	**—**	21
Global Alliance Seguros S.A.	**24**	24
Nile Bank Limited	**89**	100
First Assurance Company Limited	**87**	140
Woolworths Financial Services Proprietary Limited	**364**	364
Absa Instant Life Proprietary Limited	**20**	20
	829	916

In considering reasonably possible changes to key assumptions, even if the estimated discount rate and/or growth rate was changed by **2%** (2016: 2%), no additional impairment loss would be recognised (2016: no impairment loss).

	Group 2017 Rm	Group 2016 Rm
16. Deferred tax		
16.1 Reconciliation of net deferred tax liability/(asset)		
Balance at the beginning of the reporting period	**(143)**	(721)
Deferred tax on amounts charged directly to other comprehensive income	**383**	(532)
Charge to profit or loss (refer to note 41)	**(907)**	(81)
Tax effect of translation and other differences	**(67)**	1 191
Balance at the end of the reporting period	**(734)**	(143)
16.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Deferred tax liability	**557**	1 185
Prepayments, accruals and other provisions	**85**	812
Capital Allowances	**1 193**	1 045
Cash flow hedge and available for sale reserve	**391**	72
Fair value adjustments on financial instruments	**(77)**	(82)
Impairment of loans and advances	**(839)**	(411)
Lease and rental debtor allowances	**(231)**	(209)
Property allowances	**168**	153
Retirement benefit asset and liabilities	**174**	97
Share-based payments	**(307)**	(292)
Deferred tax asset	**(1 291)**	(1 328)
Assessed losses	**(341)**	(396)
Fair value adjustments on financial instruments	**(12)**	(43)
Impairment of loans and advances	**(360)**	(704)
Lease and rental debtor allowances	**8**	(8)
Other provisions[1]	**(447)**	(514)
Other differences[1]	**(135)**	343
Retirement benefit assets	**—**	7
Share-based payments	**(4)**	(13)
Net deferred tax liability/(asset)	**(734)**	(143)

16.3 *Future tax relief*

The Group has estimated tax losses of **R1 939m** (2016: R2 444m) which are available for set-off against future taxable income. Deferred tax assets of **R338m** (2016: R396m) relating to tax losses carried forward were recognised.

The assessed losses in Barclays Bank of Mozambique expire after 5 years of origination. The Group has unrecognised losses of **R734m** (2016: R1 024m).

	Group 2017 Rm	Group 2016 Rm
17. Deposits from banks		
Call deposits	**9 592**	4 874
Fixed deposits	**15 722**	9 895
Foreign currency deposits	**9 675**	15 772
Notice deposits	**1 031**	625
Other	**6 179**	2 916
Repurchase agreements	**25 191**	19 110
	67 390	53 192

Note

[1] In the prior reporting period the deferred tax on 'other provisions' was disclosed under 'other differences' total previously disclosed R171m. This amount has been disaggregated in the current reporting period and comparatives have been restated accordingly.

18. Trading and hedging portfolio liabilities

	Group 2017 Rm	Group 2016 Rm
Derivative liabilities (refer to note 59.4)	**52 101**	40 920
Commodity derivatives	**1 293**	819
Credit derivatives	**158**	238
Equity derivatives	**2 396**	1 366
Foreign exchange derivatives	**14 878**	14 173
Interest rate derivatives	**33 376**	24 324
Short positions	**11 946**	6 509
Total trading portfolio liabilities	**64 047**	47 429
Hedging portfolio liabilities (refer to note 59.6)	**1 123**	2 064
	65 170	49 493

19. Other liabilities

	Group 2017 Rm	Group 2016 Rm
Accruals	**2 643**	2 558
Audit fee accrual	**70**	106
Creditors	**13 326**	12 315
Deferred income	**469**	555
Retirement benefit funds and post-retirement medical plan obligations (refer to note 44)	**401**	442
Settlement balances	**14 512**	11 332
Share-based payment liability (refer to note 56)	**323**	388
	31 744	27 696

	Group 2017 Staff bonuses and incentive provisions Rm	Group 2017 Sundry provisions Rm	Group 2017 Total Rm
20. Provisions			
Balance at the beginning of the reporting period	1 887	1 118	3 005
Additions	1 394	471	1 865
Amounts used	(1 193)	(594)	(1 787)
Reversals	(34)	(8)	(42)
Balance at the end of the reporting period	2 054	987	3 041

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R2 514m** (2016: R2 341m). Sundry provisions include amounts with respect to fraud cases, litigation and insurance claims.

	Group 2017 Rm	Group 2016 Rm
21. Deposits due to customers		
Call deposits	81 076	62 426
Cheque account deposits	191 325	200 541
Credit card deposits	1 921	1 906
Fixed deposits	163 813	166 148
Foreign currency deposits	28 418	24 825
Notice deposits	58 460	59 358
Other	2 756	3 313
Repurchase agreements	5 000	3 970
Savings and transmission deposits	157 098	152 378
	689 867	674 865

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

	Group 2017 Rm	Group 2016 Rm
22. Debt securities in issue		
Commercial paper	227	1 166
Credit linked notes	8 375	10 295
Floating rate notes	63 125	60 441
Negotiable certificates of deposit	37 137	43 094
Other	1 132	706
Promissory notes	783	1 171
Senior notes	26 912	22 507
Structured notes and bonds	257	334
	137 948	139 714

	Group 2017 Rm	Group 2016 Rm
23. Liabilities under investment contracts		
Balance at the beginning of the reporting period	**29 198**	24 209
Change in investments contracts (refer to note 34)	**1 976**	359
Inflows on investment contracts	**2 435**	7 796
Policyholder benefits on investment contracts	**(3 098)**	(2 997)
Linked investment policies	**74**	(169)
Balance at the end of the reporting period	**30 585**	29 198

	Group 2017 Total assets linked to investment contracts Rm	Intercompany eliminations[1] Rm	Net assets attributable to external policyholders Rm
23.1 Assets linked to investment contracts			
Deferred taxation	**222**	**—**	**222**
Money market assets (refer to note 2)	**1 898**	**—**	**1 898**
Investments linked to investment contracts (refer to note 11)	**28 527**	**(9 591)**	**18 936**
Other assets	**3**	**—**	**3**
Other liabilities	**(6)**	**—**	**(6)**
	30 644	**(9 591)**	**21 053**

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

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

	Group 2017 Gross Rm	Reinsurance Rm	Net Rm
24. Policyholder liabilities under insurance contracts			
Short-term insurance contracts:			
Claims outstanding (refer to note 24.1)	1 163	(601)	562
Claims reported and loss adjustment expense	860	(562)	298
Claims incurred but not reported	303	(39)	264
Unearned premiums at the end of the reporting period	895	(177)	718
Balance at the beginning of the reporting period	986	(213)	773
Foreign exchange movement	(29)	6	(23)
Increase during the reporting period	953	(38)	915
Release during the reporting period	(1 015)	68	(947)
	2 058	(778)	1 280
Long-term insurance contracts (refer to note 24.2)	2 559	(114)	2 445
	4 617	(892)	3 725

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

	Group 2017 Rm	2016 Rm
Comprising:		
Unit-linked insurance contracts	1 434	1 427
Gross	1 466	1 427
Reinsurance (refer to note 10)	(32)	—
Non unit-linked insurance contracts	2 291	2 057
Gross	3 151	3 042
Reinsurance (refer to note 10)	(860)	(985)
	3 725	3 484

24. Policyholder liabilities under insurance contracts (continued)

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

	Group 2017 Gross Rm	Group 2017 Reinsurance Rm	Group 2017 Net Rm
Balance at the beginning of the reporting period	**1 077**	**(679)**	**398**
Foreign exchange movements	**(35)**	**10**	**(25)**
Cash paid for claims settled during the reporting period	**(2 159)**	**209**	**(1 950)**
Increase in claims arising from the current reporting period's claims outstanding	**1 278**	**(76)**	**1 202**
Increase in claims arising from the previous reporting period's claims outstanding	**1 002**	**(65)**	**937**
Balance at the end of the reporting period (refer to note 24)	**1 163**	**(601)**	**562**

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

24.2 Reconciliation of gross long-term insurance contracts

	Group 2017 Rm	Group 2016 Rm
Balance at the beginning of the reporting period	**2 406**	2 244
Change in reinsurance assets	**21**	(69)
Foreign exchange movements	**(4)**	(8)
Movement on expected claims experience	**(1)**	105
Change in insurance contract liabilities (refer to note 34)	**137**	134
Change in economic assumptions	**(9)**	(21)
Change in methodology	**21**	36
Changes in non-economic assumptions	**4**	47
Expected cash flow	**1 366**	1 109
Expected release of margins	**(1 173)**	(1 219)
Experience variances	**(161)**	2
Change in liabilities valued on a retrospective basis	**—**	(84)
New business	**76**	198
Unwind of discount rate	**13**	66
Balance at the end of the reporting period (refer to note 24)	**2 559**	2 406
Recoverable from reinsurers (refer to note 10)	**114**	93
Net liabilities	**2 445**	2 313
Unit-linked liabilities	**1 434**	1 427
Non-linked liabilities	**1 011**	886
	2 559	2 406

25. Borrowed funds

			Group 2017 Rm	Group 2016 Rm
Subordinated callable notes issued by Absa Bank Limited				
The following subordinated debt instruments qualify as Tier 2 capital in terms of Basel III.				
Interest rate	**Final maturity date**	**Note**		
8,295%	21 November 2023	i	**1 188**	1 188
10,28%	3 May 2022	ii	**—**	600
Three-month Johannesburg Interbank Agreed Rate (JIBAR) +2,10%	3 May 2022	iii	**—**	400
Three-month JIBAR + 1,95%	21 November 2022	iv	**—**	1 805
Three-month JIBAR + 2,05%	21 November 2023	v	**2 007**	2 007
Consumer Price Index (CPI) linked notes, fixed at the following coupon rates: 5,50%	7 December 2028	vi	**1 500**	1 500
Subordinated callable notes issued by Barclays Africa Group Limited				
10,05%	5 February 2025	vii	**807**	807
10,835%	19 November 2024	viii	**130**	130
11,365%	4 September 2025	ix	**508**	508
11,40%	29 September 2025	x	**288**	288
11,74%	20 August 2026	xi	**140**	140
11,81%	3 September 2027	xii	**737**	737
12,43%	5 May 2026	xiii	**200**	200
Three-month Johannesburg Interbank Agreed Rate (JIBAR)				
Three-month JIBAR +3,30%	19 November 2024	xiv	**370**	370
Three-month JIBAR +3,50%	5 February 2025	xv	**1 693**	1 693
Three-month JIBAR +3,50%	4 September 2025	xvi	**437**	437
Three-month JIBAR +3,60%	3 September 2027	xvii	**30**	30
Three-month JIBAR +4,00%	5 May 2026	xviii	**31**	31
Three-month JIBAR +4,00%	20 August 2026	xix	**1 510**	1 510
Three-month JIBAR +4,00%	3 November 2026	xx	**500**	500
Three-month JIBAR +3,78%	17 March 2027	xxi	**642**	—
Three-month JIBAR +3,85%	25 May 2027	xxii	**500**	—
Three-month JIBAR +3,85%	14 August 2029	xxiii	**390**	—
Three-month JIBAR +3,15%	30 September 2027	xxiv	**295**	—
Three-month JIBAR +3,45%	29 September 2029	xxv	**1 014**	—
Subordinated callable notes issued by other subsidiaries				
National Bank of Commerce 16,44% fixed rate note	29 January 2024	xxvi	**29**	31
Accrued interest			**918**	805
Fair value adjustments on total subordinated debt			**31**	(44)
			15 895	15 673

Included in interest paid on the statement of cash flows is **R1 574m** (2016 R1 426m) interest on borrowed funds.

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

ii. The 10,28% fixed rate notes were redeemed in full on 3 May 2017. Interest was paid semi-annually in arrears on 3 May and 3 November of each year.

iii. The three-month JIBAR plus 2,10% floating rate notes were redeemed in full on 3 May 2017. Interest was paid quarterly on 3 August, 3 November, 3 February and 3 May of each year

iv. The three-month JIBAR plus 1,95% floating rate notes were redeemed in full on 21 November 2017. Interest is paid quarterly in arrears on 21 February, 21 May, 21 August and 21 November of each year

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

25. Borrowed funds (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

xxi. The three month JIBAR plus 3,78% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 17 March 2022. Interest is paid quarterly in arrears on 17 March, 17 June, 17 September, 17 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 17 March 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xxii. The three month JIBAR plus 3,85% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 25 May 2022. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August, 25 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 25 May 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xxiii. The three month JIBAR plus 3,85% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 14 August 2024. Interest is paid quarterly in arrears on 14 February, 14 May, 14 August, 14 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 14 August 2024. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xxiv. The three month JIBAR plus 3,15% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 30 September 2022. Interest is paid quarterly in arrears on 30 March, 30 June, 30 September, 30 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 30 September 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xxv. The three month JIBAR plus 3,45% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 29 September 2024. Interest is paid quarterly in arrears on 29 March, 29 June, 29 September, 29 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 29 September 2024. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

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

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

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

26. Share capital and premium

26.1 *Ordinary share capital*

	Group 2017 Rm	Group 2016 Rm
Authorised		
880 467 500 (2016: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
847 750 679 (2016: 847 750 679) ordinary shares of R2,00 each	**1 696**	1 696
14 912 864 (2016: 1 075 595) treasury shares held by Group entities	**(30)**	(3)
	1 666	1 693
Total issued capital		
Share capital	**1 666**	1 693
Share premium	**10 498**	4 467
	12 164	6 160

Authorised shares

There were no changes to the authorised share capital during the current reporting period. All issued share capital is fully paid up.

Unissued shares

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

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

Shares issued during the year under review

There were no shares issued during the current reporting period.

Shares issued during the prior year

There were no shares issued during the previous reporting period.

Treasury shares

As part of the separation, Barclays Plc contributed cash of R1 891m to be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure. The cash was contributed to the independent Absa Empowerment Trust, whose subsidiary purchased 12 716 260 (1,5%) BAGL shares. In terms of the requirements of IFRS, these shares have been accounted for as treasury shares in 2017 and eliminated against Group's share capital. Refer to note 49.6

26. Share capital and premium

26.2 Directors' interests in the Company's Ordinary shares of R2,00 each

	Direct number of shares Beneficial		Indirect number of shares Beneficial		Total direct and indirect number of shares Beneficial	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm	**2017 Rm**	2016 Rm
Present directors						
C Beggs	**2 000**	2 000	**—**	—	**2 000**	2 000
Y Z Cuba	**1 000**	1 000	**—**	—	**1 000**	1 000
MP Fandeso	**250**	—	**—**	—	**250**	—
D W P Hodnett	**60 662**	75 834	**—**	—	**60 662**	75 834
M J Husain	**1 000**	1 000	**—**	—	**1 000**	1 000
W E Lucas-Bull	**1 000**	1 000	**4 625**	4 625	**5 625**	5 625
PB Matlare	**2 887**	—	**—**	—	**2 887**	—
T S Munday	**1 000**	1 000	**2 000**	2 000	**3 000**	3 000
J P Quinn	**11 436**	6 146	**—**	—	**11 436**	6 146
M Ramos	**188 686**	110 237	**—**	—	**188 686**	110 237
	269 921	198 217	**6 625**	6 625	**276 546**	204 842

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.

27. Other reserves

27.1 General credit risk reserve

The general credit risk reserve consists of the following:

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

27.2 Available-for-sale reserve

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

27.3 Cash flow hedging reserve

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

27.4 Foreign currency translation reserve

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

27.5 Insurance contingency reserve

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

27.6 Foreign insurance subsidiary regulatory reserve

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

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

27. Other reserves (continued)

27.7 *Share-based payment reserve*

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

27.8 *Associates' and joint ventures' reserve*

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

27.9 *Retained earnings*

The retained earnings comprises of the cumulative total comprehensive income recognised from inception (reduced by any amounts transferred to as separate reserve), reduced by dividends paid to date and any total comprehensive income relating to disposed subsidiaries and includes changes in OCI with respect to the following:

- movement in the fair value of equity instruments measured at available-for-sale;
- movement in the fair value attributable to own credit risk on liabilities designated at FVTPL;
- movement in the actuarial valuation of retirement benefit fund assets and liabilities; and
- direct shareholder contributions.

	Group 2017 Rm	Group 2016 Rm
28. Non-controlling interest – preference shares		
28.1 *Preference shares*		
Authorised		
30 000 000 (2016: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2016: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

The only subsidiary that gives rise to a significant non-controlling interest is Absa Bank Limited. 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 70% of the prime overdraft lending rate. The holders of the preference shares shall not be entitled to voting rights unless a declared preference dividend remains in arrears and unpaid after six months from the due date thereof, or if a resolution is proposed by Absa Bank Limited which directly affects the rights attached to the preference shares or the interest of the shareholders. Payment of dividends and principal is at the discretion of the Group. The shareholders only have rights to the share capital and share premium linked to the shares, in the event of insolvency, and to any dividend that is declared, but unpaid.

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

		Group 2017 Rm	Group 2016 Rm
28.2 *Additional Tier 1 Capital*			
Subordinated Callable notes issued by Barclays Africa Group Limited			
Interest rate	**Date of issue**		
Three month JIBAR + 5,65%	11 September 2017	**1 500**	—

The Additional Tier 1 Capital notes represent perpetual, subordinated instruments redeemable in full at the option of Barclays Africa Group Limited (the issuer) on 12 September 2022 subject to regulatory approval. Interest is paid at the discretion of the issuer and is non-cumulative. In addition, if certain conditions are reached, the regulator may prohibit the issuer from making interest payments. Accordingly, the instruments are classified as equity instruments.

29. Interest and similar income

	Group 2017 Rm	Group 2016[1] Rm
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	17	11
Fair value adjustments on hedging instruments	428	(1 936)
Investment securities	9 270	10 421
Loans and advances to banks	1 928	1 793
Loans and advances to customers	74 286	73 658
Corporate overdrafts and specialised finance loans	756	801
Credit cards	6 331	6 715
Foreign currency loans	1 075	930
Instalment credit agreements	8 255	8 046
Interest on impaired financial assets (refer to note 9)	713	699
Loans to associates and joint ventures	1 800	1 479
Microloans	1 102	1 019
Mortgages	25 757	25 424
Other advances	1 122	1 396
Overdrafts	4 381	4 343
Overnight finance	2 230	1 350
Personal and term loans	12 184	13 318
Preference shares	1 313	1 271
Wholesale overdrafts	7 267	6 867
Other interest	—	1 167
	85 929	85 114
Classification of interest and similar income		
Fair value adjustments on amortised cost and available-for-sale financial assets held in a fair value hedging relationship	(213)	1 340
Investment securities	(213)	1 736
Loans and advances to customers	—	(396)
Fair value adjustments on hedging instruments	534	(1 750)
Cash flow hedges (refer to note 59.7)	264	268
Economic hedges	270	153
Fair value hedges	—	(2 171)
Interest on financial assets held at amortised cost	78 727	83 003
Interest on financial assets held as available-for-sale financial assets	5 757	4 101
Interest on financial assets designated at fair value through profit or loss	1 124	(1 580)
Cash, cash balances and balances with central banks	11	5
Fair value hedging instruments (refer to note 59.8)	(107)	(186)
Investment securities	644	1 045
Loans and advances to customers	576	(2 444)
	85 929	85 114

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

Other interest in the prior year included interest income on defined benefit plan assets. In the current reporting period, interest on the Group's defined benefit plans was reallocated from 'Other interest' to 'Operating expenses'. This is a prospective change to more appropriately reflect the economic substance of the item.

Note

[1] Product level interest allocations have been restated to better reflect the commercial nature of products. The restatement increased interest income allocated to Investment securities (R249m). This increase was offset by restatements which decreased interest income for Cash, cash balances and balances with central banks (R2m), Loans and advances to banks (R1m), Credit cards of (R6m), Instalment credit agreements of R7m, Loans to associates and joint ventures (R2m), Microloans (R1m), Mortgages (R17m), Other advances (R1m), Overdrafts (R4m), Personal and term loans of (R12m) and Other interest of (R196m).

30. Interest expense and similar charges

	Group 2017 Rm	2016[1] Rm
Interest expense and similar charges are paid on:		
Borrowed funds	1 762	1 745
Debt securities in issue	10 650	10 637
Deposits due to customers	29 835	28 373
Call deposits	5 422	5 045
Cheque account deposits	3 311	4 047
Credit card deposits	9	7
Fixed deposits	9 457	7 723
Foreign currency deposits	184	19
Notice deposits	4 268	3 987
Other deposits due to customers	977	1 472
Savings and transmission deposits	6 207	6 073
Deposits from banks	1 170	2 122
Call deposits	627	371
Fixed deposits	431	1 796
Other	112	(45)
Fair value adjustments on hedging instruments	(132)	(889)
Other	—	1 123
	43 285	43 111
Classification of interest expense and similar charges		
Fair value adjustments on amortised cost items instruments in a fair value hedging relationship	—	866
Borrowed funds	—	171
Debt securities in issue	—	695
Fair value adjustments on hedging instruments	(92)	(856)
Cash flow hedges (refer to note 59.7)	(70)	8
Fair value hedges	(22)	(864)
Interest on financial liabilities designated at fair value through profit or loss	50	8
Borrowed funds	90	42
Fair value hedging instruments (refer to note 59.8)	(40)	(34)
Interest on financial liabilities held at amortised cost	43 327	43 093
	43 285	43 111

Other interest and similar charges in the prior reporting period included interest expense on the defined benefit obligation. In the current reporting period, interest on the Group's defined benefit plans was reallocated from 'Other interest' to 'Operating expenses'. This is a prospective change to more appropriately reflect the economic substance of the item.

Note

[1] Product level interest allocations have been restated to better reflect the commercial nature of products. The restatement increased interest expense allocated to Borrowed Funds (R70m), Fair value adjustments on hedging instruments (R1m) and Other Interest (R506m). These increases were offset by restatements which decreased interest expense for Debt Securities in Issue (R126m), Call Deposits (R81m), Cheque account deposits (R61m), Fixed deposits (R142m), Notice deposits (R60m), Other deposits due to customers (R22m) and Savings and transmission deposits (R85m).

	Group 2017 Rm	Group 2016 Rm
31. Net fee and commission income		
Asset management and other related fees	**140**	169
Consulting and administration fees	**708**	743
Credit-related fees and commissions	**18 462**	17 938
Cheque accounts	**4 943**	4 334
Credit cards	**2 624**	2 609
Electronic banking	**5 185**	5 012
Other	**3 648**	3 699
Savings accounts	**2 062**	2 284
Insurance commission received	**966**	1 128
Asset management, markets execution and investment banking fees	**568**	400
Merchant income	**1 890**	1 757
Other fee and commission income	**557**	393
Trust and other fiduciary service fees	**1 433**	1 444
Portfolio and other management fees	**1 121**	1 147
Trust and estate income	**312**	297
Fee and commission income	**24 724**	23 972
Fee and commission expense	**(3 013)**	(3 249)
Brokerage fees	**(99)**	(142)
Cheque processing fees	**(125)**	(134)
Clearing and settlement charges	**(645)**	(711)
Notification fees	**(198)**	(202)
Insurance commission paid	**(1 065)**	(1 150)
Other	**(806)**	(797)
Valuation fees	**(75)**	(113)
	21 711	20 723

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 2017 Rm	Group 2016 Rm
31.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	**4 943**	4 334
Credit cards	**2 624**	2 609
Electronic banking	**5 185**	5 012
Other	**3 648**	3 699
Savings accounts	**2 062**	2 284
Fee and commission income	**18 462**	17 938
Fee and commission expense	**(1 690)**	(1 709)
	16 772	16 229

Credit cards include acquiring and issuing fees.

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

32. Net insurance premium income

	Group 2017 Rm	Group 2016 Rm
Gross insurance premiums	7 560	8 102
Life insurance contracts	4 048	3 733
Short-term insurance contracts	3 512	4 369
Premiums ceded to reinsurers	(962)	(1 116)
Reinsurance on life insurance contracts	(419)	(321)
Reinsurance on short-term insurance contracts	(543)	(795)
	6 598	6 986
Comprising (net of reinsurance)		
Life	3 629	3 412
Credit life	1 612	1 550
Funeral business	792	670
Home mortgage protection	634	630
Other	591	562
Short-term	2 969	3 574
Commercial business	86	619
Personal business	2 883	2 955
	6 598	6 986

33. Net claims and benefits incurred on insurance contracts

	Group 2017 Rm	Group 2016 Rm
Gross claims and benefits incurred on insurance contracts	3 994	4 387
Life insurance claims and benefits	1 445	1 207
Short-term insurance claims and benefits	2 549	3 180
Reinsurance recoveries	(660)	(696)
Reinsurance recoveries on life insurance contracts	(239)	(129)
Reinsurance recoveries on short-term insurance contracts	(421)	(567)
	3 334	3 691
Comprising (net of reinsurance)		
Life	1 206	1 078
Credit life	277	321
Funeral business	213	178
Home mortgage protection	442	380
Other	274	199
Short-term	2 128	2 613
Commercial business	139	997
Personal business	1 989	1 616
	3 334	3 691

	Group 2017 Rm	Group 2016 Rm
34. Changes in investment and insurance contract liabilities		
Change in insurance contract liabilities (refer to note 24.2)	**137**	134
Change in investment contract liabilities (refer to note 23)	**1 976**	359
	2 113	493

	Group 2017 Rm	Group 2016 Rm
35. Gains and losses from banking and trading activities		
Net gains on investments	**228**	237
Debt instruments designated at fair value through profit or loss	**191**	225
Equity instruments designated at fair value through profit or loss	**104**	9
Available-for-sale unwind from reserves	**(67)**	3
Net trading result	**4 807**	5 341
Net trading income excluding the impact of hedge accounting	**4 855**	5 431
Ineffective portion of hedges	**(48)**	(90)
Cash flow hedges	**17**	(53)
Fair value hedges	**(65)**	(37)
Other gains	**211**	113
	5 246	5 691
Net trading result and other gains on financial instruments		
Net trading income excluding the impact of hedge accounting	**4 855**	5 431
(Losses)/gains on financial instruments designated at fair value through profit or loss	**(2 559)**	(3 423)
Net losses on financial assets designated at fair value through profit or loss	**(33)**	(767)
Net (losses)/gains on financial liabilities designated at fair value through profit or loss	**(2 526)**	(2 656)
Gains/(losses) on financial instruments held for trading	**7 414**	8 854
Other gains	**211**	113
Gains on financial instruments designated at fair value through profit or loss	**9**	61
Gains on financial instruments held for trading	**202**	52

36. Gains and losses from investment activities

	Group 2017 Rm	Group 2016 Rm
Net gains on investments activities	**1 863**	47
Policyholder insurance contracts	**293**	201
Policyholder investment contracts	**1 144**	(445)
Shareholder funds	**426**	291
Other gains	**42**	4
	1 905	51
Classification of gains from investment activities		
Gains on financial instruments designated at fair value through profit or loss	**1 878**	41
Other	**(15)**	6
	1 863	47

37. Other operating income

	Group 2017 Rm	Group 2016 Rm
Foreign exchange differences, including amounts recycled from other comprehensive income	**(88)**	360
Income from investment properties	**182**	242
Change in fair value (refer to note 7 and 13)	**105**	84
Rentals	**77**	158
Income from maintenance contracts	**45**	36
Profit on sale of investment property	**5**	—
Profit on sale of property and equipment	**18**	9
Profit on disposal of developed properties	**38**	17
Gross sales	**70**	47
Cost of sales	**(32)**	(30)
Profit/(Loss) on sale of repossessed properties	**16**	(25)
Gross sales	**98**	23
Cost of sales	**(82)**	(48)
Rental income	**33**	76
Sundry income	**399**	409
	648	1 124

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

	Group	
	2017 Rm	2016 Rm

38. Operating expenses

	2017 Rm	2016 Rm
Administration fees	**1 149**	722
Amortisation of intangible assets (refer to note 15)	**650**	641
Auditors' remuneration	**277**	319
Audit fees – current reporting period	**250**	222
Audit fees – under provision	**5**	15
Audit-related fees	**19**	44
Other services	**3**	38
Cash transportation	**1 089**	963
Depreciation (refer to note 14)	**1 988**	1 670
Equipment costs	**444**	461
Rentals	**113**	95
Maintenance	**331**	366
Information technology	**3 188**	3 131
Marketing costs	**1 793**	1 585
Operating lease expenses on properties	**1 606**	1 665
Other	**2 098**	1 737
Printing and stationery	**367**	405
Professional fees	**2 311**	1 742
Property costs	**1 753**	1 718
Staff costs	**23 558**	22 090
Bonuses	**2 154**	1 902
Other	**1 198**	1 179
Salaries and current service costs on post-retirement benefit funds	**18 887**	17 878
Deferred cash and share-based payments (refer to note 56)	**829**	755
Training costs	**490**	376
Telephone and postage	**1 033**	1 107
	43 304	39 956

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

Professional fees include research and development costs totalling **R468m** (2016: R286m).

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

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

	Group 2017 Rm	Group 2016 Rm
39. Other impairments		
Impairment/(Reversal) raised on financial instruments	5	(4)
Other	643	694
Goodwill (refer to note 15)	38	34
Intangible assets (refer to note 15)	384	618
Investments in associates and joint ventures (refer to note 12)	—	42
Property and equipment (refer to note 14)	221	—
	648	690

	Group 2017 Rm	Group 2016 Rm
40. Indirect taxation		
Training levy	191	193
VAT net of input credits	1 431	1 237
	1 622	1 430

	Group 2017 Rm	Group 2016 Rm
41. Taxation expense		
Current		
Foreign and other taxation	321	267
Current tax	6 311	5 623
Current tax – previous reporting period	132	26
	6 764	5 916
Deferred		
Deferred tax (refer to note 16.1)	(907)	(81)
Capital allowances[1]	135	471
Allowances for loan losses	(101)	(174)
Other provisions	(23)	(457)
Other temporary differences[1,2,3]	(456)	(282)
Assessed losses[3]	62	94
Fair value and similar adjustments through profit and loss[2]	(266)	188
Fair value and similar adjustments in relation to prior year[2]	(255)	219
Share Base payments[3]	16	(89)
Recognition of previously unrecognised tax losses[3]	(7)	(198)
Retirement benefit fund liability	(13)	147
	5 857	5 835

Notes

1 Accelerated tax depreciation' amounting to R188m in the previous reporting period has been renamed as 'Capital allowances'. In addition to this the 'Capital allowances' of R283m previously included in 'Other temporary differences' have also been added to the R188m, resulting in the total movement of deferred tax in relation to 'Capital allowances' of R471m.

2 'Fair value adjustments on financial instruments' of R419m in 2016 has been reclassified as 'Fair value and similar adjustments through profit and loss' and 'Fair value and similar adjustments in relation to prior year', with the balance of R12m being recognised in 'Other temporary differences'.

3 The following amounts have been reclassified from 'Other temporary differences' to provide more granular disclosures in relation to temporary differences: 'Share based payment' of -R89m, 'Recognition of previously unrecognised tax losses' of -R198m and 'Assessed losses of R94m.

41. Taxation expense

Reconciliation between operating profit before income tax and the taxation expense

	Group 2017 Rm	Group 2016 Rm
Operating profit before income tax	**20 879**	21 682
Share of post-tax results of associates and joint ventures (refer to note 12)	**(170)**	(115)
	20 709	21 567
Tax calculated at a tax rate of 28%	**5 799**	6 039
Effect of different tax rates in other countries	**25**	64
Expenses not deductible for tax purposes	**904**	505
Recognition of previously unrecognised deferred tax assets	**(7)**	(198)
Income not subject to tax	**(857)**	(784)
Other	**(41)**	37
Non-taxable portion of capital gain	**34**	172
	5 857	5 835

	Group 2016 Rm	Group 2015 Rm
42. Earnings per share		
42.1 Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders, by the weighted average number of ordinary shares in issue during the reporting period		
Basic earnings attributable to ordinary equity holders	**13 823**	14 708
Weighted average number of ordinary shares in issue (millions)	**833,7**	833,8
Issued shares at the beginning and end of the reporting period	**847,8**	847,8
Treasury shares held by Group entities (weighted)	**(14,1)**	(14,0)
Basic earnings per share (cents)	**1 657,8**	1 764,0
42.2 Diluted earnings per share		
Diluted earnings are determined by adjusting profit or loss attributable to the ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares		
Diluted earnings attributable to ordinary equity holders	**13 823**	14 708
Diluted weighted average number of ordinary shares in issue (millions)	**833,8**	833,9
Weighted average number of ordinary shares in issue	**833,7**	833,8
Adjustments for share options issued at no value	**0,1**	0,1
Diluted earnings per share (cents)	**1 657,6**	1 763,8

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

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

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

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

IAS 33 Earnings Per Share prescribes that the weighted average number of shares outstanding during a reporting period, and for all periods presented, should be adjusted for events that change the number of ordinary shares outstanding without a corresponding change in resources. The contribution of cash by Barclays Plc and acquisition of BAGL shares by a subsidiary of the independent ABSA Empowerment Trust did not result in an adjustment to the net asset value of the Group. Refer to note 49.6. The weighted average number of shares outstanding in 2016 has been restated to reflect the acquisition from Barclays Plc of 12 716 260 (1,5%) BAGL shares in the current reporting period. The acquisition of shares from Barclays Plc has been treated as treasury shares of the Group from the beginning of 2016, which has led to a reduction in the number of ordinary shares outstanding for the purposes of determining the weighted average number of shares in the Earnings per share, Diluted Earnings per share, Headline earnings per share and Diluted headline earnings per share.

Note

[1] As a result of the acquisition from Barclays Plc of 12 716 260 (1,5%) BAGL shares in the current reporting period, this has resulted in the restatement of treasury shares for 2016 which has an impact in the calculation of the Earnings per share and Diluted earnings per share.

	Group			
	2017		2016	
	Gross Rm	Net Rm	Gross Rm	Net Rm
43. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Group		13 823		14 708
Total headline earnings adjustment:		490		272
IAS 36 – Goodwill impairment (refer to note 39)	38	38	34	34
IFRS 5 – Loss/(gain) on disposal of non-current assets held for sale	36	39	(31)	(25)
IAS 16 – Profit on disposal of property and equipment	(43)	(34)	(29)	(21)
IAS 21 – Recycled foreign currency translation reserve	52	52	(320)	(297)
IAS 28 – Impairment of investments in associates and joint ventures (refer to note 39)	—	—	42	34
IAS 36 – Impairment of property and equipment (refer to note 39)	221	159	—	—
IAS 36 – Impairment of intangible assets (refer to note 39)	384	280	618	610
IAS 39 – Release of available-for-sale reserves (refer to note 35)	67	49	(3)	(2)
IAS 40 – Change in fair value of investment properties	(105)	(88)	(70)	(61)
IAS 40 – Profit on sale of investment property	(5)	(5)	—	—
		14 313		14 980
Headline earnings per ordinary share (cents)[1]		1 716,7		1 796,6
Diluted headline earnings per ordinary share (cents)[1]		1 716,5		1 796,4

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

	Group	
	2017 Rm	2016 Rm
44. Retirement benefit obligations		
Surplus disclosed in 'Other assets'		
Absa Pension Fund defined benefit plan (refer to notes 6 and 44.1.1)	466	466
Other defined benefit plans of subsidiaries (refer to notes 6 and 44.2.1)	8	87
	474	553
Obligations disclosed in 'Other liabilities'		
Subsidiaries' post-retirement medical aid plans (refer to notes 19 and 44.3)	169	198
Other defined benefit plans of subsidiaries (refer to notes 19 and 44.2.1)	232	244
	401	442
Statement of comprehensive income charge included in staff costs and interest expense		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 44.1.6)	(9)	(15)
Other defined benefit plans of subsidiaries in a deficit position (refer to note 44.2.6)	29	71
Other defined benefit plans of subsidiaries in a surplus position (refer to note 44.2.6)	(7)	(21)
Subsidiaries' post-retirement medical aid plans	34	(11)
	47	24
Recognised in other comprehensive income		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 44.1.6)	10	17
Other defined benefit plans of subsidiaries in a deficit position (refer to note 44.2.6)	(19)	70
Other defined benefit plans of subsidiaries in a surplus position (refer to note 44.2.6)	81	119
Subsidiaries' post-retirement medical aid plans	(26)	55
	46	261

Note
[1] The comparatives have been restated, refer to Note 42.

44. Retirement benefit fund obligations *(continued)*

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

44.1 The Absa Pension Fund

The Absa Pension Fund (the Fund) is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of the Fund be carried out at least once every three years. The most recent statutory valuation of the Fund was effected on 31 March 2017 and confirmed that the Fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 (the PF Act).

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

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

Members who joined the fund before 1 July 2015 have the choice to receive either a conventional annuity or a living from the Fund or to purchase a pension from a registered insurer. Members who joined the Fund on or after 1 July 2015 have the choice to receive a living annuity from the Fund or to purchase a pension from a registered insurer.

Should a retiree who joined prior to 1 July 2015 elect a conventional annuity, the Group is thereafter exposed to longevity and other actuarial risk. The conventional annuity is calculated based on the defined contribution plan assets at the retirement date. The Group is therefore not exposed to any asset return risk prior to the election of this option i.e. the retirement date. The classification rules within IAS 19 require that, where the employer is exposed to any actuarial risk, the entire fund be classified as a defined benefit plan. The valuation of the option is included in the defined benefit obligation. The assets and liabilities of the defined contribution active members are separately presented. Pensioners who have elected to receive a living annuity as well as members who joined the fund on /after 1 July 2015 have been excluded from the IAS 19 disclosures as the employer is not exposed to any longevity or other actuarial risk in respect of these members. Net defined benefit assets relating to these pensioners that have elected to receive a living annuity, amount to **R3 584m** (2016: R3 539,5m).

	Group Absa Pension Fund	
	2017	2016
Categories of The Fund		
Defined benefit active members	**18**	20
Defined benefit deferred pensioners	**2**	3
Defined benefit pensioners	**8 401**	8 427
Defined contribution active members	**26 044**	28 896
Defined contribution pensioners	**2 779**	2 735
Duration of the scheme – defined benefit (years)	**9,3**	9,6
Duration of the scheme – defined contribution (years)	**22,3**	23,3
Duration of the scheme – defined contribution option (years)	**15,2**	16,1
Expected contributions to the Fund for the next 12 months (Rm)	**1 463,2**	1 497,6

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

While the Fund as a whole has been classified as a defined benefit fund for IAS 19 purposes, the defined contribution portion provides its members with an asset-based return. The Group has measured the liability for the defined contribution portion of the Fund at the fair value of the assets upon which the benefits are based.

The Fund is financed by employer and employee contributions and investment income. Employer contributions in respect of the defined benefit portion are based on actuarial advice. The expense or income recorded in profit or loss includes the current service cost, interest income on plan assets as well as interest expense on the defined benefit obligation and the irrecoverable surplus. It is the Group's policy to ensure that the Fund is adequately funded to provide for the benefits due to members, and particularly to ensure that any shortfall with regard to the defined benefit portion will be met by way of additional contributions.

The Fund investments are managed on a Liability Driven Investment (LDI) mandate. The primary objective of the portfolio managed for the defined benefit section of the Fund to achieve is a net real return of 4,5% per annum, measured over rolling 36-month periods.

44. Retirement benefit fund obligations *(continued)*
44.1 Absa Pension Fund (continued)
44.1.1 Reconciliation of the net defined benefit plan surplus

	Group 2017 Rm	Group 2016 Rm
Reconciliation of the net surplus		
Present value of funded obligations	(27 265)	(25 037)
Defined benefit portion	(7 335)	(7 491)
Defined contribution portion	(19 930)	(17 546)
Fair value of the plan assets	29 766	27 102
Defined benefit portion	9 836	9 556
Defined contribution portion	19 930	17 546
Funded status	2 501	2 065
Irrecoverable surplus (effect of asset ceiling)	(2 035)	(1 599)
Net surplus arising from the defined benefit obligation	466	466

44.1.2 Reconciliation of movement in the funded obligation

	Group 2017 Rm	Group 2016 Rm
Balance at the beginning of the reporting period	(25 037)	(24 398)
Defined benefit portion	(7 491)	(7 390)
Defined contribution portion	(17 546)	(17 008)
Reconciling items – defined benefit portion	156	(101)
Actuarial gains – financial	582	97
Actuarial (losses)/gains – experience adjustments	(85)	178
Benefits paid	674	648
Current service costs	(32)	(30)
Interest expense	(666)	(729)
Defined contribution member transfers	(317)	(265)
Reconciling items – defined contribution portion	(2 384)	(538)
Increase in obligation linked to plan assets return	(3 228)	(1 299)
Employer contributions	(882)	(866)
Employee contributions	(597)	(587)
Disbursements and member transfers	2 323	2 214
Balance at the end of the reporting period	(27 265)	(25 037)

44.1.3 Reconciliation of movement in the plan assets

	Group 2017 Rm	Group 2016 Rm
Balance at the beginning of the reporting period	27 102	26 341
Defined benefit portion	9 556	9 333
Defined contribution portion	17 546	17 008
Reconciling items – defined benefit portion	280	223
Benefits paid	(674)	(648)
Employer contributions	1	2
Interest income	854	923
Return on plan assets in excess of interest	(218)	(319)
Defined contribution member transfers	317	265
Reconciling items – defined contribution portion	2 384	538
Return on plan assets	3 228	1 299
Employer contributions	882	866
Employee contributions	597	587
Disbursements and member transfers	(2 323)	(2 214)
Balance at the end of the reporting period	29 766	27 102

	Group 2017 Rm	Group 2016 Rm

44. Retirement benefit fund obligations *(continued)*

44.1 Absa Pension Fund (continued)

44.1.4 Reconciliation of movement in the irrecoverable surplus

	2017 Rm	2016 Rm
Balance at the beginning of the reporting period	**(1 599)**	(1 477)
Interest on irrecoverable surplus	**(146)**	(149)
Changes in the irrecoverable surplus in excess of interest	**(290)**	27
Balance at the end of the reporting period	**(2 035)**	(1 599)

44.1.5 Nature of the pension fund assets

Plan assets relating to the defined benefit plan

Group 2017 – Fair value of plan assets	Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Defined benefit portion	**4 137**	**5 109**	**592**	**9 838**
Quoted fair value	**3 999**	**5 050**	**315**	**9 364**
Unquoted fair value	**7**	**—**	**70**	**77**
Own transferable financial instruments	**131**	**59**	**8**	**198**
Investments in listed property entities/funds	**—**	**—**	**199**	**199**
Defined contribution portion	**2 909**	**12 309**	**4 710**	**19 928**
Quoted fair value	**2 299**	**12 157**	**2 478**	**16 934**
Unquoted fair value	**218**	**—**	**912**	**1 130**
Own transferable financial instruments	**392**	**152**	**17**	**561**
Investments in listed property entities/funds	**—**	**—**	**1 303**	**1 303**
	7 046	**17 418**	**5 302**	**29 766**

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

44. Retirement benefit fund obligations *(continued)*

44.1 *Absa Pension Fund (continued)*

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

	Group 2017 Rm	2016 Rm
Recognised in profit or loss:		
Net interest income	**(41)**	(45)
Current service cost	**32**	30
	(9)	(15)
Recognised in other comprehensive income:		
Actuarial (gains)/losses – financial	**(582)**	(97)
Actuarial adjustments (gains)/losses – experience	**85**	(178)
Return on plan assets in excess of interest	**217**	319
Changes in the irrecoverable surplus in excess of interest	**290**	(27)
	10	17

44.1.7 Actuarial assumptions used:

	Group 2017	2016
Discount rate (%) p.a.	**9,9**	9,1
Inflation rate (%) p.a.	**6,8**	6,6
Expected rate on the plan assets (%) p.a.	**10,6**	10,4
Future salary increases (%) p.a.	**7,8**	7,6
Average life expectancy in years of pensioner retiring at 60 – Male	**21,4**	21,3
Average life expectancy in years of pensioner retiring at 60 – Female	**26,3**	26,2

44.1.8 Sensitivity analysis of the significant actuarial assumptions

	Group 2017 Reasonable possible change Rm	Group 2017 Increase/(decrease) on defined benefit obligation Rm
Increase in discount rate (%)	**0,5**	**(440)**
Increase in inflation (%)	**0,5**	**479**
Increase in life expectancy (years)	**1**	**301**

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

44.1.9 Sensitivity analysis of the significant assumptions

Sensitivity analysis

The aforementioned sensitivity analysis indicates how changes in significant actuarial assumptions would affect the defined benefit portion of **R7 335m** (2016: R7 491m).

The sensitivities may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another. For the purpose of the sensitivity analysis, it is assumed that any change in inflation impacts other inflation-dependent assumptions, i.e. certain pension increases and salary growth. In presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period. The defined contribution obligation of **R19 930m** (2016: R17 546m) does not give rise to any actuarial risks as the measurement is derived from the defined contribution plan assets. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans

Defined benefit structure

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

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

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

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

Defined contribution structure

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

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

The nature of the plan rules governing the Rest of Africa pension funds is such that any optionality is not considered significant and is therefore not included in the valuation or disclosure of the defined benefit obligations.

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 2017. Contributions are generally determined by the Employer in consultation with the Actuary following the funding valuation to ensure the sustainability and financial soundness of the funds. The staff costs expense for the defined contribution plans is **R115m** (2016: R122m). Surpluses and deficits are dealt with in a manner which is consistent with the fund rules and applicable legislation. Minimum funding requirements are limited to the deficits of the fund.

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

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

Within the Rest of Africa funds, the asset allocation is determined taking into account legislative constraints, the available opportunity set of securities in the country across the different asset classes, fund manager offerings in the country, diversification across different asset classes and region (where applicable) and the nature and term of the liabilities. The asset investment strategy is set to target a return which is based on the actuarial assumptions used in the Fund valuation, over a 5 to7 year term.

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans *(continued)*

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

	Group						
	2017						
	Barclays Bank of Botswana	Barclays Bank of Kenya	Kenya First Assurance	Barclays Bank of Zambia	Barclays Bank of Seychelles	Barclays Bank of Mauritius	Barclays Bank of Mozambique
Membership							
Defined benefit active members	—	6	76	—	8	221	—
Defined benefit deferred pensioners	—	895	25	11	6	72	632
Defined benefit pensioners	187	1 503	8	404	3	278	1 001
Defined contribution active members	1 162	2 271	2 271	908	214	574	876
Duration of the scheme (years)	11	7	13	3	15	17	10
Expected contributions to the plan for the next 12 months (Rm)	—	3,8	1,1	5,0	0,3	12,5	—

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

	Group	
	2017 Rm	2016 Rm
44.2.1 Defined benefit plan reconciliations		
Present value of funded defined benefit obligations	(2 251)	(2 202)
Fair value of the defined benefit plan assets	2 137	2 089
Funded defined benefit plan status	(114)	(113)
Irrecoverable surplus (effect of asset ceiling)	(110)	(44)
Net deficit arising from defined benefit obligation	(224)	(157)
44.2.2 Reconciliation of movement in the defined benefit obligation		
Balance at the beginning of the reporting period	(2 202)	(2 678)
Actuarial losses	(35)	(71)
Actuarial losses – changes in financial assumptions	(48)	(39)
Actuarial gains/(losses) – experience adjustments	13	(32)
Benefits paid	190	162
Current service costs	(28)	(31)
Interest expense	(234)	(222)
Past service costs including curtailments	17	—
Foreign exchange differences	41	638
Balance at the end of the reporting period	(2 251)	(2 202)

	Group 2017 Rm	Group 2016 Rm

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans *(continued)*

44.2.3 Reconciliation of movement in the plan assets

	2017 Rm	2016 Rm
Balance at the beginning of the reporting period	**2 089**	2 446
Benefits paid	**(190)**	(162)
Employer contributions	**30**	230
Interest income on the plan assets	**244**	208
Remeasurement – return on plan assets in excess of interest	**19**	(96)
Employee contributions	**1**	—
Foreign exchange differences	**(56)**	(537)
Balance at the end of the reporting period	**2 137**	2 089

44.2.4 Reconciliation of movement in the irrecoverable surplus

	2017 Rm	2016 Rm
Balance at the beginning of the reporting period	**(44)**	(40)
Interest on irrecoverable surplus	**(11)**	(5)
Changes in the irrecoverable surplus in excess of interest	**(46)**	(22)
Foreign exchange differences	**(9)**	23
Balance at the end of the reporting period	**(110)**	(44)

44.2.5 Nature of the defined benefit plan assets

Group 2017	Fair value of plan assets: Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Quoted fair value	**244**	**471**	**354**	**1 069**
Unquoted fair value	**397**	**40**	**513**	**950**
Own transferable financial instruments	**—**	**3**	**—**	**3**
Own occupied or used property	**—**	**—**	**115**	**115**
	641	**514**	**982**	**2 137**

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

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

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans (continued)

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

	Group 2017 Rm	Group 2016 Rm
Recognised in profit or loss:		
Net interest expense/(income)	**10**	19
Current service cost	**29**	31
Past service cost including curtailments	**(17)**	—
	22	50
Recognised in other comprehensive income:		
Actuarial losses – changes in financial assumptions	**48**	39
Actuarial (gains)/losses – experience adjustments	**(13)**	32
Remeasurement – return on the plan assets in excess of interest	**(19)**	96
Changes in the irrecoverable surplus in excess of interest	**46**	22
	62	189

44.2.7 The actuarial assumptions (weighted averages) include:

	Group 2017	Group 2016
Discount rate (%)	**14,0**	11,4
Inflation (%)	**10,0**	7,1
Future pension increases (%)	**8,3**	5,4
Future salary increases(%)	**11,1**	6,4
Average life expectancy in years of pensioner retiring at 60 – Male	**18,0**	18
Average life expectancy in years of pensioner retiring at 60 – Female	**21,7**	21,9

44.2.8 Sensitivity analysis of significant assumptions (weighted averages)

Group 2017	Reasonable possible change	Increase/(decrease) on defined benefit obligation Rm
Significant actuarial assumption		
Increase in discount rate (%)	**0,5**	**(110)**
Increase in inflation (%)	**0,5**	**57**
Increase in life expectancy (years)	**1**	**58**

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

44. Retirement benefit fund obligations *(continued)*

44.2 *Other subsidiaries plans (continued)*

44.2.9 Sensitivity analysis

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

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

44.3 *Post-retirement medical aid plans*

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

The present value of the post-retirement medical aid plan liabilities is **R169m** (2016: R198m) and the fair value of related plan assets is **R3m** (2016: R2m).

	Group	
	2017 Rm	2016 Rm
45. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend **(28 July 2017: 475 cents)** (29 July 2016: 460 cents)	**4 027**	3 900
Final dividend **(1 March 2018: 595 cents)** (23 February 2017: 570 cents)	**5 044**	4 832
	9 071	8 732
Dividends declared to ordinary equity holders (net of treasury shares)		
Interim dividend **(28 July 2017: 475 cents)** (29 July 2016: 460 cents)	**4 024**	3 888
Final dividend **(1 March 2018: 595 cents)** (23 February 2017: 570 cents)	**4 955**	4 820
	8 979	8 708
Dividends declared to non-controlling preference equity holders		
Interim dividend **(28 July 2017: 3 685,06849 cents)** (29 July 2016: 3 696,57534 cents)	**182**	183
Final dividend **(1 March 2018: 3 558,01 cents)** (23 February 2017: 3 644,79452 cents)	**176**	180
	358	363
Distributions declared to Additional Tier 1 Capital note holders		
Distribution (12 December 2017)	**48**	—
	48	—
Dividends paid to ordinary equity holders (net of treasury shares)[1,2]		
Final dividend net of treasury shares **(10 April 2017: 570 cents)** (11 April 2016: 550 cents)	**4 832**	4 648
Interim dividend net of treasury shares **(11 September 2017: 475 cents)** (12 September 2016: 460 cents)	**3 989**	3 888
	8 821	8 536
Dividends paid to non-controlling preference equity holders[2]		
Final dividend **(10 April 2017: 3 644,79452 cents)** (11 April 2016: 3 395,47945 cents)	**180**	168
Interim dividend **(11 September 2017: 3 685,06849 cents)** (12 September 2016: 3 696,57534 cents)	**182**	183
	362	351
Distributions paid to Additional Tier 1 Capital note holders		
Distribution (12 December 2017)	**48**	—
	48	—

Notes

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

[2] The dividends paid dates have been corrected to reflect date of payment. Previously these dates referred to date of declaration.

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

46.1 *Reverse repurchase agreements and securities borrowed*

As part of the reverse repurchase agreements and securities borrowing 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 **R45 234m** (2016[1]: R35 316m) of which **R12 796m** (2016[1]: R12 188m) have been sold or repledged.

46.2 *Repurchase agreements and securities lent*

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

	Group 2017				
	Carrying amount of transferred assets Rm	**Carrying amount of associated liabilities Rm**	**Fair value of transferred assets Rm**	**Fair value of associated liabilities Rm**	**Net fair value Rm**
Debt instruments	**20 493**	**(20 091)**	**20 493**	**(20 091)**	**402**
Equity instruments	**6 278**	**(1 309)**	**6 278**	**(1 309)**	**4 970**

	2016				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Debt instruments	23 826	(23 080)	23 826	(23 080)	746
Equity instruments	2 649	(173)	2 649	(173)	2 476

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

47. Transfer of financial assets

Transfer of financial assets involving structured entities

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

47.1 *Transfer of financial assets that does not result in derecognition*

	Group 2017				
	Carrying amount of transferred assets Rm	**Carrying amount of associated liabilities Rm**	**Fair value of transferred assets Rm**	**Fair value of associated liabilities Rm**	**Net fair value Rm**
Loans and advances to customers	**74**	**(74)**	**74**	**(74)**	**—**

	2016				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Loans and advances to customers	124	(124)	124	(124)	—

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

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

Note

[1] In the current reporting period a new system was implemented which allows for more granular level data on the fair value of securities received as collateral under reverse repurchase agreements. This resulted in the restatement of the fair value of these securities (the 2016 value has decreased by R395m compared to the value previously reported) and the amount of instruments that have been repledged in 2016 has been restated from nil to R12 188m.

47. Transfer of financial assets *(continued)*

47.2 Transfer of financial assets that results in partial derecognition

The Group invests in notes of certain SEs. The interest on these notes represents a continuing exposure to the prepayment risk and credit risk of the underlying assets (the transferred assets) which comprise of corporate loans. The assets are included in the statement of financial position under 'Loans and advances to customers'. The carrying amount of the loans before transfer was **R1 175m** (2016: R1 175m) and the current carrying amount as at the reporting date is **R748m** (2016: R749m). There are no liabilities associated with the assets transferred.

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

The instance may arise where the Group transfers a financial asset to an SE in its entirety but may have continuing involvement in it. Continuing involvement largely arises from providing financing to the SE in the form of retained notes, which do not bear first losses as they are not considered equity instruments of the SE. As at 31 December 2017, the Group had no continuing involvement where financial assets have been derecognised in their entirety (31 December 2016: None).

48. Offsetting financial assets and financial liabilities

Where relevant, the Group reports derivative financial instruments and reverse repurchase and repurchase agreements and other similar secured lending and borrowing agreements on a net basis.

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

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

	Group 2017							
	Amounts subject to enforceable netting arrangements							
	Effects of netting on statement of financial position			Related amounts not set off				
	Gross amounts Rm	Amounts set off Rm	Net amounts reported on the statement of financial position[1] Rm	Offsetting financial instruments Rm	Financial collateral[2] Rm	Net amount Rm	Amounts not subject to enforceable netting arrangements[3] Rm	Total per statement of financial position[4] Rm
Derivative financial assets	53 199	(5 785)	47 413	(30 082)	(2 009)	15 323	12 172	59 585
Reverse repurchase agreements and other similar secured lending	35 378	—	35 378	—	(35 378)	—	—	35 378
Total assets	88 577	(5 785)	82 792	(30 082)	(37 387)	15 323	12 172	94 963
Derivative financial liabilities	(44 993)	6 045	(38 947)	30 096	—	(8 852)	(14 276)	(53 224)
Repurchase agreements and other similar secured borrowings	(31 827)	—	(31 827)	—	31 827	—	—	(31 827)
Total liabilities	(76 819)	6 045	(70 774)	30 096	31 827	(8 852)	(14 276)	(85 051)

Notes

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

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

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

4 Total per statement of financial position is the sum of 'Net amounts reported on the statement of financial position' which are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.

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

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

Offsetting and collateral arrangements

Derivative assets and liabilities

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

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

Credit risk is mitigated where possible through netting arrangements such as global master repurchase agreements and global master securities lending agreements whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral is obtained and typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

These offsetting and collateral arrangements and the credit risk mitigation strategies used by the Group are further explained in the Credit risk mitigation, collateral and other credit enhancements section of note 63.

49. Related parties

As part of the separation, Barclays PLC sold ordinary Barclays Africa Group Limited shares representing 12,2% and 33,7% of issued ordinary share capital in May 2016 and June 2017 respectively. Barclays PLC currently holds 126,2m ordinary Barclays Africa Group Limited shares representing 14,9% of issued ordinary shares. The remaining 85,1 % of the shares are widely held on the JSE.

Barclays PLC contributed £765 million to the Group, primarily in recognition of the investments required for the Group to separate from Barclays PLC. This contribution will be invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Group over time.

Barclays PLC contributed cash of R1 891m to be used in the furtherance of the Group's objective of establishing Broad-Based Black Economic Empowerment structure. The cash was contributed to the independent Absa Empowerment Trust, whose subsidiary purchased 12 716 260 BAGL shares. In terms of the requirements of IFRS, these shares have been accounted for as treasury shares and eliminated against the Group's share capital.

CLS Group Holding AG shares were transferred to Barclays PLC for no consideration in 2005. During the current reporting period these shares were transferred back to the Group for a nominal consideration of one British Pound (GBP). The shares have been recognised at a fair value of R48m. The related credit has been recognised in equity as a shareholder contribution.

Notes

1 Net amounts reported on the statement of financial position comprise exposures that have been netted on the statement of financial position in compliance with IAS 32 (net exposure) and exposures that are subject to legally enforceable netting arrangements but have not been netted on the statement of financial position.
2 Financial collateral excludes over collateralisation and amounts, which are measured at fair value and are in excess of the net statement of financial position exposure.
3 In certain jurisdictions a contractual right of set-off is subject to uncertainty under laws of the jurisdiction and therefore netting is not applied and the amounts are classed as not subject to legally enforceable netting arrangements.
4 Total per statement of financial position is the sum of 'Net amounts reported on the statement of financial position' which are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.

49. Related parties *(continued)*

49.1 Transactions with key management personnel

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

	Group	
	2017 Rm	2016 Rm
Key management personnel compensation		
Directors		
Deferred cash payments	**5**	6
Non-deferred cash payments[1]	**10**	8
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**64**	53
Share-based payments	**46**	33
	126	101
Other key management personnel		
Deferred cash payments	**8**	18
Non-deferred cash payments[1]	**9**	9
Post-employment benefit contributions	**1**	2
Salaries and other short-term benefits	**48**	58
Share-based payments	**57**	39
	123	126

	Group			
	2017		2016	
	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	**49**	**9**	41	24
(Discontinuance)/Inception of related party relationships[2]	**(29)**	**—**	(1)	—
Loans issued and interest earned	**50**	**9**	72	7
Loans repaid	**(50)**	**(3)**	(63)	(22)
Balance at the end of the reporting period	**20**	**15**	49	9
Interest income	**(2)**	**(1)**	(4)	(2)
Deposits				
Balance at the beginning of the reporting period	**18**	**4**	31	6
(Discontinuance)/inception of related party relationships[2]	**(2)**	**—**	(0)	(0)
Deposits received	**205**	**7**	144	15
Deposits repaid and interest paid	**(193)**	**(4)**	(157)	(17)
Balance at the end of the reporting period	**28**	**7**	18	4
Interest expense	**1**	**0**	1	1
Guarantees	**41**	**24**	75	44

Notes

[1] During the current reporting period, it was identified that non-deferred cash payments to key management personnel were inadvertently excluded from this disclosure in prior years. Of the 2016 amounts, R8m (for directors) and R3m (for other key management personnel) were correctly disclosed in note 66 – Directors' remuneration. These amounts were accounted for appropriately in the comparative statement of comprehensive income.

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

49. Related parties *(continued)*
49.1 *Transactions with key management personnel (continued)*

	Group			
	2017		2016	
	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	**105**	**39**	27	34
(Discontinuance)/inception of related party relationships[1]	**(12)**	**—**	(10)	—
Value of new investments/contributions	**85**	**9**	91	5
Value of withdrawals/disinvestments	**(59)**	**(2)**	(5)	(2)
Fees and charges	**(1)**	**—**	(0)	(0)
Investment returns	**3**	**2**	2	2
Balance at the end of the reporting period	**121**	**48**	105	39

Insurance premiums paid and claims received
Key management personnel paid insurance premiums of **R0,75m** (2016: R0,67m) and received claims of **R0,16m** (2016: R0,16m)

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

	Group[2]			
	2017		2016	
	Parent company[3] Rm	**Fellow subsidiaries and associates and joint ventures of the parent company Rm**	Parent company Rm	Fellow subsidiaries and associates and joint ventures of the parent company Rm
Balances				
Loans and advances to banks	**—**	**—**	15 732	773
Derivative assets	**—**	**—**	13 553	(44)
Other assets	**—**	**—**	18	216
Investment securities	**—**	**—**	(0)	—
Deposits from banks	**—**	**—**	(3 990)	(188)
Debt securities in issue	**—**	**—**	—	—
Derivative liabilities	**—**	**—**	(15 966)	(2)
Other liabilities	**—**	**—**	(1)	(108)
Borrowed funds	**—**	**—**	—	—
Transactions				
Interest and similar income	**(34)**	**(11)**	(91)	(2)
Interest expense and similar charges	**12**	**1**	(10)	4
Net fee and commission (income)/expense	**(3)**	**3**	(5)	(2)
Gains and losses from banking and trading activities	**9**	**—**	(145)	—
Other operating income	**4**	**—**	(3)	—
Operating expenditure/(recovered expenses)	**45**	**(284)**	48	(549)
Dividends paid	**—**	**—**	4 859	—

Notes
[1] Includes balances relating to key management personnel who were appointed /resigned during the reporting period.
[2] Debit amounts are shown as positive, credit amounts are shown as negative.
[3] Barclays PLC was majority shareholder for BAGL unitl June 2017.

49. Related parties *(continued)*

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

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

49.3 Subsidiaries and consolidated structured entities

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

			Group	
Name	Nature of business	Country of incorporation	**2017 % holding**	2016 % holding
Barclays Africa Group Limited and its subsidiaries				
Absa Capital Securities Proprietary Limited	Stockbrokers.	South Africa	**100**	100
Absa Development Company Holdings Proprietary Limited	Specialises in township development and sale of residential, commercial and industrial land.	South Africa	**100**	100
Absa Manx Insurance Company Limited	Captive insurance company for the Group and responsible for investment in insurances markets.	South Africa	**100**	100
Absa Stockbrokers Proprietary Limited	Enables customers to trade online or by telephone in shares, warrants and exchange-traded funds.	South Africa	**100**	100
Absa Trading and Investments Solutions Holdings Proprietary Limited	Holding company for ATIS Group.	South Africa	**100**	100
Barclays Bank of Ghana Limited	Provides retail and corporate banking.	Ghana	**100**	100
Barclays Bank of Kenya Limited	Provides retail and corporate banking.	Kenya	**69**	69
Barclays Bank Mozambique S.A. (BBM)	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.	Mozambique	**98**	98
Barclays Bank of Botswana Limited	Provides retail and corporate banking.	Botswana	**68**	68
Barclays Bank Mauritius Limited	Provides retail and corporate banking.	Mauritius	**100**	100
Barclays Bank Seychelles Limited	Provides retail and corporate banking.	Seychelles	**100**	100
Barclays Bank Tanzania Limited	Provides retail and corporate banking.	Tanzania	**100**	100
Barclays Bank Uganda Limited	Provides retail and corporate banking.	Uganda	**100**	100
Barclays Bank of Zambia PLC[1]	Provides retail and corporate banking.	Zambia	**100**	100
Diluculo Investments Proprietary Limited	Investment holding and management company, providing project and management services to property funds and trading projects.	South Africa	**100**	100
National Bank of Commerce Limited (NBC)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.	Tanzania	**55**	55
Woolworths Financial Services Proprietary Limited	Provides credit cards, in-store cards and personal loans.	South Africa	**50**	50

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

49. Related parties *(continued)*

49.3 Subsidiaries and consolidated structured entities *(continued)*

Name	Nature of business	Country of incorporation	Group 2017 % holding	Group 2016 % holding
Absa Bank Limited and its subsidiaries	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers and clients.	South Africa	**100**	100
Absa Capital Representative Office Nigeria Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	**100**	100
Absa Technology Finance Solutions Proprietary Limited	Financial broker/executive finance company.	South Africa	**100**	100
Absa Vehicle and Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	**100**	100
Alberton Industrial Properties Proprietary Limited	Obtains loans from Absa Bank to finance Devco subsidiaries.	South Africa	**100**	100
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	**100**	100
Absa Financial Services and its subsidiaries	Holding company of financial service-related entities.	South Africa	**100**	100
Absa Financial Services Africa Holdings Proprietary Limited	Holding company of African financial service-related entities.	South Africa	**100**	100
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.	South Africa	**100**	100
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.	South Africa	**100**	100
Absa Insurance Risk Management Services Limited	Provides short-term insurance and other related insurance products.	South Africa	**100**	100
Barclays Life Botswana Proprietary Limited	Provides life assurance products focusing on risk and investment products that Absa's offering to various market segments in Botswana	Botswana	**100**	100
Absa Life Limited	Provides life assurance products, focusing on risk and investment products, that complement the Group's offerings to various market segments.	South Africa	**100**	100
Absa Trust Limited	Trust administrative services.	South Africa	**100**	100
Barclays Life Zambia Limited	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments in Zambia.	Zambia	**100**	100
Global Alliance Seguros S.A.	Provides non-life insurance in Mozambique.	Mozambique	**100**	100
First Assurance Holdings Limited	Provides short-term insurance and other related insurance products	Kenya	**100**	100
Instant Life (Pty) Ltd	Provides life assurance products through cell arrangements	South Africa	**75**	75

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

49. Related parties *(continued)*

49.3 Subsidiaries and consolidated structured entities *(continued)*

Name	Nature of business	Country of incorporation	Group 2017 % holding	Group 2016 % holding
Barclays Africa Limited	Investment Holding Company.	United Kingdom	**100**	100
Share trusts				
Barclays Africa Group Incentive Trust	Share purchase and option scheme available to senior staff.	South Africa	**n/a**	n/a
Absa Empowerment trust and its subsidiaries	To be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment scheme.	South Africa	**n/a**	n/a
Newshelf 145 (Pty) Ltd	To be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment scheme.	South Africa	**n/a**	n/a
Structured entities				
Absa Bond Fund	Fund used to invest in unit trusts.	South Africa	**n/a**	n/a
Absa Foundation Trust	Provides funding for community upliftment. It receives a percentage of the Group's dividends which it distributes to identified community-related projects.	South Africa	**n/a**	n/a
Home Obligor Mortgages Enhanced Securities 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
Impumelelo CP Note Programme 1 (RF) Limited	Special purpose, bankruptcy-remote company incorporated for the purpose of issuing Absa Bank guaranteed Commercial Paper and medium-term notes.	South Africa	**n/a**	n/a

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

49. Related parties *(continued)*

49.5 Associates, joint ventures and retirement benefit fund

	Group 2017 Rm	Group 2016 Rm
Subsidiaries' aggregate profits and losses after taxation	**11 495**	9 671

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

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

Regulatory requirements

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

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

The minimum amount of RC required to be maintained by the Group was **R79,2 bn** (2016: R73,0bn).

Contractual requirements

Certain of the Group's securitisation and SEs hold assets or interests in assets that are only available to meet the liabilities of those entities and may have issued public debt securities. The Group has the ability to wind up these structures and repay the notes, but only on the occurrence of certain contingencies, such as changes in tax laws or regulatory requirements. The carrying amount of the assets and liabilities of the entities to which these restrictions apply as at 31 December 2017 was **R11,6bn** and **R5,5bn** respectively (2016: R7bn and R6,9bn respectively).

Protective rights of non-controlling interests

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

The particulars of these instruments are shown in note 28.

The Group provides certain banking and financial services to associates and joint ventures. The Group also provides a number of current and interest-bearing cash accounts to the Absa Pension Fund and the pension funds of other subsidiaries. These transactions are generally conducted on the same terms as third-party transactions.

49. Related parties *(continued)*

49.5 Associates, joint ventures and retirement benefit fund

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

	Group		
	2017		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Group	—	11 974	11 974
Value of Absa defined contribution pension fund investments managed by the Group	—	19 930	19 930
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	59	59
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	131	131
Statement of financial position			
Other assets	—	474	474
Loans and advances to customers (refer to note 8)	26 054	—	26 054
Other liabilities	—	400	400
Statement of comprehensive income			
Interest income from Joint ventures and associates and on pension plan assets	1 800	1 098	2 898
Interest expense on defined benefit obligation	—	(1 058)	(1 058)
Fee and commission income	148	—	148
Fee and commission expense	(114)	—	(114)
Current service costs (refer to note 44)	—	(60)	(60)
Past service curtailments	—	17	17
Operating expenses	956	—	956

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

49. Related parties *(continued)*

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

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

		Group	
Name	Nature of business	**2017 Ownership %**	2016 Ownership %
Equity-accounted associates			
SBV Services Proprietary Limited	Cash transportation services.	**25**	25
The Document Exchange Association	Facilitates the electronic exchange of documents between the banks.	**25**	25
The South African Bankers Services Company Proprietary Limited	Automatic clearing house.	**23**	23
Equity-accounted joint ventures			
FFS Finance South Africa Proprietary Limited	Provides financing solutions to Ford Motor Company customers.	**50**	50
Integrated Processing Solutions	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	**50**	50
MAN Financial Services (S.A.) Proprietary Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	**50**	50
Associates and joint ventures designated at fair value through profit or loss	Various.	**Various**	Various

All associates and joint ventures are incorporated in South Africa.

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

SBV Services Proprietary Limited and The South Africa Bankers Services Company Proprietary Limited have a reporting date of 30 June 2017.

49.6 Absa Empowerment trust

Barclays PLC contributed cash of R1 891m to the independent Absa Empowerment Trust to allow for it to purchase 12 716 260 BAGL shares (1,5%), in the furtherance of the Group's objective of establishing Broad-Based Black Economic Empowerment structure. These shares are held in a special purpose vehicle owned by the independent Absa Empowerment Trust, which is consolidated by the Group in line with the requirements of IFRS 10.

The contribution of cash by Barclays PLC did not result in an adjustment to the net asset value of the Group and is accounted for as an increase in equity of R1 891m. The shares held by the Group are however eliminated as treasury shares with the nominal value per share going against share capital. This renders the transaction equity neutral.

50. Structured entities

Exchange-traded funds

Exchange Traded Funds (ETFs) are passively managed index funds that are listed and traded on a securities exchange. An ETF tracks the performance of and/or gains a broad exposure to a particular index, sector or commodity for individual and institutional investors. All ETFs have a 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 SEs in order to securitise loans that were originated by the Group. These entities have minimal equity and therefore rely on funding in the form of notes in order to acquire the underlying loans. The Group transfers the contractual right to receive cash flows on the underlying loans, but in many instances, does not relinquish exposure to substantially all the risks and rewards of ownership. Exposures to credit risk, prepayment risk and/or interest rate risk are retained when the Group purchases either senior notes or junior notes and sells derivatives to the entity. When the securitisation vehicles are established to run entirely on autopilot or when the only relevant activity of the entity constitutes recovery of the securitised loans in the event of default, then provided such activity is not directed by the Group, the Group will not have power over the relevant activities of the vehicle. The Group earns interest income on the notes issued by the vehicles, together with management fees from the Group's ongoing involvement. To the extent that the notes are fair valued, unrealised gains and losses are generated, which are recognised by the Group in profit or loss.

50. Structured entities *(continued)*

Fund management

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

Structured investment vehicles

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

Preference share funding vehicles

The Group provides financing to a number of SEs, established and managed by clients, in the form of a subscription for cumulative redeemable preference shares. These instruments typically have the economic characteristics of vanilla debt instruments, and as such the Group recognises interest income from its investments. Often the Group subscribes for preference shares in these vehicles together with other financial institutions on a syndicated basis. The Group does not have the ability to direct the relevant business activities in these vehicles and therefore in the absence of control, the vehicles are not consolidated. An entity which forms part of the same group of companies as the preference share funding vehicle, most commonly the parent company, writes the Group a financial guarantee or a put option, so as to provide security in the event of default.

Funding vehicles

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

50.1 Consolidated structured entities

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

Name	Nature of support	Reason for providing support	Group 2017 Rm	Group 2016 Rm
The Absa Foundation Trust	Donation	The Trust was constituted to fund community upliftment and social welfare programmes.	**79**	75
Various ETF Portfolios	Expense Subsidy	Subsidising the fixed cost incurred by the new ETF funds as the funds cannot yet cover their own costs due to low levels of market capitalisation.	**9**	—

The Group has consolidated The Absa Foundation Trust since 2006 and new ETFs since 2017.

The Group intends to provide financial support to the Absa Foundation Trust and any new ETFs in 2018.

Notes

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

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

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

50. Structured entities *(continued)*

50.2 Unconsolidated structured entities

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

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

	Group						
	2017						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
Assets							
Trading portfolio assets	—	—	—	—	—	—	—
Investment securities	—	8	477	926	545	—	1 956
Debt securities	—	—	477	926	—	—	1 403
Equity securities	—	8	—	—	545	—	553
Loans and advances to customers	7 925	—	—	2 016	—	61	10 002
Derivatives held for trading	—	—	—	21	—	—	21
Interest rate derivatives (carrying value)	—	—	—	21	—	—	21
Interest rate derivatives (notional value)	—	—	—	280	—	—	280
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	—	288	—	—	288
Other assets	—	65	—	—	—	—	65
	7 925	73	477	3 251	545	61	12 332
Liabilities							
Derivatives held for trading	—	—	—	11	—	—	11
Interest rate derivatives (carrying value)	—	—	—	11	—	—	11
Interest rate derivatives (notional value)	—	—	—	848	—	—	848
Deposits due to customers	—	—	—	1 143	—	—	1 143
	—	—	—	1 154	—	—	1 154
Maximum exposure to loss[2]	7 925	73	477	3 251	545	61	12 332
Total size of entities[3]	41 038	135 615	477	6 071	28 589	61	211 851

Notes

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

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

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

50. Structured entities *(continued)*

50.2 Unconsolidated structured entities (continued)

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

50. Structured entities *(continued)*

50.2 *Unconsolidated structured entities* *(continued)*

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

	Group	
	2017 Losses recognised in profit or loss Impairment losses Rm	2016 Losses recognised in profit or loss Impairment losses Rm
Preference funding vehicle	**—**	15

Financial support provided or to be provided to unconsolidated structured entities

The Group did not provide any financial support during the current reporting period (2016: Rnil) to unconsolidated structured entities.

50.3 *Sponsored entities*

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

Assets transferred to unconsolidated sponsored structured entities

The Group did not transfer assets during the current reporting year (2016: Rnil) to its unconsolidated sponsored structured entities.

	Group	
	(Unaudited) 2017 Rm	(Unaudited) 2016 Rm
51. Assets under management and administration		
Alternative asset management and exchange-traded funds	**94 368**	75 492
Deceased estates	**2 669**	2 662
Other	**26 795**	24 818
Portfolio management	**28 924**	31 596
Trusts	**4 055**	4 201
Unit trusts	**177 802**	149 229
	334 613	287 998

	Group	
	2017 Rm	2016 Rm
52. Financial guarantee contracts		
Financial guarantee contracts	**10**	10

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 2017 Rm	Group 2016 Rm
53. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**270**	521

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

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

	Group 2017 Rm	Group 2016 Rm
Operating lease payments due		
No later than one year	**1 365**	1 309
Later than one year and no later than five years	**3 056**	2 946
Later than five years	**948**	1 228
	5 369	5 483

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 2017 Rm	Group 2016 Rm
54. Contingencies		
Guarantees	**38 789**	38 441
Irrevocable debt facilities	**162 907**	135 935
Irrevocable equity facilities	**33**	141
Letters of credit	**7 814**	8 481
Other	**262**	135
	209 805	183 133

Guarantees include performance guarantee contracts and payment guarantee contracts.

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

Legal matters

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

- Pinnacle Point Holdings Proprietary Limited (PPG): New Port Finance Company and the trustees of the Winifred Trust (the plaintiffs) allege a local bank conducted itself unlawfully, and that Absa Bank Limited (the Bank) was privy to such conduct. They have instituted proceedings against the Bank for damages in an amount of R1 387m. Although Pinnacle Point Holding's claim has been withdrawn, the second to fifth plaintiff's claims remain and will proceed to trial.
- Ayanda Collective Investment Scheme (the Scheme): Absa Capital Investor Services was the trustee of Ayanda Collective Investment Scheme, in which Corporate Money Managers (CMM) managed a portfolio of assets within the Scheme. The joint curators of the CMM group of companies and the Altron Pension Fund (an investor in the fund) allege that the defendants caused damages to them arising from their alleged failure to meet their obligations in the trust deed together with their statutory obligations set out in the Collective Investment Scheme Act, in respect of which they seek payment of R1 157m.
- On June 19, 2017, the Public Protector released the final report of her office's investigation into the Bankorp assistance package provided by the SA Reserve Bank between 1985 and 1995, recommending certain remedial action. Absa acquired Bankorp in April 1992, for fair value, and had the responsibility of carrying out its existing legal obligations to the SARB, which were met in full by October 1995. In consequence, Absa , together with the SARB, Minister of Finance and National Treasury, brought an application to review and set aside the remedial action recommended in the Public Protector's report which was successful and the report was thus set aside.

54. Contingencies *(continued)*

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

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

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

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

Regulatory matters

The scale of regulatory change remains challenging and the global financial crisis has resulted in a significant tightening of regulation and changes to regulatory structures globally and locally, 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 especially in the areas of financial crime, banking and insurance regulation, cannot currently be fully predicted and are beyond the Group's control. Some of these are likely to have an impact on the Group's businesses, systems and earnings.

The Group is continuously evaluating its programmes and controls in general relating to compliance with regulation. The Group undertakes monitoring, review and assurance activities, and the Group has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and has made disclosures on material findings as and when appropriate.

Absa Bank Limited, a subsidiary of Barclays Africa Group Limited, identified potentially fraudulent activity by certain of its customers using advance payments for imports in 2014 and 2015 to effect foreign exchange transfers from South Africa to beneficiary accounts located in East Asia, UK, Europe and the US. As a result, the Group conducted a review of relevant activity, processes, systems and controls. The Group is continuing to provide information to relevant authorities as part of the Group's ongoing cooperation. It is not currently practicable to provide an estimate of the financial impact of the actions described on the Group or what effect that they might have upon the Group's operating results, cash flows or financial position in any particular period, if any.

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

Income taxes

The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and 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 provisions for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. The carrying amount of any resulting provisions will be sensitive to the manner in which tax matters are expected to be resolved, and the stage of negotiations or discussion with the relevant tax authorities. There may be significant uncertainty around the final outcome of tax proceedings, which in many instances, will only be concluded after a number of years. Management estimates are informed by a number of factors including, inter alia, the progress made in discussions or negotiations with the tax authorities, the advice of expert legal counsel, precedent set by the outcome of any previous claims, as well as the nature of the relevant tax environment.

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.

	Group 2016 Rm	Group 2015 Rm
55. Cash and cash balances		
Cash, cash balances and balances with central banks[1]	**13 518**	13 141
Loans and advances to banks[2]	**3 802**	4 593
	17 320	17 734
56. Deferred cash and share-based payments		
Share-based payments expense	**595**	563
Equity-settled arrangements:		
Barclays Africa Group Limited Long-Term Incentive Plan (LTIP)	**145**	47
Barclays Africa Group Limited Joiners Share Value Plan (JSVP)	**41**	29
Barclays Africa Group Limited Share Value Plan (SVP)	**213**	232
Barclays Africa Group Limited Share Incentive Awards (SIA)	**80**	58
Barclays Africa Group Limited Retention Share Value Plan (SVP Cliff)	**36**	129
Barclays Africa Group Limited Restricted Share Value Plan (RSVP)	**15**	—
Cash-settled arrangements:		
Barclays Africa Group Limited Long-Term Incentive Plan (LTIP)	**16**	—
Barclays Africa Group Limited Phantom Joiners Share Award Plan (JSAP)	**1**	1
Barclays Africa Group Limited Joiners Share Value Plan (JSVP)	**6**	7
Barclays Africa Group Limited Share Value Plan (SVP)	**17**	23
Barclays Africa Group Limited Retention Share Value Plan (SVP Cliff)	**4**	31
Barclays Africa Group Limited Role Based Pay (RBP)	**3**	6
Barclays Africa Group Limited Restricted Share Value Plan (RSVP)	**18**	—
Deferred cash expense		
Barclays Africa Group Limited Cash Value Plan (CVP)	**234**	192
Total deferred cash and share-based payments (refer to note 38)	**829**	755
Total carrying amount of liabilities for cash-settled arrangements (refer to note 19)	**323**	388
Total carrying amount of the equity-settled share-based payment (refer to the statement of changes in equity)	**837**	892

During the current reporting period, two of the Group's cash value plans (CVP) share plans were converted into equity-settled share-based payment schemes. In addition, the vesting periods of certain tranches were changed from being a period of two or three years to a period ranging between two and five years. The reclassification, coupled with the modification in vesting period, resulted in a reduction in the share-based payment expense for the year of **R23,5m**.

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.

Notes

[1] Includes coins and bank notes.

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

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

Barclays Africa Group Limited Long-Term Incentive Plan

Qualifying participants of the Long-Term Incentive Plan (LTIP) will be entitled to Barclays Africa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Barclays Africa Group Limited ordinary shares. The award will be issued by the employing entity or subsidiary in the Group. In order for the participant to be entitled to these awards, the participant needs to render three years of service and meet requisite performance conditions. Dividends accumulate and are reinvested over the period.

Barclays Africa Group Limited Phantom Joiners Share Award Plan

The Phantom Joiners Share Award Plan (JSAP) enables the Group to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Barclays Africa Group Limited phantom awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accrue to the participant over the vesting period, which can be over two to seven years.

Barclays Africa Group Limited Joiners Share Value Plan

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

Barclays Africa Group Limited Share Value Plan/Restricted Share Value Plan

The Plan awards (and any associated notional dividends) are awarded at no cost to the participants. The awards typically vest in equal tranches after one, two, three and five years, with each tranche subject to its own independent non-market-related performance condition on vesting. Two of the schemes however have tranches with vesting periods which may range from two to five years. The Group retains the obligation to settle in cash certain SVP awards that are prohibited from being equity-settled and where individuals have elected for cash settlement. The amount that is paid to the cash-settled participants is equal to the market value of a number of Barclays Africa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Barclays Africa Group Limited ordinary shares in settlement of their awards. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the period.

Barclays Africa Group Limited Share Incentive Awards

The Share Incentive Award (SIA) is a scheme for employees identified as Code Staff for Barclays Plc. The award will vest six months from the date on which it is granted, which is 50% of the participant's non-deferred annual incentive.

Barclays Africa Limited Retention Share Value Plan

The Share Value Retention Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, subject to their own independent non-market related performance condition on vesting. The Group retains the obligation to settle in cash, certain historic SVP Cliff awards that were not converted to equity-awards in 2015. The amount that is paid to the cash-settled participants is equal to the market value of a number of Barclays Africa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Barclays Africa Group Limited ordinary shares in settlement of their awards. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the vesting period.

Barclays Africa Group Limited Role Based Pay

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

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

	Number of awards '000											
	2017						2016					
	Opening balance	Effect of conversion	Granted	Forfeited	Exercised	Closing balance	Opening balance	Effect of conversion	Granted	Forfeited	Exercised	Closing balance
Equity-settled:												
LTIP	5 693	—	3 411	(18)	(303)	8 783	1 194	—	5 390	(512)	(379)	5 693
JSAP	2	—	—	—	(2)	—	21	—	—	(3)	(16)	2
JSVP	357	—	334	(19)	(314)	358	566	(4)	171	(27)	(349)	357
SVP	2 937	(21)	1 483	(186)	(1 371)	2 842	2 571	110	1 720	(172)	(1 292)	2 937
SIA	509	—	432	—	(439)	502	380	—	487	—	(358)	509
RSVP[1]	—	2 016	—	—	—	2 016	—	—	—	—	—	—
SVP Cliff	2 511	(6)	16	(111)	(1 869)	541	2 644	56	88	(243)	(34)	2 511
Cash-settled:												
LTIP	—	—	755	—	—	755	—	—	—	—	—	—
JSVP	8	—	9	—	(5)	12	27	4	2	(2)	(23)	8
SVP	133	21	19	(13)	(102)	58	440	(110)	13	(8)	(202)	133
RSVP[1]	—	305	—	—	—	305	—	—	—	—	—	—
SVP Cliff	418	6	—	—	(394)	30	489	(56)	11	(26)	—	418
RBP	76	—	11	—	(20)	67	70	—	22	—	(16)	76

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

	Weighted average share price at the exercise date (rands)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (rands)	
	2017	2016	2017	2016	2017	2016
Equity-settled:						
LTIP	138,87	143,97	2,58	2,75	144,69	148,90
JSAP	134,03	142,80	—	0,25	—	174,98
JSVP	166,60	174,75	1,73	1,46	152,05	164,73
SVP	161,53	174,46	1,91	2,00	157,91	160,07
SIA	157,91	145,97	0,67	0,67	157,91	145,97
RSVP	—	—	2,55	—	146,01	—
SVP Cliff	174,80	180,19	0,65	0,96	145,37	176,88
Cash-settled:						
LTIP	—	—	2,58	—	144,69	—
JSVP	151,76	154,13	1,63	1,28	147,81	172,02
SVP	151,79	142,46	1,47	0,20	157,91	131,73
RSVP	—	—	2,38	—	142,79	—
SVP Cliff	155,25	—	0,16	0,16	—	129,30
RBP	157,89	157,44	2,39	2,76	151,38	167,27

Note

[1] The converted shares relate to the conversion of some of the cash value plan (CVP) schemes, issued in the prior year, into restricted share value plan (RSVP) equity-settled schemes and cash-settled scheme in the current year.

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

Future cash flow effects associated with equity settled share based payments

	Group			
	2017			
	Within 1 year Rm	**From 1 year to 5 years Rm**	**More than 5 years Rm**	**Total Rm**
Estimate of amount expected to be transferred to tax authorities	**219**	**665**	**—**	**884**
	2016			
	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Estimate of amount expected to be transferred to tax authorities	278	482	—	760

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

Deferred cash

Barclays Africa Group Limited Cash Value Plan

The Cash Value Plan (CVP) is a deferred cash settled payment arrangement. The award will vest in equal tranches over a period of three and five years, subject to the Rules which includes a ten percent service credit for the final anniversary of the CVP award date. The service credit for awards granted in 2017 is **10%** (2016: 10%) of the initial value of the award that vests

57. Acquisitions and disposals of businesses and other similar transactions

57.1 Acquisitions of businesses during the current reporting period

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

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

	Group	
	2017 Rm	2016 Rm
Summary of net cash outflow due to acquisitions	**—**	100

57.1.2 Disposals of businesses during the current reporting period

Apart from the businesses classified as non-current assets/liabilities held for sale and disposed of (refer to note 7) there were no other disposals of businesses that were finalised during the current reporting period. The cash consideration received on disposals included in non-current assets/liabilities held for sale was R205m.

57.2.1 Acquisitions of businesses during the previous reporting period

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

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

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

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

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

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

57.2.2 Disposals of businesses during the previous reporting period

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

58. Segment report

58.1 Summary of segments

As a result of changes in internal management, the reporting structure has changed in the current period. BAGL revised its operating model with 'geography' and 'customer' as primary dimensions, creating a platform for increased focus and dedicated management capacity. As such, Rest of Africa Banking is now presented separately, and the Financial Overview now includes the results of the following key divisions:

- Retail and Business Banking as part of South Africa banking (RBB SA): offers retail and business banking products within South Africa
- Corporate and Investment Banking as part of South Africa Banking (CIB SA): offers corporate and investment banking solutions in South Africa
- Rest of Africa (ROA) Banking: offers a range of banking products to businesses, as well as individual customers on the African continent, outside of South Africa.
- WIMI: offers wealth management services, various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services as well as a variety of investment products.
- Head Office, Treasury and Other Operations: consists of various non-banking activities and includes investment income earned by the Group, as well as income earned by Absa Manx Holdings and Corporate Real Estate Services.
- Barclay's Separation: Barclays PLC contributed R12,1bn to the Group in June 2017, primarily in recognition of the investments required for the Group to separate from Barclays PLC. This contribution will be invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Group over time. The separation process will increase the capital base of the Group in the near-term and generate endowment revenue thereon, with increased costs over time as the separation investments are concluded. The Group has therefore included an additional reconciling stripe, 'Barclay's separation' in its segment results.

58. Segment report (continued)

58.1 *Summary of segments (continued)*

The divisions identified are broken down into smaller components to provide additional information of each. Discrete financial information is available for the following:

Reportable Segments:

- RBB SA:
  - Retail SA: offers various products and services to customers through the following divisions:
    - Home Loans: offers residential property-related finance solutions direct to the customer through personalised services, as well as through a range of electronic channels and intermediaries such as estate agents and originators.
    - Vehicle and Asset Finance (VAF): offers customised vehicle and asset finance products and services through vehicle dealers as well as directly to retail and business customers through face-to-face engagements, call centre agents and digital channels. The VAF product line incorporates vehicle management solutions including fleet card management and associated services.
    - Card: provides credit cards and merchant acquiring. It includes the Edcon portfolio as well as Woolworths Financial Services, which offers credit cards, personal loans and short-term insurance products.
    - Personal Loans: offers unsecured instalment loans, including fixed and variable loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.
    - Transactional and Deposits: offers a full range of transactional banking, savings and investment products, customer loyalty programme and services through a variety of touch points. These include physical branches, digital channels, ATMs, priority suites and call centres.
    - Other: includes Retail Banking central and allocation of head office costs which are currently not allocated to business units along with branch distribution and channel net recoveries, and costs associated with the multi-channel investment programme.
  - Business Banking SA: provides a comprehensive range of commercial banking products and services to large, medium and small businesses.
- CIB SA:
  - offers corporate and investment banking solutions. The business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients. CIB SA includes the following sub-divisions:
    - Corporate SA: offers corporate banking solutions spanning financing and transactional banking requirements, including trade and working capital solutions, as well as a full suite of cash management, payments and liquidity products and solutions.
    - Investment Banking SA: engages in trading, sales, research activities, investing in equity to entities focused on infrastructure.
- ROA Banking:
  - RBB ROA: 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.
  - CIB ROA: offers corporate and investment banking solutions. The business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients. CIB ROA includes the following sub-divisions:
    - Corporate ROA: offers corporate banking solutions spanning financing and transactional banking requirements, including trade and working capital solutions, as well as a full suite of cash management, payments and liquidity products and solutions.
    - Investment Banking ROA: engages in trading, sales, research activities, investing in equity to entities focused on infrastructure.
- WIMI: further broken down into the following two geographical sub-division:
  - WIMI SA offers wealth management services, life insurance, non-life insurance, investment management, retirement services and fiduciary on the African continent, within South Africa.
  - WIMI ROA: offers wealth management services, life insurance, non-life insurance, investment management, retirement services and fiduciary on the African continent, outside of South Africa.

Other reconciling stripes:

- Head Office, treasury and other operations in South Africa
- Barclays Separation

The following operational changes, management changes and associated changes to the way in which Chief Operating Decision Maker (CODM) views the performance of each business segment, have resulted in the reallocation of earnings, assets and liabilities between segments.

- The Group refined its cost allocation methodology, resulting in prior year restatement of operating expenses from RBB South Africa (R528m), CIB Rest of Africa (R83m) and Head Office, Treasury and other operations (R7m) to CIB SA R379m, WIMI R194m and RBB Rest of Africa R45m.
- Commercial Property Finance (CPF) customers with loan balances exceeding R40m of R10,9bn were moved from Retail and Business Banking South Africa (RBB SA) to Corporate and Investment Banking South Africa (CIB SA) to reflect the Group's customer segmentation and coverage model.

58. Segment report (continued)

	Group 2017 South Africa and other international operations Rm	Rest of Africa Rm	Total Rm
58.2 Segment report per geographical segment			
Net interest income – external	**31 843**	**10 801**	**42 644**
Non-interest income – external	**25 393**	**5 267**	**30 660**
Total assets	**1 000 965**	**165 014**	**1 165 979**

	2016 South Africa and other international operations Rm	Rest of Africa Rm	Total Rm
Segment report per geographical segment			
Net interest income – external	31 128	10 875	42 003
Non-interest income – external[1]	24 970	5 421	30 391
Total assets	936 913	164 110	1 101 023

58. Segment report (continued)

Statement of comprehensive income (Rm)

	South Africa Banking 2017	South Africa Banking 2016[1]	Rest of Africa Banking 2017	Rest of Africa Banking 2016[1]
Net interest income	**31 979**	31 626	**10 764**	10 818
Non-interest income	**21 366**	20 583	**4 853**	5 226
Total income	**53 345**	52 209	**15 617**	16 044
Impairment losses on loans and advances	**(5 605)**	(7 042)	**(1 289)**	(1 732)
Operating expenses	**(30 102)**	(28 395)	**(9 000)**	(9 223)
Depreciation and amortisation	**(413)**	(387)	**(507)**	(550)
Other operating expenses	**(29 689)**	(28 008)	**(8 493)**	(8 673)
Other	**(493)**	(729)	**(177)**	(171)
Other impairments	**—**	(325)	**(5)**	—
Indirect taxation	**(493)**	(404)	**(172)**	(171)
Share of post-tax results of associates and joint ventures	**158**	145	**—**	—
Operating profit before income tax	**17 303**	16 188	**5 151**	4 918
Tax expenses	**(4 434)**	(4 143)	**(1 665)**	(1 616)
Profit for the reporting period	**12 869**	12 045	**3 486**	3 302
Profit attributable to:				
Ordinary equity holders	**12 193**	11 433	**2 972**	2 761
Non-controlling interest - ordinary shares	**270**	266	**514**	541
Non-controlling interest - preference shares	**406**	346	**—**	—
Non-controlling interest - additional Tier 1	**—**	—	**—**	—
	12 869	12 045	**3 486**	3 302
Headline earnings	**12 200**	11 678	**2 954**	2 756
Operating performance (%)				
Net interest margin on average interest-bearing assets	**3,37**	3,47	**7,18**	7,25
Credit loss ratio	**0,80**	1,03	**1,34**	1,62
Non-interest income as % of income[3]	**40,1**	39,4	**31,1**	32,6
Income growth[3]	**2, 18**	5, 93	**(2, 66)**	17, 37
Operating expenses growth[3]	**6, 01**	4, 54	**(2, 41)**	10, 7
Cost-to-income ratio[3]	**56,4**	54,4	**57,6**	57,5
Statement of financial position (Rm)				
Loans and advances to customers	**665 959**	636 154	**77 863**	77 877
Loans and advances to banks	**39 621**	40 469	**11 892**	27 260
Investment securities	**74 378**	67 499	**28 824**	23 462
Other assets	**448 204**	422 945	**44 141**	32 882
Total assets	**1 228 162**	1 167 067	**162 720**	161 481
Deposits due to customers	**477 980**	460 080	**108 636**	111 993
Debt securities in issue	**12 932**	15 197	**379**	331
Other liabilities	**718 109**	674 233	**33 379**	28 380
Total liabilities	**1 209 021**	1 149 510	**142 394**	140 704
Financial performance (%)				
Return on average risk-weighted assets[2]	**2,40**	2,38	**1,77**	1,64
Return on average assets[2]	**1,03**	1,00	**1,71**	1,62
RoRC[2]	**20,8**	20,9	**16,6**	15,1

Notes
1 These numbers have been restated, refer to note 58.1.
2 These ratios are unaudited.
3 These ratios have been calculated by management based on extracted audit information contained in the annual financial statements.
4 This represents the contribution received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'.

WIMI		Head Office and other operations in South Africa		Total before Barclays separation effects		Barclays separation		Group	
2017	2016[1]	**2017**	2016[1]	**2017**	2016[1]	**2017**	2016	**2017**	2016
362	374	**(786)**	(815)	**42 319**	42 003	**325**	—	**42 644**	42 003
5 128	4 847	**(766)**	(265)	**30 581**	30 391	**80**	—	**30 661**	30 391
5 490	5 221	**(1 552)**	(1 080)	**72 900**	72 394	**405**	—	**73 305**	72 394
(120)	(10)	**(8)**	33	**(7 022)**	(8 751)	**—**	—	**(7 022)**	(8 751)
(3 631)	(3 540)	**1 330**	1 202	**(41 403)**	(39 956)	**(1 901)**	—	**(43 304)**	(39 956)
(90)	(92)	**(1 624)**	(1 281)	**(2 634)**	(2 311)	**(4)**	—	**(2 638)**	(2 310)
(3 541)	(3 448)	**2 954**	2 483	**(38 769)**	(37 645)	**(1 897)**	—	**(40 666)**	(37 646)
(219)	(171)	**(987)**	(1 049)	**(1 876)**	(2 120)	**(394)**	—	**(2 270)**	(2 120)
(101)	(58)	**(216)**	(307)	**(322)**	(690)	**(326)**	—	**(648)**	(690)
(118)	(113)	**(771)**	(742)	**(1 554)**	(1 430)	**(68)**	—	**(1 622)**	(1 430)
—	—	**12**	30	**170**	115	**—**	—	**170**	115
1 520	1 500	**(1 205)**	(924)	**22 769**	21 682	**(1 890)**	—	**20 879**	21 682
(425)	(291)	**259**	215	**(6 265)**	(5 835)	**408**	—	**(5 857)**	(5 835)
1 095	1 209	**(946)**	(709)	**16 504**	15 847	**(1 482)**	—	**15 022**	15 847
1 086	1 223	**(946)**	(709)	**15 305**	14 708	**(1 482)**	—	**13 823**	14 708
5	(19)	**—**	—	**789**	788	**—**	—	**789**	788
4	5	**(48)**	—	**362**	351	**—**	—	**362**	351
—	—	**48**	—	**48**	—	**—**	—	**48**	—
1 095	1 209	**(946)**	(709)	**16 504**	15 847	**(1 482)**	—	**15 022**	15 847
1 156	1 258	**(752)**	(712)	**15 558**	14 980	**(1 245)**	—	**14 313**	14 980
n/a	n/a	**n/a**	n/a	**4,95**	4,95	**n/a**	n/a	**4,96**	4,95
1,58	0,13	**n/a**	n/a	**0,87**	1,08	**n/a**	n/a	**0,87**	1,08
93,4	92,8	**n/a**	n/a	**41,9**	42,0	**n/a**	n/a	**41,8**	42,0
5,15	(0,27)	**n/a**	n/a	**0,70**	7,73	**n/a**	n/a	**1,26**	7,73
2,56	9,99	**n/a**	n/a	**3,62**	6,09	**n/a**	n/a	**8,38**	6,09
66,1	67,8	**n/a**	n/a	**56,8**	55,2	**n/a**	n/a	**59,1**	55,2
5 004	5 660	**946**	618	**749 772**	720 309	**—**	—	**749 772**	720 309
1 847	1 973	**2 066**	(19 912)	**55 426**	49 790	**—**	—	**55 426**	49 789
4 765	4 687	**3 442**	18 667	**111 409**	114 315	**—**	—	**111 409**	114 315
39 066	38 687	**(282 951)**	(277 905)	**248 460**	216 609	**912**	—	**249 372**	216 610
50 682	51 007	**(276 497)**	(278 532)	**1 165 067**	1 101 023	**912**	—	**1 165 979**	1 101 023
5 150	5 144	**98 101**	97 648	**689 867**	674 865	**—**	—	**689 867**	674 865
—	—	**124 637**	124 186	**137 948**	139 714	**—**	—	**137 948**	139 714
40 687	40 548	**(563 231)**	(558 997)	**228 944**	184 164	**(9 840)[4]**	—	**219 104**	184 164
45 837	45 692	**(340 493)**	(337 163)	**1 056 759**	998 743	**(9 840)**	—	**1 046 919**	998 743
n/a	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**1,99**	2,14
2,03	2,74	**n/a**	n/a	**1,38**	1,34	**n/a**	n/a	**1,27**	1,34
20,1	21,7	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a

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58. Segment report (continued)

	RBB South Africa	
	2017 Rm	2016[1] Rm
Statement of comprehensive income (Rm)		
Net interest income	**25 542**	25 587
Non-interest income	**17 182**	16 345
Total income	**42 724**	41 932
Impairment losses on loans and advances	**(5 038)**	(6 022)
Operating expenses	**(24 431)**	(22 843)
Depreciation and amortisation	**(408)**	(375)
Other operating expenses	**(24 023)**	(22 468)
Other	**(310)**	(566)
Other impairments	**—**	(283)
Indirect taxation	**(310)**	(283)
Share of post-tax results of associates and joint ventures	**153**	134
Operating profit before income tax	**13 098**	12 635
Tax expenses	**(3 702)**	(3 528)
Profit for the reporting period	**9 396**	9 107
Profit attributable to:		
Ordinary equity holders	**8 867**	8 611
Non-controlling interest – ordinary shares	**270**	266
Non-controlling interest – preference shares	**259**	230
	9 396	9 107
Headline earnings	**8 874**	8 822
Operating performance (%)		
Net interest margin on average interest-bearing assets[2]	**3,68**	3,85
Credit loss ratio[3]	**1,10**	1,33
Non-interest income as percentage of income[3]	**40,2**	39,0
Income growth[3]	**1,89**	4,32
Operating expenses growth[3]	**6,96**	5,78
Cost-to-income ratio[3]	**57,2**	54,5
Statement of financial position (Rm)		
Loans and advances to customers	**446 894**	434 139
Loans and advances to banks	**7 893**	6 348
Investment securities	**43 101**	42 132
Other assets	**256 339**	247 914
Total assets	**754 227**	730 533
Deposits due to customers	**300 946**	286 297
Debt securities in issue	**400**	871
Other liabilities	**440 456**	431 572
Total liabilities	**741 802**	718 740
Financial performance (%)		
Return on average risk-weighted assets[2]	**2,76**	2,81
Return on average assets[2]	**1,19**	1,23

Notes

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

2 These ratios are unaudited.

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

CIB South Africa		Total South Africa Banking	
2017 Rm	2016[1] Rm	2017 Rm	2016[1] Rm
6 437	6 039	31 979	31 626
4 184	4 238	21 366	20 583
10 621	10 277	53 345	52 209
(567)	(1 020)	(5 605)	(7 042)
(5 671)	(5 552)	(30 102)	(28 395)
(5)	(12)	(413)	(387)
(5 666)	(5 540)	(29 689)	(28 008)
(183)	(163)	(493)	(729)
—	(42)	—	(325)
(183)	(121)	(493)	(404)
5	11	158	145
4 205	3 553	17 303	16 188
(732)	(615)	(4 434)	(4 143)
3 473	2 938	12 869	12 045
3 326	2 822	12 193	11 433
—	—	270	266
147	116	406	346
3 473	2 938	12 869	12 045
3 326	2 856	12 200	11 678
2,54	2,44	3,37	3,47
0,24	0,44	0,80	1,03
39,4	41,2	40,1	39,4
3,35	13,03	2,18	5,93
2,14	—	6,01	4,54
53,4	54,0	56,4	54,4
219 065	202 015	665 959	636 154
31 728	34 121	39 621	40 469
31 277	25 367	74 378	67 499
191 865	175 031	448 204	422 945
473 935	436 534	1 228 162	1 167 067
177 034	173 783	477 980	460 080
12 532	14 326	12 932	15 197
277 653	242 661	718 109	674 233
467 219	430 770	1 209 021	1 149 510
1,77	1,61	2,40	2,38
0,75	0,63	1,03	1,00

59. Derivatives

59.1 Derivative financial instruments

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

The derivative instrument contract value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group's net interest income, net trading income, net fee and commission income and derivative assets and liabilities.

Some derivative financial instruments have been designated as hedging instruments in fair value or cash flow hedging relationships or hedges of net investments in foreign operations. At the reporting date, the Group did not have any compound financial instruments with multiple embedded derivatives in issue.

The Group trades the following derivative instruments::

Foreign exchange derivatives

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

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

Interest rate derivatives

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

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

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

Credit derivatives

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

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

Equity derivatives

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

Commodity derivatives

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

59.2 Notional amount

The gross notional amount is the sum of the absolute value of all contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Group's participation in derivative contracts and not the market risk position nor the credit exposure arising on such contracts.

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

59. Derivatives *(continued)*

59.3 Derivative financial instruments

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

	2017			2016		
	Assets Rm	**Liabilities Rm**	**Notional contract amount Rm**	Assets Rm	Liabilities Rm	Notional contract amount Rm
Derivatives held for trading	**56 853**	**(52 101)**	**5 124 474**	45 153	(40 920)	5 250 754
Derivatives designated as hedging instruments	**2 673**	**(1 123)**	**220 647**	1 745	(2 064)	167 080
Other	**59**	**—**	**838**	39	—	822
Total derivatives	**59 585**	**(53 224)**	**5 345 959**	46 937	(42 984)	5 418 656

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

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

	Group					
	2017			2016		
	Assets Rm	**Liabilities Rm**	**Notional contract amount Rm**	Assets Rm	Liabilities Rm	Notional contract amount Rm
Foreign exchange derivatives	**15 886**	**(14 878)**	**532 991**	15 210	(14 173)	613 710
Forwards	**2 118**	**(1 571)**	**55 768**	1 347	(936)	32 448
Futures	**—**	**—**	**137 353**	0	—	213 162
Swaps	**12 822**	**(12 250)**	**294 351**	13 308	(12 619)	339 917
Options	**946**	**(1 057)**	**45 519**	555	(618)	28 183
Interest rate derivatives	**37 153**	**(33 376)**	**4 429 665**	27 355	(24 324)	4 499 141
Forwards	**1 754**	**(1 750)**	**2 887 692**	1 011	(1 030)	3 006 259
Futures	**—**	**—**	**34 329**	0	—	35 759
Swaps	**35 351**	**(31 505)**	**1 465 086**	26 324	(23 266)	1 450 753
Options	**48**	**(121)**	**42 558**	20	(28)	6 370
Equity derivatives	**2 544**	**(2 396)**	**118 039**	1 607	(1 366)	114 792
Forwards	**532**	**(214)**	**9 140**	472	(231)	3 263
Futures	**—**	**—**	**26 158**	0	—	49 914
Swaps	**1 052**	**(813)**	**22 126**	377	(330)	9 278
Options	**788**	**(1 369)**	**29 222**	754	(801)	17 209
Options – exchange traded	**—**	**—**	**23 858**	0	—	26 837
Other – OTC	**172**	**—**	**7 535**	4	(4)	8 291
Commodity derivatives	**1 105**	**(1 293)**	**34 378**	797	(819)	12 790
Forwards	**142**	**(357)**	**8 777**	369	(418)	11 291
Swaps	**116**	**(66)**	**312**	95	(59)	605
Options	**847**	**(870)**	**25 289**	333	(342)	894
Credit derivatives						
Default swaps	**165**	**(158)**	**9 401**	184	(238)	10 321
Derivatives held for trading	**56 853**	**(52 101)**	**5 124 474**	45 153	(40 920)	5 250 754
	5	18		5	18	

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

59. Derivatives *(continued)*

59.5 *Derivative held for investment purposes*

Derivatives held for investment purposes for the 2017 period had a notional value of **R838m** (2016: R822m) and an asset carrying value of **R59m** (2016: R39m).

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

	Group					
	2017			2016		
	Assets Rm	**Liabilities Rm**	**Notional contract amount Rm**	Assets Rm	Liabilities Rm	Notional contract amount Rm
Interest rate derivatives	**2 673**	**(998)**	**219 889**	1 745	(1 973)	166 017
Swaps – cash flow hedges	**1 767**	**(99)**	**170 655**	627	(699)	125 684
Swaps – fair value hedges	**906**	**(899)**	**49 234**	1 118	(1 274)	40 333
Foreign exchange derivatives						
Forward rate agreements – cash flow hedges	**—**	**(125)**	**758**	—	(91)	1 063
Derivatives designated as hedging instruments	**2 673**	**(1 123)**	**220 647**	1 745	(2 064)	167 080
	5	18		5	18	

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

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

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

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

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

	Group	
	2017 Rm	2016 Rm
Interest and similar income (refer to note 29)		
Interest rate risk	**264**	268
Other Operating income		
Hedges of net investments in foreign operations	**—**	85
Interest expense and similar charges (refer to note 30)		
Interest rate risk	**70**	(8)
Gains and losses from banking and trading activities		
Interest rate risk	**66**	—
Operating expenditure		
Foreign currency risk	**(52)**	5

59. Derivatives *(continued)*

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

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

	Group	
	2017 Rm	2016 Rm
Gains and (losses) from banking and trading activities (refer note 35)		
Interest rate risk	**18**	(53)
Foreign currency risk	**(1)**	—
	17	(53)

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

	Group 2017						
	Less than 1 year Rm	**1 – 2 years Rm**	**2 – 3 years Rm**	**3 – 4 years Rm**	**4 – 5 years Rm**	**More than 5 years Rm**	**Total Rm**
Forecast receivable cash flow							
Interest rate risk	**576**	**453**	**213**	**53**	**13**	**1**	**1 309**
Forecast payable cash flow	**(474)**	**(303)**	**(137)**	**(74)**	**(70)**	**(26)**	**(1 084)**
Interest rate risk	**(57)**	**(7)**	**(35)**	**(56)**	**(51)**	**(8)**	**(214)**
Foreign currency risk	**(417)**	**(296)**	**(102)**	**(18)**	**(19)**	**(18)**	**(870)**

	2016						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast receivable cash flow							
Interest rate risk	337	205	103	11	—	—	656
Forecast payable cash flow	(309)	(189)	(124)	(118)	(106)	(62)	(908)
Interest rate risk	(263)	(140)	(124)	(118)	(106)	(62)	(813)
Foreign currency risk	(46)	(49)	—	—	—	—	(95)

59. Derivatives *(continued)*

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

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

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

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

	Group	
	2017 Rm	2016 Rm
Financial assets – fair value hedges		
Gains on hedged items (assets)	**434**	1 340
Losses on hedging instruments (assets)	**(540)**	(2 171)
Interest expense on hedging instruments	**(107)**	(186)
Financial liabilities – fair value hedges		
Losses on hedged items (liabilities)	**(338)**	(866)
Gains on hedging instruments (liabilities)	**345**	864
Interest income on hedging instruments	**40**	34

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

	Group	
	2017 Rm	2016 Rm
Losses from banking and trading activities (refer to note 35)	**(65)**	(37)

59.9 Counterparty netting and collateral

Derivative assets subject to counterparty netting agreements amounted to **R47 413m** (2016: R43 298m). Additionally, the Group held **R2 009m** (2016: R 2 810m) of collateral against the net derivative asset exposure.

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

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

	2017 Fair value through profit or loss			
	Designated at fair value Rm	Held for trading Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	4 808	—	—	4 808
Investment securities	26 335	—	—	26 335
Loans and advances to banks	17 198	—	—	17 198
Trading portfolio assets	—	130 132	—	130 132
Hedging portfolio assets[1]	—	—	2 673	2 673
Other assets	4	—	—	4
Loans and advances to customers	26 811	—	—	26 811
Investments linked to investment contracts	18 877	59	—	18 936
Non-current assets held for sale	—	—	—	—
Assets outside the scope of IAS 39	—	—	—	—
	94 033	130 191	2 673	226 897
Liabilities				
Deposits from banks	12 555	—	—	12 555
Trading portfolio liabilities	—	64 047	—	64 047
Hedging portfolio liabilities[2]	—	—	1 123	1 123
Other liabilities	8	—	—	8
Deposits due to customers	20 890	—	—	20 890
Debt securities in issue	5 057	—	—	5 057
Liabilities under investment contracts	30 585	—	—	30 585
Borrowed funds	—	—	—	—
Liabilities outside the scope of IAS 39	—	—	—	—
	69 095	64 047	1 123	134 265

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

Notes

[1] Includes derivative assets to the amount of **R1 767m** (2016: R627m) and **R906m** (2016: R1 118m) that have been designated as cash flow and fair value hedging instruments respectively.

[2] Includes derivative liabilities to the amount of **R223m** (2016: R790m) and **R890m** (2016: R1 273m) that have been designated as cash flow and fair value hedging instruments respectively.

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

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

Notes to the consolidated financial statements

for the reporting period ended 31 December

2017							
Available-for-sale			Amortised cost				
Designated as available-for-sale Rm	Hedged items[3] Rm	Total Rm	Designated at amortised cost Rm	Hedged items[3] Rm	Total Rm	Assets/liabilities outside the scope of IAS 39[4] Rm	Total assets and liabilities Rm
952	—	952	42 909	—	42 909	—	48 669
64 657	20 417	85 074	—	—	—	—	111 409
—	—	—	38 228	—	38 228	—	55 426
—	—	—	—	—	—	2 051	132 183
—	—	—	—	—	—	—	2 673
—	—	—	17 486	—	17 486	3 470	20 960
—	—	—	722 915	46	722 961	—	749 772
—	—	—	—	—	—	—	18 936
—	—	—	1 118	—	1 118	—	1 118
—	—	—	—	—	—	24 833	24 833
65 609	20 417	86 026	822 656	46	822 702	30 354	1 165 979

—	—	—	54 835	—	54 835	—	67 390
—	—	—	—	—	—	—	64 047
—	—	—	—	—	—	—	1 123
—	—	—	27 833	—	27 833	3 903	31 744
—	—	—	668 977	—	668 977	—	689 867
—	—	—	122 124	10 767	132 891	—	137 948
—	—	—	—	—	—	—	30 585
—	—	—	11 901	3 994	15 895	—	15 895
—	—	—	—	—	—	8 320	8 320
—	—	—	885 670	14 761	900 431	12 223	1 046 919

2016							
Available-for-sale			Amortised cost				
Designated as available-for-sale Rm	Hedged items[3] Rm	Total Rm	Designated at amortised cost Rm	Hedged items[3] Rm	Total Rm	Assets/liabilities outside the scope of IAS 39[4] Rm	Total assets and liabilities Rm
—	—	—	45 126	—	45 126	—	50 006
56 059	27 762	83 821	—	—	—	—	114 315
—	—	—	29 932	—	29 932	—	49 789
—	—	—	—	—	—	1 485	96 236
—	—	—	—	—	—	—	1 745
—	—	—	22 120	—	22 120	3 413	25 542
—	—	—	696 231	2	696 233	—	720 309
—	—	—	—	—	—	—	18 816
—	—	—	—	—	—	24 265	24 265
56 059	27 762	83 821	793 409	2	793 411	29 163	1 101 023

—	—	—	44 107	—	44 107	—	53 192
—	—	—	—	—	—	—	47 429
—	—	—	—	—	—	—	2 064
—	—	—	23 600	—	23 600	4 051	27 696
—	—	—	657 744	—	657 744	—	674 865
—	—	—	123 600	10 597	134 197	—	139 714
—	—	—	—	—	—	—	29 198
—	—	—	11 754	3 919	15 673	—	15 673
—	—	—	—	—	—	8 912	8 912
—	—	—	860 805	14 516	875 321	12 963	998 743

61. Fair value disclosures

61.1 Assets and liabilities held at fair value

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

	Group							
	2017				2016			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Cash, cash balances and balances with central banks	1 839	3 921	—	5 760	2 388	2 492	—	4 880
Investment securities	53 068	50 740	7 601	111 409	60 051	50 906	3 358	114 315
Loans and advances to banks	—	16 714	484	17 198	—	19 286	571	19 857
Trading and hedging portfolio assets	54 966	76 015	1 824	132 805	33 572	61 419	1 505	96 496
Debt instruments	29 668	5 133	177	34 978	15 689	6 740	1 324	23 753
Derivative assets	—	58 980	546	59 526	—	46 717	181	46 898
Commodity derivatives	—	981	124	1 105	—	797	—	797
Credit derivatives	—	—	165	165	—	70	114	184
Equity derivatives	—	2 371	173	2 544	—	1 540	67	1 607
Foreign exchange derivatives	—	15 878	8	15 886	—	15 221	—	15 221
Interest rate derivatives	—	39 750	76	39 826	—	29 089	—	29 089
Equity instruments	23 662	—	—	23 662	17 883	—	—	17 883
Money market assets	1 636	11 902	1 101	14 639	—	7 962	—	7 962
Other assets	—	2	2	4	—	4	5	9
Loans and advances to customers	—	22 070	4 741	26 811	—	19 186	4 890	24 076
Investment linked to investment contract	17 906	1 030	—	18 936	16 335	2 481	—	18 816
Total financial assets	**127 779**	**170 492**	**14 652**	**312 923**	112 346	155 774	10 329	278 449
Financial liabilities								
Deposits from banks	—	12 555	—	12 555	—	9 085	—	9 085
Trading and hedging portfolio liabilities	11 946	52 279	945	65 170	6 508	42 677	308	49 493
Derivative liabilities	—	52 279	945	53 224	—	42 677	308	42 985
Commodity derivatives	—	1 172	121	1 293	—	875	—	875
Credit derivatives	—	10	148	158	—	137	101	238
Equity derivatives	—	1 973	423	2 396	—	1 306	60	1 366
Foreign exchange derivatives	—	14 874	4	14 878	—	14 173	—	14 173
Interest rate derivatives	—	34 250	249	34 499	—	26 186	147	26 333
Short positions	11 946	—	—	11 946	6 508	—	—	6 508
Other liabilities	—	3	5	8	—	4	41	45
Deposits due to customers	203	19 115	1 572	20 890	154	15 828	1 139	17 121
Debt securities in issue	214	4 355	488	5 057	261	4 652	604	5 517
Liabilities under investment contracts	—	30 585	—	30 585	—	29 055	—	29 055
Total financial liabilities	**12 363**	**118 892**	**3 010**	**134 265**	6 923	101 301	2 092	110 316
Non-financial assets								
Commodity	2 051	—	—	2 051	1 485	—	—	1 485
Investment properties	—	—	231	231	—	—	478	478
Non-recurring fair value measurements								
Non-current assets held for sale[1]	—	—	190	190	—	—	823	823
Non-current liabilities held for sale[1]	—	—	48	48	—	—	9	9

Note

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

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61. Fair value disclosures *(continued)*

61.2 Reconciliation of Level 3 assets and liabilities

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

	Group 2017				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm
Opening balance at the beginning of the reporting period	**1 505**	**5**	**4 890**	**571**	**3 358**
Net interest income	—	—	12	—	62
Other income	—	—	—	—	—
Gains and losses from banking and trading activities	(635)	—	29	—	—
Gains and losses from investment activities	—	—	—	—	2
Purchases	1 101	—	1 020	88	4 832
Sales	(147)	—	(1 112)	(175)	(579)
Movement in other comprehensive income	—	—	—	—	29
Issues	—	—	—	—	—
Settlements	—	(3)	—	—	(22)
Transferred to/(from)	—	—	—	—	—
Transfer in/(out) of Level 3	—	—	(98)	—	(81)
Closing balance at the end of the reporting period	**1 824**	**2**	**4 741**	**484**	**7 601**

	Group 2016				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers[1] Rm	Loans and advances to banks Rm	Investment securities Rm
Opening balance at the beginning of the reporting period	1 418	25	7 511	2 109	3 966
Net interest income	—	—	232	—	56
Other income	—	—	—	—	—
Gains and losses from banking and trading activities	112	—	65	(140)	(1 079)
Gains and losses from investment activities	—	—	—	—	106
Purchases	1 308	(3)	—	70	543
Sales	(1 333)	(17)	(1 956)	(1 468)	(233)
Movement in other comprehensive income	—	—	—	—	(80)
Issues	—	—	—	—	—
Settlements	—	—	—	—	—
Transferred to/(from) assets/liabilities	—	—	—	—	1 136
Transfer in/(out) of Level 3	—	—	(962)	—	(1 057)
Closing balance at the end of the reporting period	1 505	5	4 890	571	3 358

61.2.1 Significant transfers between levels

During the 2017 and 2016 reporting periods, transfers between levels occurred because of changes in the observability of valuation inputs, in some instances owing to changes in the level of market activity.

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

Note

[1] The gains and losses from banking and trading activities on loans and advances to customers for 2016 have been restated by R65m to include the movement in the unrealised gains relating to the base rates applicable to the assets. Previously only unrealised gains relating to the unobservable credit spreads for these assets were taken into account in the disclosure.

Group 2017							
Investment properties Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
478	10 807	—	308	41	1 139	604	2 092
—	74	—	—	—	7	—	7
12	12	—	—	—	—	—	—
—	(606)	—	585	—	—	—	585
—	2	—	—	—	—	—	—
1	7 042	—	—	—	—	—	—
(260)	(2 273)	—	—	—	—	—	—
—	29	—	—	—	—	—	—
—	—	—	52	—	1 685	30	1 767
—	(25)	—	—	(36)	(1 144)	(68)	(1 248)
—	—	—	—	—	—	—	—
—	(179)	—	—	—	(115)	(78)	(193)
231	14 883	—	945	5	1 572	488	3 010

Group 2016							
Investment properties Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
1 264	16 293	7	217	5	2 557	624	3 410
—	288	—	—	—	—	—	—
17	17	—	—	—	—	—	—
—	(1 042)	—	91	—	—	—	91
—	106	—	—	—	139	(9)	130
28	1 946	—	—	—	—	—	—
(83)	(5 090)	—	—	—	—	—	—
—	(80)	—	—	—	—	—	—
—	—	—	—	36	1 953	—	1 989
—	—	(7)	—	—	(3 510)	(11)	(3 528)
(748)	388	—	—	—	—	—	—
—	(2 019)	—	—	—	—	—	—
478	10 807	—	308	41	1 139	604	2 092

61. Fair value disclosures *(continued)*

61.3 Unrealised gains and losses on Level 3 assets and liabilities

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

	Group 2017 Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm	Investments linked to investment contracts Rm	Non-current assets held for sale Rm	Total assets at fair value Rm
Gains and losses from banking and trading activities	**67**	**—**	**761**	**60**	**—**	**—**	**—**	**888**

	2016 Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers[1] Rm	Investment securities Rm	Investment properties Rm	Investments linked to investment contracts Rm	Non-current assets held for sale Rm	Total assets at fair value Rm
Gains and losses from banking and trading activities	3	—	731	29	—	—	—	763

	Group 2017 Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Liabilities under investment contracts Rm	Total liabilities at fair value Rm
Gains and losses from banking and trading activities	**284**	**—**	**—**	**—**	**284**

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

Note

[1] The unrealised gains and losses for loans and advances to customers for 2016 have been restated by R696m to include the unrealised gains relating to the base rates applicable to the assets. Previously only unrealised gains relating to the unobservable credit spreads for these assets were taken into account in the disclosure.

61. Fair value disclosures *(continued)*

61.4 Sensitivity analysis of valuations using unobservable inputs

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

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

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

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value of the asset or liability by more than 10% or the underlying value of the affected item.

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

		2017	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	**Favourable/(Unfavourable) Rm**	**Favourable/(Unfavourable) Rm**
Deposits due to Banks	**BAGL/Absa funding spread**	**17/(17)**	**—/—**
Deposits due to customers	**BAGL/Absa funding spread**	**13/(12)**	**—/—**
Investment securities and investments linked to investment contracts	**Risk adjustment yield curves, future earnings and marketability discount**	**76/(76)**	**323/(306)**
Loans and advances to customers	**Credit spreads**	**70/(69)**	**—/—**
Other assets	**Credit spreads**	**—/—**	**—/—**
Trading and hedging portfolio assets	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**33/(33)**	**—/—**
Trading and hedging portfolio liabilities	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**17/(17)**	**—/—**
Other liabilities	**Volatility, credit spreads**	**—/—**	**—/—**
		226/(224)	**323/(306)**

61. Fair value disclosures *(continued)*

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

		2016	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	BAGL/Absa funding spread	—/—	—/—
Investment securities and investments linked to investment contracts	Risk adjustment yield curves, future earnings and marketability discount	34/(36)	94/(100)
Loans and advances to customers	Credit spreads	72/(71)	—/—
Other assets	Volatility, credit spreads	—/—	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	175/(175)	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	20/(20)	—/—
Other liabilities	Volatility, credit spreads	—/—	—/—
		301/(302)	94/(100)

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

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

	Group	
	2017 Rm	2016 Rm
Opening balance at the beginning of the reporting period	**(139)**	(105)
New transactions	**(27)**	(64)
Amounts recognised in profit or loss during the reporting period	**32**	30
Closing balance at the end of the reporting period	**(134)**	(139)

61.6 *Third-party credit enhancements*

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

61. Fair value disclosures *(continued)*

61.7 Assets and liabilities not held at fair value

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

	Group 2017				
	Carrying value Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with other central banks	10 281	10 281	10 281	—	—
Balances with the SARB	19 109	19 109	19 109	—	—
Coins and bank notes	13 519	13 519	13 519	—	—
Money market assets	—	—	—	—	—
Cash, cash balances and balances with central banks	42 909	42 909	42 909	—	—
Loans and advances to banks	38 228	39 037	1 552	34 693	2 792
Other assets	17 486	17 556	9 310	4 051	4 195
South Africa Banking	640 009	640 241	22 085	84 920	533 236
RBB South Africa	447 752	447 984	1 510	—	446 474
Retail Banking South Africa	383 495	383 727	—	—	383 727
Credit cards	35 223	35 224	—	—	35 224
Instalment credit agreements	77 044	77 275	—	—	77 275
Loans to associates and joint ventures	23 037	23 037	—	—	23 037
Mortgages	222 625	222 625	—	—	222 625
Other loans and advances	740	740	—	—	740
Overdrafts	5 443	5 443	—	—	5 443
Personal and term loans	19 383	19 383	—	—	19 383
Business Banking South Africa	64 257	64 257	1 510	—	62 747
Mortgages (including CPF)	27 833	27 833	—	—	27 833
Overdrafts[1]	19 199	19 199	1 510	—	17 689
Term loans[1]	17 225	17 225	—	—	17 225
CIB South Africa	192 257	192 257	20 575	84 920	86 762
Rest of Africa Banking	77 005	77 137	—	20 099	57 038
WIMI	5 004	5 004	—	—	5 004
Head Office, Treasury and other operations in South Africa	943	943	—	943	—
Loans and advances to customers – net of impairment losses	722 961	723 325	22 085	105 962	595 278
Non-current assets held for sale	1 118	1 118	—	—	1 118
Total assets	822 702	823 945	75 856	144 706	603 383
Financial liabilities					
Deposits from banks	54 835	54 915	1 942	52 948	25
Other liabilities	27 833	27 832	8 028	15 437	4 367
Call deposits	81 076	81 076	21 393	59 683	—
Cheque account deposits	191 048	191 048	180 646	10 402	—
Credit card deposits	1 921	1 921	1 921	—	—
Fixed deposits	148 328	148 328	573	144 265	3 490
Foreign currency deposits	28 418	28 418	638	27 780	—
Notice deposits	58 459	58 459	1 796	56 663	—
Other deposits	2 629	2 629	1 194	1 422	13
Saving and transmission deposits	157 098	157 098	135 476	19 866	1 756
Deposits due to customers	668 977	668 977	343 637	320 081	5 259
Debt securities in issue	132 891	132 891	—	130 787	2 104
Borrowed funds	15 895	15 895	—	15 895	—
Total liabilities	900 431	900 510	353 607	535 148	11 755

61. Fair value disclosures *(continued)*

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

	Group 2016 Carrying value Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with other central banks	13 395	13 395	13 395	—	—
Balances with the SARB	18 552	18 552	18 552	—	—
Coins and bank notes	13 141	13 141	13 141	—	—
Money market assets	38	38	38	—	—
Cash, cash balances and balances with central banks	45 126	45 126	45 126	—	—
Loans and advances to banks	29 932	29 827	1 834	26 450	1 543
Other assets	22 120	22 188	6 940	7 832	4 716
South Africa Banking	612 638	612 531	16 826	39 975	555 730
RBB South Africa	434 590	434 483	1 238	—	433 245
Retail Banking South Africa	375 082	374 973	—	—	374 973
Credit cards	35 614	35 614	—	—	35 614
Instalment credit agreements	73 955	73 650	—	—	73 650
Loans to associates and joint ventures	18 933	18 933	—	—	18 933
Mortgages	223 662	223 674	—	—	223 674
Other loans and advances	510	510	—	—	510
Overdrafts	3 947	3 947	—	—	3 947
Personal and term loans	18 461	18 645	—	—	18 645
Business Banking South Africa	59 508	59 510	1 238	—	58 272
Mortgages (including CPF)	25 406	25 408	—	—	25 408
Overdrafts	18 448	18 448	1 238	—	17 210
Term loans	15 654	15 654	—	—	15 654
CIB South Africa	178 048	178 048	15 588	39 975	122 485
Rest of Africa Banking	77 320	77 320	—	5 415	71 905
WIMI	5 660	5 660	—	—	5 660
Head Office and other operations in South Africa	615	615	—	615	—
Loans and advances to customers – net of impairment losses	696 233	696 126	16 826	46 005	633 295
Total assets	793 411	793 267	70 726	80 287	639 554
Financial liabilities					
Deposits from banks	44 107	44 107	978	43 124	5
Other liabilities	23 600	23 584	7 646	10 721	5 217
Call deposits	62 426	62 426	15 500	46 926	—
Cheque account deposits	200 367	200 367	191 103	9 264	—
Credit card deposits	1 906	1 906	1 906	—	—
Fixed deposits	153 295	153 358	415	148 395	4 548
Foreign currency deposits	24 825	24 825	447	24 378	—
Notice deposits	59 358	59 371	1 674	57 697	—
Other deposits	3 189	3 189	1 236	1 898	55
Saving and transmission deposits	152 378	152 378	143 897	8 243	238
Deposits due to customers	657 744	657 820	356 178	296 801	4 841
Debt securities in issue	134 197	134 197	457	130 951	2 789
Borrowed funds	15 673	15 893	—	15 797	96
Total liabilities	875 321	875 601	365 259	497 394	12 948

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

62. Credit risk of financial instruments designated at fair value

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

	Group		Credit risk mitigation	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
Assets				
Cash, cash balances and balances with central banks	**4 808**	4 880	**72**	—
Investment securities	**26 335**	25 056	**4 529**	—
Loans and advances to banks	**17 198**	19 857	**12 913**	18 768
Other assets	**4**	9	**—**	—
Loans and advances to customers	**26 811**	24 076	**16 224**	16 201
Investments linked to investment contracts	**2 725**	2 590	**—**	—
	77 881	76 468	**33 738**	34 969

The Group utilised credit derivatives and credit linked notes as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss.

Contractual obligation at maturity of financial liabilities designated at fair value through profit or loss

The following table represents the carrying amount of financial liabilities designated at fair value through profit or loss and the amount that the Group is contractually required to pay to the holder of the obligation at maturity.

	Group			
	2017		2016	
	Carrying value Rm	**Contractual obligation Rm**	Carrying value Rm	Contractual obligation Rm
Liabilities				
Deposits from banks	**12 555**	**12 659**	9 085	10 771
Other liabilities	**8**	**8**	45	45
Deposits due to customers	**20 890**	**25 922**	17 121	20 454
Debt securities in issue	**5 057**	**6 086**	5 517	7 003
Liabilities under investment contracts	**30 585**	**30 585**	29 198	29 198
	69 095	**75 260**	60 966	67 471

Note

[1] Investments linked to investment contracts has been restated, the prior year figures contained equity instruments (previously R18 776m) which although are at fair value, are not subject to credit risk.

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

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

	Group 2017 Rm	2016 Rm
Liabilities		
Deposits from banks and customers	**(147)**	(12)

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

	Group 2017 Rm	2016 Rm
Liabilities		
Deposits from banks and customers	**226**	105

The following approaches are used in determining changes in fair value due to changes in credit risk for deposits from banks and customers designated at fair value through profit or loss:

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

63. Risk management

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

The role of risk management is to evaluate, respond to, and monitor risks in the execution of the Group's strategy. It is essential that the business growth strategy is supported by an effective ERMF. Risk culture is closely aligned to that of the business. The Risk Function retains independence in analysis and decision-making.

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

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

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

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

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

The ERMF is reviewed and approved annually by the Board.

63. Risk management *(continued)*

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

Future priorities (Unaudited)

- Regularly review and alter risk appetite (where appropriate) to take account of global and local macroeconomic deterioration.
- Increase focus on governance and model risk across the Group.
- Continue to focus on technology, fraud (including cybercrime) and anti-money laundering.
- Increase focus on data initiatives, including those arising from regulations (e.g. BCBS 239, and IFRS 9).
- Continue to enhance our scenario development and stress testing processes.
- Embed enhanced Risk Measurement tools and models to include more extensive use of Economic Capital metrics.

Risk appetite

Risk appetite and stress testing are key components of the Group's management of risk and are embedded as part of the strategic planning process. The risk appetite statement describes and measures the amount and types of risk that the Group is prepared to take in executing its strategy. The Group's risk appetite framework combines a top-down view of capacity to take risk with a bottom-up view of the risk profile associated with each business area's plans.

Risk appetite key indicators and triggers

The Group manages its risk profile in a forward-looking manner through a trigger and management action framework, which has been reviewed and strengthened. Key indicators and triggers have been developed to serve as an early warning system. The indicators include, inter alia, economic indices directly correlated with risk measures and key financial indicators. The indicators and triggers have been implemented at Group, Business Unit, country, and product levels, and are regularly monitored by management and reported to the GRCMC on a quarterly basis.

Stress testing

Stress testing is a key element of the Group's integrated planning and risk management processes. Through the use of stress testing and scenario analysis, the Group is able to assess the performance of the Group's portfolios in the expected economic environment and also evaluate the impact of adverse economic conditions.

Actual market stresses, which have been experienced throughout the financial system in recent years, have been used to inform the Group's capital planning process and enhance the stress scenarios employed. The Group takes into account the results of all such stress testing when assessing its internal and regulatory capital requirements including the setting of capital and liquidity buffers.

The GRCMC exercises governance oversight and approval authority over stress testing results.

63. Risk management *(continued)*

63.2 Credit risk

The following table analyses financial assets between those that are neither past due nor impaired and those that are past due and/or impaired. Past due/impaired assets are further analysed in the tables that follow.

Maximum exposure to credit risk

	Group				
	2017				
		Neither past due nor impaired[1]			
	Gross maximum exposure Rm	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total past due and/or impaired loans Rm
Balances with other central banks	10 281	3 512	6 769	—	—
Balances with the SARB	19 109	19 109	—	—	—
Money market assets	5 760	4 808	952	—	—
Cash, cash balances and balances with central banks (refer to note 2)	35 150	27 429	7 721	—	—
Government bonds	34 321	34 321	—	—	—
Other	35 128	22 294	12 834	—	—
Treasury bills	36 812	29 463	7 349	—	—
Investment securities (refer to note 3)	106 261	86 078	20 183	—	—
Loans and advances to banks (refer to note 4)	55 426	42 762	12 507	157	—
Debt instruments	34 978	31 885	3 093	—	—
Derivative assets	59 526	56 431	3 092	3	—
Money market assets	14 639	13 962	677	—	—
Trading and hedging portfolio assets (refer to note 5)	109 143	102 278	6 862	3	—
Accounts receivable	11 829	9 259	2 516	—	54
Settlement accounts	5 663	5 604	59	—	—
Other assets (refer to note 6)	17 492	14 863	2 575	—	54
South Africa Banking	681 871	221 275	374 877	30 945	54 774
RBB	461 415	69 034	310 343	29 910	52 128
Retail Banking South Africa	395 295	59 644	262 234	27 735	45 682
Credit cards	39 556	4 981	17 902	8 010	8 663
Instalment credit agreements	78 860	6 805	56 959	8 773	6 323
Loans to associates and joint ventures	23 037	23 037	—	—	—
Mortgages	225 821	22 398	171 649	5 685	26 089
Other loans and advances	740	149	579	12	—
Overdrafts	5 731	1 202	3 649	220	660
Personal and term loans	21 550	1 072	11 496	5 035	3 947
Business Banking South Africa	66 120	9 390	48 109	2 175	6 446
Mortgages (including CPF)	28 487	5 299	20 559	797	1 832
Overdrafts	19 966	1 343	15 534	797	2 292
Term loans	17 667	2 748	12 016	581	2 322
CIB	220 456	152 241	64 534	1 035	2 646
Rest of Africa Banking	80 628	12 894	59 656	938	7 140
WIMI	5 191	1 289	3 510	102	290
Head Office, Treasury and other operations in South Africa	956	956	—	—	—
Loans and advances to customers (refer to note 8)	768 646	236 414	438 043	31 985	62 204
Insurance contracts	892	525	81	—	286
Investment contracts	—	—	—	—	—
Reinsurance assets (refer to note 10)	892	525	81	—	286
Debt instruments	557	557	—	—	—
Derivative instruments	59	59	—	—	—
Money market assets	2 168	2 168	—	—	—
Investments linked to investment contracts (refer to note 11)	2 784	2 784	—	—	—
Non-current assets held for sale	1 159	117	995	6	41
Total gross maximum exposure to credit risk	1 096 953				
Impairments raised (refer to note 9)	(18 874)				
Total net exposure to credit risk as disclosed on the statement of financial position	1 078 079				
Assets not subject to credit risk	87 900				
Total assets per the statement of financial position	1 165 979				

Note

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

63. Risk management *(continued)*

63.2 Credit risk *(continued)*

Maximum exposure to credit risk

	Group				
	2016[1]				
		Neither past due nor impaired[2]			
	Gross maximum exposure Rm	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total past due and/or impaired loans Rm
Balances with other central banks	13 395	5 612	7 783	—	—
Balances with the SARB	18 552	18 552	—	—	—
Money market assets	4 918	4 918	—	—	—
Cash, cash balances and balances with central banks (refer to note 2)	36 865	29 082	7 783	—	—
Government bonds	46 781	46 781	—	—	—
Other	29 088	18 169	10 919	—	—
Treasury bills	32 365	28 746	3 619	—	—
Investment securities (refer to note 3)	108 234	93 696	14 538	—	—
Loans and advances to banks (refer to note 4)	49 789	37 541	12 092	147	9
Debt instruments	23 753	20 007	3 746	—	—
Derivative assets	46 898	44 840	2 056	2	—
Money market assets	7 962	7 469	339	154	—
Trading portfolio assets (refer to note 5)	78 613	72 316	6 141	156	—
Accounts receivable	15 612	13 174	2 393	25	20
Settlement accounts	6 517	6 480	37	—	—
Other assets (refer to note 6)	22 129	19 654	2 430	25	20
South Africa Banking	652 418	219 541	352 678	26 591	53 608
RBB South Africa	448 114	64 225	307 041	25 506	51 342
Retail Banking South Africa	387 027	55 732	262 358	23 687	45 250
Credit cards	40 225	4 373	17 972	8 596	9 284
Instalment credit agreements	75 615	6 766	57 296	5 996	5 557
Loans to associates and joint ventures	18 933	18 933	—	—	—
Mortgages	226 984	23 431	171 920	5 671	25 962
Other loans and advances	510	86	394	30	—
Overdrafts	4 143	1 002	2 493	194	454
Personal and term loans	20 617	1 141	12 283	3 200	3 993
Business Banking South Africa	61 087	8 493	44 683	1 819	6 092
Mortgages (including CPF)	25 766	4 294	18 470	828	2 174
Overdrafts	19 213	1 794	14 760	582	2 077
Term loans	16 108	2 405	11 453	409	1 841
CIB South Africa	204 304	155 316	45 637	1 085	2 266
Rest of Africa Banking	81 253	11 743	59 902	3 299	6 309
WIMI	5 731	1 366	4 051	192	122
Head Office, Treasury and other operations in South Africa	623	623	—	—	—
Loans and advances to customers (refer to note 8)	740 025	233 273	416 631	30 082 —	60 039
Insurance contracts	985	798	187	—	—
Reinsurance assets (refer to note 10)	985	798	187	— —	—
Debt instruments	506	506	—	—	—
Derivative instruments	39	39	—	—	—
Money market assets	2 085	2 085	—	—	—
Investments linked to investment contracts (refer to note 11)	2 630	2 630	—	— —	—
Non-current assets held for sale	—	—	—	—	—
Total gross maximum exposure to credit risk	1 039 270				
Impairments raised (refer to note 9)	(19 716)				
Total net exposure to credit risk as disclosed on the statement of financial position	1 019 554				
Assets not subject to credit risk	81 469				
Total financial assets per the statement of financial position	1 101 023				

Notes

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

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

63. Risk management *(continued)*

63.2 *Credit risk (continued)*

Credit exposures relating to off-statement of financial position items

For financial guarantees, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Group	
	2017 Rm	2016 Rm
Financial guarantee contracts (refer to note 52)	**10**	10
Guarantees (refer to note 54)	**38 789**	38 441
Irrevocable debt facilities (refer to note 54)	**162 907**	135 935
Letters of credit (refer to note 54)	**7 814**	8 481
Other (refer to note 54)	**262**	135
	209 782	183 002

Concentration of credit risk

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

	Group				
	2017				
Geographical concentration of risk	**Asia, Americas and Australia Rm**	**Europe Rm**	**Rest of Africa Rm**	**South Africa Rm**	**Total Rm**
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	—	—	11 305	23 845	35 150
Investment securities	8 142	—	28 456	69 663	106 261
Loans and advances to banks	3 817	21 838	12 231	17 540	55 426
Trading portfolio assets	963	16 594	6 275	82 638	106 470
Hedging portfolio assets	—	—	6	2 667	2 673
Other assets	95	1 488	2 306	13 602	17 491
Loans and advances to customers	9 542	7 137	81 596	651 497	749 772
Reinsurance assets	—	—	425	467	892
Investments linked to investment securities	—	—	—	2 784	2 784
Non-current assets held for sale				1 118	1 118
Subject to credit risk	22 559	47 057	142 600	865 821	1 078 037
Off-statement of financial position exposures					
Financial guarantee contracts	—	—	—	10	10
Guarantees	201	4 251	10 476	23 861	38 789
Irrevocable debt facilities	—	—	8 191	154 716	162 907
Letters of credit	4	66	5 526	2 218	7 814
Other	—	—	111	151	262
Subject to credit risk	205	4 317	24 304	180 956	209 782

Amounts presented in the above table are presented net of impairments, where relevant.

63. Risk management *(continued)*

63.2 Credit risk (continued)

	Group				
	2016				
Geographical concentration of risk	Asia, Americas and Australia Rm	Europe Rm	Rest of Africa Rm	South Africa Rm	Total Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	26	1	13 501	23 337	36 865
Investment securities	3 978	1 728	23 731	78 797	108 234
Loans and advances to banks	6 759	23 079	10 485	9 466	49 789
Trading portfolio assets	162	19 035	6 647	51 025	76 869
Hedging portfolio assets	28	581	—	1 135	1 744
Other assets	296	510	2 650	18 673	22 129
Loans and advances to customers	3 595	9 307	82 550	624 857	720 309
Reinsurance assets	83	230	488	184	985
Investments linked to investment securities	—	—	—	2 630	2 630
Subject to credit risk	14 927	54 471	140 052	810 104	1 019 554
Off-statement of financial position exposures					
Financial guarantee contracts	—	—	—	10	10
Guarantees	429	737	8 726	28 549	38 441
Irrevocable debt facilities	—	—	5 091	130 844	135 935
Letters of credit	1 307	1 459	5 604	111	8 481
Other	—	—	—	135	135
Subject to credit risk	1 736	2 196	19 421	159 649	183 002

Amounts presented in the above table are presented net of impairments, where relevant.

IFRS disclosures in terms of credit mitigation

The financial effect and forms of collateral and credit enhancements for each class of financial instrument giving rise to credit risk are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset balance is described further in note 1.2.1.

The Group offsets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Group has a legally enforceable right to do so. Amounts disclosed in the maximum exposure category are stated net of these.

The percentage collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying value of the related credit exposure where a loan is possibly over-collateralised, and dividing this value by the maximum exposure, as reported. The percentage reported is calculated independently of other forms of collateral and the assessment of impairment losses on loans and advances.

The Group may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount of this collateral and the value of this collateral is not reported.

Collateral includes:

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

63. Risk management *(continued)*
63.2 Credit risk *(continued)*

	Group					
	2017					
Analysis of credit risk mitigation and collateral	Gross maximum exposure Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm
Balances with other central banks	10 281	—	—	—	—	10 281
Balances with SARB	19 109	—	—	—	—	19 109
Money market	5 760	72	—	—	—	5 688
Cash, cash balances and balances with central banks (refer to note 2)	35 150	72	—	—	—	35 078
Loans and advances to banks (refer to note 4)	55 426	326	—	—	15 452	39 648
Government bonds	34 321	—	—	—	—	34 321
Other	35 124	133	—	—	—	34 991
Treasury bills	36 812	—	—	—	—	36 812
Investment securities (refer to note 3)	106 261	133	—	—	—	106 129
Debt instruments	34 978	309	—	—	31	34 637
Derivative assets	59 527	—	—	2 009	35 867	21 651
Money market assets	14 639	—	—	—	—	14 639
Trading and hedging portfolio assets (refer to note 5)	109 143	309	—	2 009	35 898	70 927
Accounts receivable	11 828	22	55	—	61	11 690
Settlement accounts	5 663	—	1	—	1	5 661
Other assets (refer to note 6)	17 491	22	56	—	62	17 351
South Africa Banking	681 872	19 311	353 274	504	21 520	287 262
RBB	461 416	935	335 159	504	3	124 815
Retail Banking South Africa	395 296	1	290 435	40	—	104 819
Credit cards	39 556	1	43	25	—	39 486
Instalment credit agreements	78 860	—	78 845	15	—	—
Loans to associates and joint ventures	23 037	—	—	—	—	23 037
Mortgages	225 822	—	211 547	—	—	14 275
Other loans and advances	740	—	—	—	—	740
Overdrafts	5 731	—	—	—	—	5 731
Personal and term loans	21 550	—	—	—	—	21 550
Business Banking South Africa	66 120	934	44 724	464	3	19 996
Mortgages (including CPF)	28 487	859	27 019	22	—	588
Overdrafts	19 968	61	7 831	291	2	11 783
Term loans	17 665	14	9 874	151	1	7 625
CIB South Africa	220 456	18 376	18 115	—	21 517	162 447
Rest of Africa Banking	80 628	1 863	21 796	788	4 353	51 827
WIMI	5 191	—	1 075	—	—	4 117
Head Office, Treasury and other operations	956	—	—	—	—	956
Loans and advances to customers (refer to note 8)	768 647	21 174	376 145	1 292	25 873	344 162
Non-current assets held for sale	1 159	—	—	—	—	1 159

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

63. Risk management *(continued)*

63.2 *Credit risk (continued)*

Analysis of credit risk mitigation and collateral	Group 2016[1] Gross maximum exposure Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm
Balances with other central banks	13 395	—	—	—	—	13 395
Balances with SARB	18 552	—	—	—	—	18 552
Money Market	4 918	—	—	—	—	4 918
Cash, cash balances and balances with central banks (refer to note 2)	36 865	—	—	—	—	36 865
Loans and advances to banks (refer to note 4)	49 789	—	—	—	20 555	29 234
Government bonds	46 781	—	—	—	—	46 781
Other	29 088	—	—	—	—	29 088
Treasury bills	32 365	—	—	—	—	32 365
Investment securities (refer to note 3)	108 234	—	—	—	—	108 234
Debt instruments	23 753	—	—	—	979	22 774
Derivative assets[1]	46 898	—	—	2 810	35 340	8 748
Money market assets	7 962	—	—	—	—	7 962
Trading and hedging portfolio assets (refer to note 5)	78 613	—	—	2 810	36 319	39 484
Accounts receivable	15 612	126	—	6	26	15 454
Settlement accounts	6 517	—	—	—	—	6 517
Other assets (refer to note 6)	22 129	126	—	6	26	21 971
South Africa Banking	652 419	3 526	355 850	1 205	38 261	253 577
RBB South Africa	448 113	103	333 971	1 040	36	112 963
Retail Banking South Africa	387 027	2	292 307	58	—	94 660
Credit cards	40 225	2	63	41	—	40 119
Instalment credit agreements	75 615	—	75 598	17	—	—
Loans to associates and joint ventures	18 933	—	—	—	—	18 933
Mortgages	226 984	—	216 646	—	—	10 338
Other loans and advances	510	—	—	—	—	510
Overdrafts	4 143	—	—	—	—	4 143
Personal and term loans	20 617	—	—	—	—	20 617
Business Banking South Africa	61 086	101	41 664	982	36	18 303
Mortgages (including CPF)	25 765	13	24 025	18	32	1 677
Overdrafts[2]	19 213	71	8 319	756	3	10 064
Term loans[2]	16 108	17	9 320	208	1	6 562
CIB South Africa	204 306	3 423	21 879	165	38 225	140 614
Rest of Africa Banking	81 253	482	6 361	3	20 471	53 936
WIMI	5 731	—	939	—	—	4 792
Head Office, Treasury and other operations in South Africa	623	—	—	—	—	623
Loans and advances to customers (refer to note 8)	740 025	4 008	363 150	1 208	58 732	312 928
Non-current assets held for sale	—	—	—	—	—	—

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

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

63. Risk management *(continued)*

63.2 Credit risk (continued)

Enforcement of collateral

Residential properties

Carrying value of assets held by Group at the reporting date as a result of the enforcement of collateral is as follows:

	Group	
	2017	2016
	Rm	Rm
Balance at the beginning of the reporting period	**—**	—
Acquisitions	**23**	55
Disposals	**(23)**	(55)
Balance at the end of the reporting period	**—**	—

The Group has optimised the sales strategies of the stock of property in possession (PIP) to manage the inflow in order to minimise financial loss. This has resulted in the book remaining at **Rnil** (2016: Rnil).

The number of properties in possession reduced from 115 properties in the previous reporting period to 75 properties in the current reporting period. The gross PIPS portfolio decreased from R62m in the previous reporting period to R53m in the current reporting period. Currently **28%** (2016: 41%) of the current inventory is sold pending registration. .

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63. Risk management *(continued)*

63.2 Credit risk *(continued)*

Analysis of past due accounts

The following table demonstrates the maximum exposure to credit risk of financial assets considered past due and/or considered to be impaired:

	Group				
	2017				
		Past due not impaired Performing loans			
	Total past due and/or impaired loans Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm
Loans and advances to banks	—	—	—	—	—
Accounts receivable	12	10	2	—	—
Settlement accounts	—	—	—	—	—
Other assets	12	10	2	—	—
South Africa Banking	54 777	2 510	197	161	44
RBB	52 131	1 896	197	161	44
Retail Banking South Africa	45 685	15	7	5	26
Credit cards	8 664	—	—	—	—
Instalment credit agreements	6 323	15	7	5	26
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	26 089	—	—	—	—
Other loans and advances	—	—	—	—	—
Overdrafts	662	—	—	—	—
Personal and term loans	3 947	—	—	—	—
Business Banking South Africa	6 446	1 881	190	156	18
Mortgages (including CPF)	1 832	153	39	27	—
Overdrafts	2 292	619	63	52	8
Term loans	2 322	1 109	88	77	10
CIB South Africa	2 646	614	—	—	—
RBB Rest of Africa	7 139	286	674	980	8
WIMI	291	11	—	—	—
Head Office, Treasury and other operations	—	—	—	—	—
Loans and advances to customers	62 207	2 807	871	1 141	52
Non-current assets held for sale	41	—	—	—	—

Financial assets not disclosed in the table above did not have any past due accounts.

	Group 2017							
	Past due not impaired Non-performing loans					Past due and/or impaired		
Past due older than 4 months Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Performing loans Rm	Non-performing loans Rm	Total non-performing loans Rm
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
79	180	76	43	23	426	25 877	25 144	25 887
79	180	76	43	23	426	25 877	23 125	23 868
2	—	—	1	—	—	25 087	20 539	20 534
—	—	—	—	—	—	3 634	5 030	5 053
2	—	—	1	—	—	3 904	2 362	2 362
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	15 725	10 364	10 353
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	277	384	383
—	—	—	—	—	—	1 547	2 399	2 383
77	180	76	42	23	426	790	2 586	3 334
32	82	29	22	—	223	105	1 121	1 477
29	11	—	—	2	153	439	915	1 082
16	87	47	20	21	50	246	550	775
—	—	—	—	—	—	—	2 019	2 019
287	589	27	36	3	1 574	—	2 512	4 742
18	1	—	—	9	41	—	211	262
—	—	—	—	—	—	—	—	—
384	770	103	79	35	2 041	25 877	27 867	30 891
—	—	—	—	—	—	—	41	41

63. Risk management *(continued)*
63.2 Credit risk (continued)

	Group				
	2016[1]				
		Past due not impaired Performing loans			
	Total past due and/or impaired loans Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm
Loans and advances to banks	9	—	—	—	—
Accounts receivable	20	7	5	2	—
Settlement accounts	—	—	—	—	—
Other assets	20	7	5	2	—
South Africa Banking	53 608	1 811	226	54	96
RBB South Africa	51 342	1 811	226	54	96
Retail Banking South Africa	45 250	22	7	2	17
Credit cards	9 284	—	—	—	—
Instalment credit agreements	5 557	22	7	2	17
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	25 962	—	—	—	—
Other loans and advances	—	—	—	—	—
Overdrafts	454	—	—	—	—
Personal and term loans	3 993	—	—	—	—
Business Banking South Africa	6 092	1 789	219	52	79
Mortgages (including CPF)	2 174	372	88	17	—
Overdrafts	2 077	738	41	13	36
Term loans	1 841	679	90	22	43
CIB South Africa	2 266	—	—	—	—
Rest of Africa Banking	6 309	119	44	29	—
WIMI	122	1	—	—	—
Head Office, Treasury and other operations in South Africa	—	—	—	—	—
Loans and advances to customers	60 039	1 931	270	83	96
Non-current assets held for sale	—	—	—	—	—

Financial assets not disclosed in the table above did not have any past due accounts.

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

Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2016[1]							
	Past due not impaired Non-performing loans					Past due and/or impaired		
Past due older than 4 months Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Performing loans Rm	Non-performing loans Rm	Total non-performing loans Rm
9	—	—	—	—	—	—	—	—
6	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
6	—	—	—	—	—	—	—	—
47	290	48	49	23	348	25 655	24 961	25 719
47	290	48	49	23	348	25 655	22 695	23 453
—	35	3	—	18	8	25 036	20 102	20 166
—	—	—	—	—	—	3 861	5 423	5 423
—	35	3	—	18	8	3 424	2 021	2 085
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	15 933	10 029	10 029
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	234	220	220
—	—	—	—	—	—	1 584	2 409	2 409
47	255	45	49	5	340	619	2 593	3 287
23	129	23	5	—	75	108	1 334	1 566
18	17	—	10	1	144	302	757	929
6	109	22	34	4	121	209	502	792
—	—	—	—	—	—		2 266	2 266
257	50	16	7	74	1 585	598	3 530	5 262
2	1	—	—	—	25	3	90	116
—	—	—	—	—	—	—	—	—
306	341	64	56	97	1 958	26 256	28 581	31 097
—	—	—	—	—	—	—	—	—

63. Risk management *(continued)*

63.2 Credit risk *(continued)*

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				
	2017				
	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
South Africa Banking	(1 933)	(206)	(2 412)	(1 850)	(8 659)
RBB South Africa	(1 374)	(206)	(1 580)	(1 850)	(8 659)
Retail Banking South Africa	(802)	(34)	(630)	(1 821)	(8 513)
Credit cards	(154)	—	(14)	(463)	(3 702)
Instalment credit agreements	(275)	(34)	(168)	(394)	(945)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(257)	—	(13)	(872)	(2 055)
Other loans and advances	—	—	—	—	—
Overdrafts	(21)	—	—	(30)	(236)
Personal and term loans	(95)	—	(435)	(62)	(1 575)
Business Banking South Africa	(572)	(172)	(950)	(29)	(146)
Mortgages (including CPF)	(135)	(2)	(490)	(3)	(29)
Overdrafts	(258)	(121)	(299)	(17)	(76)
Term loans	(179)	(49)	(161)	(9)	(41)
CIB South Africa	(559)	—	(832)	—	—
Rest of Africa Banking	(583)	(118)	(813)	(279)	(1 823)
WIMI	(13)	(1)	(174)	—	—
Head Office, Treasury and other operations in South Africa	(10)	—	—	—	—
Loans and advances to customers (refer to note 9)	(2 539)	(325)	(3 399)	(2 129)	(10 482)
Non-current assets held for sale			(35)		(6)

63. Risk management *(continued)*

63.2 Credit risk *(continued)*

	Group 2016[1]				
	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
South Africa Banking	(2 250)	(173)	(2 406)	(2 285)	(8 594)
RBB South Africa	(1 606)	(173)	(1 222)	(2 285)	(8 594)
Retail Banking South Africa	(981)	(51)	(188)	(2 258)	(8 467)
Credit cards	(159)	—	—	(569)	(3 883)
Instalment credit agreements	(346)	(51)	(188)	(338)	(737)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(361)	—	—	(852)	(2 109)
Other loans and advances	—	—	—	—	—
Overdrafts	(12)	—	—	(42)	(142)
Personal and term loans	(103)	—	—	(457)	(1 596)
Business Banking South Africa	(625)	(122)	(1 034)	(27)	(127)
Mortgages (including CPF)	(143)	(11)	(506)	(5)	(29)
Overdrafts	(282)	(70)	(358)	(14)	(63)
Term loans	(200)	(41)	(170)	(8)	(35)
CIB South Africa	(644)	—	(1184)	—	—
Rest of Africa Banking	(644)	(601)	(1442)	—	(1 246)
WIMI	(12)	(2)	(57)	—	—
Head Office, Treasury and other operations in South Africa	(4)	—	—	—	—
Loans and advances to customers (refer to note 9)	(2 910)	(776)	(3 905)	(2 285)	(9 840)
Non-current assets held for sale	—	—	—	—	—

Note

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

63. Risk management *(continued)*

63.3 Market risk

Market risk is the risk that the Group's earnings, capital or business objectives will be adversely impacted by changes in the level or volatility of market rates or prices:

- **Traded market risk:** The risk of the Group being impacted by changes in the level or volatility of positions in its trading books.
- **Non-traded market risk:** The risk of the Group's earnings or capital being reduced due to the market risk exposure from banking book positions which may arise net of hedging activities.
- **Insurance risk:** The risk that future claims, expenses, policyholder behaviour and investment returns may be adversely different to the allowances made in measuring policyholder liabilities and in product pricing.
- **Pension risk:** The risk that an adverse movement between pension assets and liabilities results in a deficit.

Traded market risk arises in the trading book to support client-trading activity, whereas non-traded market risk arises from the banking book activities such as the provision of retail and wholesale banking products and services as well as treasury functions net of hedges.

The Group Market Risk Committee (GMRC) meets monthly to review, challenge and make recommendations concerning the market risk profile, including risk appetite, policies, limits, risk utilisation and the effectiveness of the control environment.

The Trading Risk Committee (TRC), Africa Treasury Committee (ATC) and the ATC subcommittees provide oversight of specific market risks.

Strategy

Market risk management objectives are to:

- ensure risk is managed within the Group's risk appetite by monitoring risk against the limit and appetite framework;
- ensure a high degree of net interest margin stability in the banking books;
- use appropriate models to measure risk and understand risk sensitivity and volatility, leverage stress testing and empirical analytics;
- underwrite risks that are well diversified in terms of types of risk and the level of insured benefits;
- ensure pension risk is managed in accordance with outlined principles, objectives and governance, as well as the country specific regulations.

Traded market risk

Approach

Traded market risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, risk management solutions and execution of syndications. Mismatches between client transactions and hedges result in market risk. In CIB, trading risk is measured for the trading book, as defined for regulatory purposes and certain banking books.

Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported separately as 'Interest rate risk in the banking book'.

Risk appetite

The risk appetite for market risk is based on:

- proposed business strategy and growth;
- targeted growth in risk;
- budgeted revenue growth;
- historical risk usage;
- statistical modelling measures; and
- risk equated to capital projection under stress.

Risk measurement

A number of techniques are used to measure and control traded market risk on a daily basis, which include:

- value at risk (VaR) based measures (incorporating tail risk metrics) including both VaR and stressed value at risk (sVaR);
- tail metrics;
- position and sensitivity reporting (non-VaR);
- stress testing;
- backtesting; and
- standardised general and specific risk, as relevant.

63. Risk management *(continued)*

63.3 Market risk (continued)

Daily value at risk

Daily value at risk (DVaR) is an estimate of the potential loss that may arise from unfavourable market movements if current positions were to be held unchanged for one business day.

The Group uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 95%.

The historical simulation methodology can be split into three parts:

- Calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves.
- Sum of all hypothetical profits or losses for day one across all positions, giving one total profit or loss. Repeat for all other days in the two-year history.
- DVaR is the 95th percentile loss selected from the resultant two-year historically simulated strip of daily hypothetical net profit or loss. Daily losses in excess of the DVaR figure are likely to occur, on average, up to 26 times over the two-year period.

This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level for regulatory back testing and Regulatory Capital (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. As part of this approval, the SARB have assigned a DVaR and sVaR model multiplier to be used in RC calculations. Issuer-specific risk is currently reported in accordance with the regulatory standardised approach across the Group. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach. General position risk in trading books in the rest of Africa is also capitalised under the regulatory standardised approach.

DVaR is an important market risk measurement and control tool that is used by the Group. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. Backtesting measures daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily.

VaR estimates have a number of limitations:

- Historical simulation assumes that the past is a good representation of the future, which may not always be the case.
- The assumed time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- VaR does not indicate the potential loss beyond the selected percentiles.
- VaR is based on positions as at the close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured.
- Prudent valuation practices are used in the VaR calculation when there is difficulty obtaining rate/price information.

Tail risk metrics, stress testing and other sensitivity measures are used to complement VaR.

Backtesting

The Group conducts backtesting of the VaR risk measurement model against:

- the theoretical profit or loss representing the change in the value of the portfolio as computed by the risk system under the assumption that the portfolio holdings remained constant for the holding period; and
- the actual profit or loss representing the actual daily trading outcome.

Tail metrics

Tail risk metrics highlight the risk beyond the percentile selected for DVaR. The two tail risk metrics chosen for daily monitoring, using the current portfolio and two years of price and rate history, are:

- the average of the worst three hypothetical losses from the historical simulation; and
- expected shortfall (also referred to as expected tail loss), which is the average of all hypothetical losses from the historical simulation beyond the 95th percentile used for DVaR.

Non-value at risk

Non-value at risk (non-VaR) reporting covers non-statistical measures of calculating and monitoring risk sensitivities and exposures as well as gross or notional limits where appropriate. All asset classes and product types have non-VaR reporting and limit monitoring, as required. These limits are aligned to DVaR limits, but do not bear a direct linear relationship.

63. Risk management *(continued)*

63.3 *Market risk (continued)*

Stressed value at risk

Stressed value at risk (sVaR) is an estimate of the potential loss arising from a 12-month period of significant financial stress. The Group's sVaR model and period selection methodology was approved by the SARB. 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. In addition, the standardised rules are used to quantify general risk RC for any instruments traded in South Africa for which internal model approach approval has not yet been obtained.
General risk for the region is quantified using standardised rules, specifically for the interest rate and foreign exchange asset classes to which exposures in these entities are limited. In particular, the maturity method is used to quantify general interest rate risk for the rest of Africa.

Risk control

Risk limits are set and reviewed at least annually to control the trading activities, in line with the defined risk appetite of the Group. The criteria for setting risk limits include relevant market analysis, market liquidity and business strategy.

This limit structure comprises the following types of market risk limits:

- VaR limits (DVaR);
- SVaR as relevant;
- position and sensitivity (non-VaR) limits;
- stress testing limits, as relevant; and
- management action triggers: reporting of actual losses based on predetermined tolerance levels.

Valuation control, independent price testing and bid-offer testing are conducted by Product Control and the results are reviewed monthly by the CIB Traded Risk Committee.

The Independent Model Validation function (IVU) is responsible for validating all valuation models used for accounting and risk. The validation reviews the theoretical approach and its applicability to the product. Focus is on ensuring the implementation of the model is correct, identifying the primary risks, model limitations or uncertainties and recommending provisions to account for such uncertainties.

Risk reporting

The market risk team produces a number of detailed and summary market risk reports daily and monthly. These reports summarise the positions, risks and top stresses covering interest rate, foreign exchange, equity, commodity and credit spread risks. A risk summary is also presented at the GMRC and other governance committees, as required.

63. Risk management *(continued)*

63.3 Market risk *(continued)*

Analysis of traded market risk exposure

The following table reflects the DVaR and expected shortfall statistics for trading book activities as measured by the internal models approach (IMA) for general trading position risk. Traded market risk exposure, as measured by average total DVaR, increased to **R25,86m** (2016: R25,12m) for the reporting period, which is a 3% increase on the prior year balance. This was principally due to increased volatility in interest rate risk during the period. The business model of CIB is orientated around client flow and the risk profile is maintained so that it is aligned with the near-term demands of clients. The model showed resilience in tough trading conditions. Trading revenues declined marginally compared to the previous reporting period, but a favourable risk-adjusted return was sustained for the reporting period.

	Group							
	2017				2016			
	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	**25,96**	**36,84**	**18,80**	**31,85**	23,26	37,46	15,83	23,80
Foreign exchange risk	**8,58**	**32,98**	**2,16**	**12,23**	7,97	23,30	1,70	6,51
Equity risk	**6,78**	**29,70**	**1,33**	**3,32**	5,79	20,25	1,91	3,21
Commodity risk	**0,58**	**1,59**	**0,05**	**0,82**	0,45	1,75	0,02	0,66
Inflation risk	**10,29**	**20,84**	**3,21**	**14,04**	10,97	32,59	4,06	8,12
Credit spread risk	**4,38**	**6,08**	**3,21**	**3,54**	7,89	16,47	5,85	6,02
Diversification effect	**(30,70)**	**n/a**	**n/a**	**(45,09)**	(31,22)	n/a	n/a	(25,53)
Total DVaR[2]	**25,86**	**43,24**	**16,97**	**20,71**	25,12	48,51	14,10	22,80
Expected shortfall[2]	**43,00**	**79,50**	**26,83**	**34,16**	39,34	83,52	21,23	33,70
Regulatory VaR[3]	**50,15**	**95,27**	**29,81**	**41,02**	45,55	98,46	23,91	44,56
Regulatory sVaR[3]	**62,19**	**116,15**	**38,37**	**66,36**	84,54	144,51	50,49	50,49

Interest rate risk in the banking book

Approach

Interest rate risk in the banking book is the risk that the Group's financial position might 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 and certain structural exposures within the balance sheet from re-pricing differences between assets, liabilities and equity. These risks impact both the earnings and economic value of the Group.

The Group's objective for managing IRRBB is to ensure a higher degree of interest rate margin stability and lower interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to the local treasury or Group Treasury, which is mandated with hedging material net exposures with the external market. Interest rate risk may arise when some of the net position remains with Treasury as a result of timing considerations. A limit framework is in place to ensure that the retained risk remains within approved risk appetite.

Risk Mitigation

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 IRRBB. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules, as detailed in the Group's accounting policies, are followed.
  - Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Group's equity, and is managed by Group Treasury. Interest rate risk also arises in each of the Rest of Africa treasuries in the normal course of managing the balance sheet and facilitating customer activity. The risk is managed by the local treasury functions, subject to risk limits and other controls.
  - Embedded customer optionality risk may also give rise to IRRBB. This risk arises from a customer's right to buy, sell or in some manner alter the cash flow of a financial contract.

Notes

[1] The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted.

[2] The analysis includes trading books for which internal models approval has been obtained.

[3] Regulatory VaR and sVaR are reported with a one-day holding period at a 99% confidence level. Consequently these figures are not directly comparable to the 95% risk metrics reported in the rest of the table. The sVaR period is subject to ongoing review for appropriateness.

63. Risk management *(continued)*

63.3 Market risk *(continued)*

Risk Mitigation (continued)

- 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. This risk is managed by modeling the loans on a behaviouralised basis for both pricing and risk measurement. This treatment is also applied to non-maturing customer deposits.
- 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.

Market risk processes are in place to enable robust management of these additional forms of IRRBB.

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.

Risk measurement

The techniques that are used to measure and control IRRBB include re-pricing profiles, annual earnings at risk (AEaR), DVaR and tail metrics, economic value of equity (EVE) sensitivity and stress testing. DVaR and tail metrics are assessed on a daily basis while re-pricing profiles, AEaR and EVE are assessed on a monthly basis.

Repricing profiles

With the re-pricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. Instruments which have no explicit contractual re-pricing or maturity dates are placed in time buckets based on the most likely re-pricing behaviour. The re-pricing profiles take the assumed behavioural profile of structural product balances into account.

Annual earnings at risk (AEaR)/Net interest income (NII) sensitivity

AEaR/NII sensitivity measures the sensitivity of NII over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. AEaR is monitored against approved internal limits.

Daily value at risk (DVaR)

The Group uses a sensitivity-based approach to calculate DVaR at a 95% confidence level for measuring IRRBB. The DVaR is monitored against approved internal limits, and is used as a complementary metric to AEaR. The DVaR is supplemented by non- DVaR, stress and tail metrics.

Economic value of equity (EVE) sensitivity

EVE sensitivity measures the sensitivity of the present value of the banking book at a specific point in time (PIT) to a specified shock to the yield curve. Similar to DVaR, EVE is a present value sensitivity and is complementary to income sensitivity measures such as AEaR. EVE sensitivity is measured against regulatory guidelines and not against approved internal limits.

Stress testing

Stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. Stress testing is carried out by Market Risk to supplement the DVaR and AEaR metrics for South Africa. Stress testing for the Rest of Africa is carried out by Market Risk and the risk functions in each country and has been adopted as one of the primary risk metrics for the Rest of Africa and is monitored against formal internal limits.

Risk control

Market risk is controlled through the use of AEaR, DVaR and stress limits as appropriate and supported by non-DVaR metrics (position and sensitivity limits), as well as the monthly monitoring of the risk profiles and EVE sensitivity. Limits are set and monitored in accordance with the limit framework. Limits for AEaR, DVaR and stress are agreed by the GMRC. Compliance with limits is monitored by the respective Rest of Africa market risk team with oversight provided by Market Risk.

Risk reporting

DVaR and supporting metrics are reported daily for Group Treasury and the Rest of Africa businesses respectively, with the exception of two businesses, where reporting is performed on a monthly basis. The re-pricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for both Group Treasury and the Rest of Africa.

Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Group's banking book are set out in the table that follows, namely, the re-pricing profile of the book, the potential effect of changes in market interest rates on annual earnings and impact on equity reserves.

Repricing profile

The re-pricing profile of the Group's South Africa and Rest of Africa banking books shows that the consolidated banking book remains asset sensitive, as interest-earning assets re-price sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates.

63. Risk management *(continued)*

63.3 Market risk (continued)

	Group			
	2017			
Expected repricing profile	**On demand – 3 months Rm**	**4 – 6 months Rm**	**7 – 12 months Rm**	**Over 12 months Rm**
Domestic bank book[1]				
Interest rate sensitivity gap	145 153	(23 367)	(34 815)	(29 314)
Derivatives[2]	(129 591)	18 919	34 799	75 872
Net interest rate sensitivity gap	15 562	(4 448)	(16)	46 558
Cumulative interest rate gap	15 562	11 114	11 098	57 656
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	1,6	1,1	1,1	5,8
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	21 016	2 520	5 617	20 684
Derivatives[2]	—	—	(1)	—
Net interest rate sensitivity gap	21 016	2 520	5 617	20 684
Cumulative interest rate gap	21 016	23 536	29 153	49 837
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	11	12	15	26
Total				
Cumulative interest rate gap	36 578	34 650	40 251	107 493
Cumulative gap as a percentage of the Group's total assets (%)	3,1	3,0	3,5	9,2

	2016			
Expected repricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	106 528	(10 769)	(30 274)	(31 712)
Derivatives[2]	(109 180)	13 817	21 169	74 194
Net interest rate sensitivity gap	(2 652)	3 048	(9 105)	42 482
Cumulative interest rate gap	(2 652)	396	(8 709)	33 773
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	(0,3)	0,0	(1,0)	3,7
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	23 228	4 391	6 487	22 054
Derivatives[2]	120	—	25	66
Net interest rate sensitivity gap	23 348	4 391	6 512	22 120
Cumulative interest rate gap	23 348	27 739	34 251	56 371
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	12,9	15,3	18,9	31,1
Total				
Cumulative interest rate gap	20 696	28 135	25 542	90 144
Cumulative gap as a percentage of the Group's total assets (%)	1,9	2,6	2,3	8,2

Notes
[1] Includes exposures held in the CIB banking book.
[2] Derivatives for interest rate risk management purposes (net nominal value).

63. Risk management *(continued)*

63.3 *Market risk (continued)*

Impact on earnings

The following table shows the impact on AEaR/NII for 100 and 200 bps up and down movements in market interest rates for the Group's banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of **R1,93bn** (31 December 2016: R2,38bn). A similar increase would result in an increase in projected 12-month net interest income of **R1,7bn** (31 December 2016: R2,22bn). AEaR increased by 1,2% to 4,5% of the Group's net interest income..

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

	Group			
	2017			
	Change in market interest rates			
	200 bps decrease	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Domestic bank book (Rm)[1]	**(1 405)**	**(459)**	**609**	**1 172**
Foreign subsidiaries' bank books (Rm)[2]	**(530)**	**(265)**	**265**	**530**
Total (Rm)	**(1 934)**	**(724)**	**873**	**1 701**
Percentage of the Group's net interest income (%)	**(4,5)**	**(1,7)**	**2,0**	**4,0**
Percentage of the Group's equity (%)	**(1,9)**	**(0,7)**	**0,9**	**1,7**

	2016			
	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book (Rm)[1]	(1 835)	(766)	840	1 681
Foreign subsidiaries' bank books (Rm)[2]	(541)	(270)	270	541
Total (Rm)	(2 376)	(1 036)	1 110	2 222
Percentage of the Group's net interest income (%)	(5,7)	(2,5)	2,6	5,3
Percentage of the Group's equity (%)	(2,3)	(1,0)	1,1	2,2

Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:

- higher or lower profit after tax resulting from higher or lower net interest income;
- higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments; and
- higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the effective tax rate for the reporting period.

The equity reserve sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios which are mark-to-market through reserves. The impact on equity is calculated by revaluing the fixed rate available-for-sale financial assets, including the effect of any associated hedges and derivatives designated as cash flow hedges, for an assumed change in market interest rates. The increase in sensitivity of the available-for-sale reserves is mainly due to the increase in the net directional risk.

Notes

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

[2] African subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.

63. Risk management *(continued)*

63.3 Market risk (continued)

Sensitivity of reserves to market interest rate movements

	Group					
	2017			2016		
	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1,2] Rm	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1,2] Rm
+100 bps parallel move in all yield curves						
Available-for-sale reserve	**(435)**	**(462)**	**(419)**	(427)	(469)	(421)
Cash flow hedging reserve	**(2 114)**	**(2 359)**	**(2 039)**	(2 348)	(2 354)	(1 893)
	(2 548)	**(2 811)**	**(2 461)**	(2 776)	(2 801)	(2 342)
As a percentage of Group equity (%)	**(2,5)**	**(2,7)**	**(2,4)**	(2,7)	(2,7)	(2,3)

The sensitivity of reserves to market interest rates movements exhibit very little convexity resulting in a materially equivalent change in value for -100 bps parallel move. Basis risk has been maintained constant.

Foreign exchange risk

The Group is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Group's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Group's policy, there were no significant net open currency positions outside the trading book at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

Foreign currency translation sensitivity analysis

The following table depicts the carrying value of foreign currency net investments and the pre-tax impact on equity of a 5% change in the exchange rate between the ZAR and the relevant functional foreign currencies.

Notes

1 The maximum and minimum impacts for each reserve category did not necessarily occur for the same months.

2 The number represents the maximum or minimum potential combined impact for both reserve categories in a single month (and does not equate to the sum of the minimum and maximum per month as indicated in footnote 1 above.

63. Risk management *(continued)*

63.3 *Market risk (continued)*

Functional foreign currency

	Group			
	2017		2016	
	Foreign currency net investment Rm	Impact on equity from 5% currency translation shock Rm	Foreign currency net investment Rm	Impact on equity from 5% currency translation shock Rm
Botswana pula	2 547	127	2 238	112
Ghana cedi	2 874	144	2 569	129
Kenya shilling	6 115	306	6 529	326
Mauritian rupee	625	31	720	36
Mozambican metical	1 300	65	965	48
Namibian dollar	101	5	96	5
Nigerian naira	16	1	6	0
Seychelles rupee	582	29	639	32
Pound sterling	179	9	168	8
Tanzanian shilling	2 075	104	2 243	112
Uganda shilling	1 478	74	1 350	68
United States dollar	3 449	172	3 659	183
Zambia kwacha	1 622	81	1 504	75
	22 962	1 148	22 686	1 134

Other market risks

The Group maintains different pension plans with defined benefit and defined contribution structures for current and former employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises when the estimated market value of the pension plan assets declines, their investment returns reduce, or when the estimated value of the pension liabilities increases, resulting in a weaker funding position or shortfall. In these circumstances, the Group may choose to make additional contributions or be required to make good the shortfall of the plan.

Asset management income risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of the likely volatility in the annual earnings over the next year to reflect the sensitivity of earnings to shocks in financial markets. Group policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises mainly in the Wealth, Investment Management and Insurance (WIMI) segment.

63.4 *Insurance risk management*

The refresh of the Group ERMF in 2017 introduced four new Principal Risks of which one was Insurance risk. Insurance risk is the risk that future claims, expenses, policyholder behaviour and investment returns will be adversely different from the allowances made in measuring policyholder liabilities and in product pricing. Insurance risk arises when:

- Aggregate insurance premiums received from policyholders under a portfolio of insurance contracts are inadequate to cover the claims arising from those policies and the expenses associated with the management of the portfolio of policies and claims;
- When premiums are not invested to adequately match the duration, timing and size of expected claims; or
- When unexpected fluctuations in claims arise or when excessive exposure (e.g. in individual or aggregate exposures) relative to capacity is retained in the entity.

Within the broader Group, the main categories of insurance risk generally recognised are short-term insurance underwriting risk, life insurance underwriting risk and investment risks (life and short-term insurance). Mismatch risk may also exist between the profile of assets and liabilities. The various categories of insurance risk are managed through the Board Notice (BN) 158 of 2014 risk policies set out below within different entities of the Group.

Short-term insurance underwriting activities are undertaken by Absa Insurance Company Limited, Absa idirect Limited, Absa Insurance Risk Management Services Limited, Global Alliance Seguros (Mozambique), First Assurance Kenya and First Assurance Tanzania. Life insurance underwriting activities are undertaken by Absa Life Limited, Barclays Life Botswana Limited, Barclays Life Zambia Limited, Barclays Life Assurance Kenya Limited, Global Alliance Seguros (Mozambique), Woolworths Financial Services Proprietary Limited (through an Absa Life Limited cell captive) and Instant Life Proprietary Limited (through an Absa Life cell captive).

The Insurance Principal Risk Control Framework (IPRCF) was reviewed and refreshed in 2017. As part of the refresh exercise the Framework and Policies were further aligned to the requirements of BN158, and also incorporate changes to reflect the elevation of Insurance risk to a Principal Risk. The IPRCF applies the Evaluate-Respond-Monitor process as set out in the ERMF to ensure Insurance risk is managed appropriately. In order to manage these risks effectively, the Group's insurance entities are required to comply with the IPRCF and the five insurance risk policies:

63. Risk management *(continued)*

63.4 *Insurance risk management (continued)*

- Insurance Underwriting Policy;
- Insurance Reserving Policy;
- Reinsurance and Risk Transfer Policy;
- Insurance Asset Liability Management Policy; and
- Insurance Investment Management Policy.

Insurance risk policies describe key components of the insurance risk life cycle and define clear control principles which can then be expanded in the form of standards to articulate the specific controls required by local practice, regulation or business.

The successful management of insurance risk ultimately determines the success of the entities. The same risk management frameworks and governance structures that enable the effective management of risks for South African entities are implemented and embedded in any new entities established or acquired.

Strategy

The Group's insurance risk management objectives are to:

- pursue profitable growth opportunities within the financial volatility and solvency Risk Appetite approved by the Board;
- balance exposure between, and within, life and short-term insurance to allow for better diversification and optimal risk-adjusted returns; and
- leverage off the Barclays Africa presence and infrastructure across Africa.

Risk management

Short-term insurance underwriting risk

Management monitors loss ratios on a regular basis and identifies areas of the business where claims experience is not in line with expectations, and where this is found, corrective action is taken. The short-term business adopts an agile pricing methodology, enabling quick pricing and product changes to occur as and when the need arises. In addition, reviews of policy conditions are carried out, when necessary, to determine if any changes are needed. Products are regularly compared to those of competitors, and these are highlighted at least quarterly. Volumes of business and strike rates are monitored for increases in volumes out of line with expectations, this occurs across the portfolio as well as for any specific initiatives. Actions are then derived from this monitoring. 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. Artificial intelligence aids the business in improving processes (improve cost to serve and reduce turnaround time) and driving out fraudulent behavior.

The table that follows summarises risk management measures implemented per short-term insurance product line.

Homeowners' comprehensive insurance	Pooling large volumes of similar claims improve the predictability of the expected claims experience in normal circumstances. Scientific actuarial pricing using multiple risk factors enable risk selection and the ability to charge premiums matched to the underlying risk level. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase. Policyholder excess payments are implemented on claims to manage moral hazard. Renewal monitoring is automated and data-driven; enabling auto-correcting of the portfolio when out of line with target expectations.
Personal lines, accident and travel insurance	Scientific actuarial pricing using multiple risk factors enable risk selection and the ability to charge premiums matched to the underlying risk level. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase. Policyholder excess payments are implemented on claims to manage moral hazard. Renewal monitoring is automated and data-driven; enabling auto-correcting of the portfolio when out of line with target expectations.
Commercial insurance for small, medium and large companies	In underwriting these risks, significant focus is placed on the quality of fire protection and other risk measures. Assessment and adjustment of potential claims is undertaken. Catastrophe reinsurance is purchased to protect against natural catastrophes, in particular earthquakes and against large individual losses. In some cases large, specialised risks are reinsured fully where these do not fit within the approved risk appetite.
Specialist lines	Risks underwritten by underwriting management agencies are only underwritten with specialists in their respective areas with track records of underwriting and claims control. Reinsurance for relevant risks is included in the main or specific reinsurance treaties.

Short-term insurance underwriting risk is managed through underwriting authority mandates and with oversight by an Underwriting Review Forum, as and when required. A subset of the Underwriting Review Forum is the Pricing Forum, which has representation from Risk, Business, Analytics and Actuarial. This forum ensures that all pricing model monitoring occurs timeously and rigorously, and the actions that follow are commensurate with the risk. This forum monitors lapses, cancellations, new business rates, benchmarking against competitor rates, renewal rates, marketing spend on sales initiatives, fraud prevention, lead generation and quality as well as the risk profile of the business (as measured by expected claim frequency and expected claim severity).

Risk monitoring and reporting is overseen by Key Risk Forums and business unit Control Review Committees. These are overseen at a WIMI Executive level by the WIMI Financial Risk Committee and the WIMI Control Review Committee. Board level oversight is governed by the Group Actuarial Committee, and the AFS Audit Risk and Compliance Committee. Risk Appetite utilisation is reported to the Board on a quarterly basis. Stress and scenario testing is used to measure the resilience of the business to unplanned events of different magnitude

63. Risk management *(continued)*

63.4 *Insurance risk management (continued)*

Reinsurance and reinsurance credit risk

The impact of large individual short-term insurance claims is limited through the purchase of reinsurance that limits the risk retained on each claim. The accumulation of net retained exposures due to multiple claims is limited through the purchase of catastrophe reinsurance cover. Catastrophe reinsurance, covering various perils including earthquake risk, is purchased to cover losses of up to **R3,0bn** (2016: R3,0bn) for the South African entities; the cover has been maintained from the previous year as estimated exposure at the one in 250 year event level has been stable year-on-year.

The credit risk in respect of reinsurance partners is managed by ensuring the entities only transact with reinsurers with good credit ratings and within limits that are approved on an annual basis. The creditworthiness of reinsurers is regularly monitored. To qualify as a reinsurance partner, reinsurers must be assigned a minimum 'A' rating by the Standard and Poor's (or equivalent) rating agency. An agreement with a reinsurer with a lower credit rating can qualify provided sufficient reasoning and Wealth Investment Management and Insurance (WIMI) Financial Risk Committee approval has been obtained.

	% of premium ceded (RSA entities only)	
	2017	2016
AA	**28**	16
A	**63**	82
BBB	**7**	2
BB	**2**	

Concentration risk

The main source of concentration risk is exposure to personal property, personal lines and commercial insurance business. Geographically, the main concentrations are in Pretoria, Johannesburg and the East Rand in South Africa. The proportionate sum insured for these three areas are as follows:

- Pretoria – **15,2%** as at the reporting period (2016: 13,7%);
- Johannesburg – **13,6%** as at the reporting period (2016: 12,6%);
- East Rand – **11,4%** as at the reporting period (2016: 10,0%).

The maximum expected loss for a one in 250-year event is a loss of **R2,5bn** as at 31 December 2017 (31 December 2016: R2,6bn); the slight decrease is due to the declining number of risks in the Property book. Catastrophe cover is purchased to cover losses up to **R3,0bn** as at 31 December 2017 (31 December 2016: R3,0bn).

Outstanding claims reserves and incurred but not reported claims reserves

Outstanding claims reserves are held for claims which have been notified, but which have not been fully settled. Individual estimates are sourced from claims assessors and are reviewed as and when new information regarding a claim becomes available. The claims provision includes the expected claim cost and any associated claim handling costs. Claims development patterns are regularly monitored to assess trends and to determine the appropriate level of reserving. The provision for the active RSA entities at the reporting date amounted to **R435m** (2016: R393m). Reserves are calculated for the Rest of Africa entities based on the in-country regulatory requirements.

A stochastic reserving model is applied to calculate the IBNR claim provision for the majority of the exposures. Where detailed data is not available, the provision is based on interim measures proposed by the Financial Services Board. The IBNR provision at the reporting date amounted to **R125m** (2016: R99m); the increase is primarily as a result of higher catastrophe claims reserves expected to develop from the last accident quarter of 2017. In addition the reserves have increased on lines of business where high premium growth has been experienced.

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;
- premium volumes;
- claim process changes; and
- seasonality.

These factors affect the sensitivity of the IBNR and are taken into account in setting the level of reserves required.

The IBNR and outstanding claims provisions take historical data, trends and recent experience in claims processing and loss ratios into account. These calculations, together with changes in the underlying risk profile of the business, impact the determination of the final balances.

Cash-back reserves

These reserves allow for the cash back bonus which Absa idirect policyholders receive after a specified number of claim-free months. The cash back percentages of total premiums collected are: 10% after 36 months, 15% after the following 12 months and 20% for every 12 months thereafter. The cash-back reserve provision at the reporting date amounted to **R26,9m** (2016: R25,0m).

63. Risk management *(continued)*

63.4 *Insurance risk management (continued)*

Life insurance underwriting risk

The experience related to all risks underwritten is reviewed on a regular basis to determine whether underwriting guidelines and rules need to be tightened and/or risk parameters extended. The business relies on annual experience investigations, ongoing studies and analysis of surplus investigations to set pricing and valuation parameters. The non-economic pricing and reserving assumptions (i.e. mortality, morbidity, persistency and expense assumptions) are reviewed to determine changes in trends that are likely to continue in the future.

The table that follows summarises risk management measures implemented per life insurance product line.

Underwritten life business	The main risks are mortality and morbidity. Each life is individually underwritten. Premium rates differentiate by gender, age, smoker status, socio-economic class and occupation. Sub-standard risks generally receive additional premium loadings, specified exclusions or might be declined. Correct pricing and effective underwriting control the mortality, morbidity and persistency risks. Exposure in excess of a retention limit for each life is reinsured to reduce the variability of the claims experience and the exposure to a single life. Treaty reinsurance is also used to limit the pricing risk and obtain technical expertise from reinsurance partners. Most benefits have premium guarantee terms, which can be up to 10 years. For products with an investment component, the overall premium rate is guaranteed for a specified period; however, the portion of the premium which is invested is not guaranteed and could be reduced at the discretion of the Group. However, it is the Group's policy when products are priced to have no intention to increase premium rates or reduce the investment proportion of the premium over the policy term. Experience is monitored to confirm that actual experience is in line with pricing assumptions.
Limited underwritten life business	This product family consists of a wide range of individual products. Underwriting varies from a limited number of underwriting questions to the application of waiting periods, pre-existing condition exclusions and the phasing in of sums insured. The main risks are mortality, morbidity and persistency. Aids mortality represents a medium risk in the target market. There are generally limited rating factors, with age being the most prevalent. The mortality and morbidity risks are therefore exacerbated since premium rates are generally consistent across lives. The risks are managed through annual experience investigations and the tracking of trends on a more regular basis. There is a contractual right to increase premiums if experience worsens. The intention is not to exercise this right, but the Group does have the option to do so. Reinsurance is utilised to manage the pricing risk, accept more risks and to gain exposure to the technical expertise of reinsurance companies.
Funeral business	The main risk is mortality increased by high Aids rates experienced in the target market. The risk is exacerbated by premium rates that are the same, irrespective of the age and gender of policyholders, since significant changes in the age and gender profile of customers could impact on experience. Waiting periods during which no claim event is covered is used to mitigate against mortality risk. 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 low and credible experience exists within the Group.
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 reinsurance partners. The Group retains the right to change premiums within a 30-day notice period. Premiums generally do not differ by gender, age or smoker status and demographic shifts might introduce additional insurance risk. Economic conditions also influence retrenchment risk.
Group life business	The main risks are mortality and morbidity. Treaty and surplus reinsurance arrangements are in place whereby risk is shared with external reinsurance partners. Contracts and premium rates are reviewed annually. Additional catastrophe reinsurance cover is in place for specific schemes where an accumulation of losses may occur due to the geographical concentration of the group.

Life insurance underwriting risk is monitored on a quarterly basis by an Underwriting Risk Forum to ensure the risk taken is within set appetite. Risk monitoring and reporting is overseen by Key Risk Forums and business unit Control Review Committees. These are overseen at a WIMI Executive level by the WIMI Financial Risk Committee and the WIMI Control Review Committee. Board level oversight is governed by the Group Actuarial Committee, and the Audit Risk and Compliance Committee. Risk Appetite utilisation is reported to the Board on a quarterly basis. Stress and scenario testing is used to measure the resilience of the business to unplanned events of different magnitude.

Reinsurance and reinsurer credit risk

The Reinsurance and Risk Transfer Policy under the IPRCF governs reinsurance across the Group. Reinsurance is used in respect of large individual risks and in respect of risks where the life insurance entity needs to build knowledge and experience as well as obtain technical assistance from the reinsurers. Catastrophe reinsurance is used as a protection against a large number of simultaneous losses.

Reinsurer credit risk is managed by transacting solely with approved reinsurers and within mandated levels as defined in the counterparty credit risk mandates. Mandates are governed and approved by the WIMI Financial Risk Committee. In existing reinsurance agreements, reinsurer credit risk is managed by monitoring counterparty exposures to take corrective actions should the creditworthiness of the counterparty deteriorate materially. Reinsurer credit risk is also managed by holding capital in line with or in excess of regulatory requirements.

63. Risk management *(continued)*

63.4 *Insurance risk management (continued)*

Credit rating of reinsurance assets (RSA entities only)

	Standard and Poor's rating	Description	Parental guarantee
Treaty and Facultative reinsurer, **23,8%** (2016: 31,2%) of business ceded	AA-	Very Strong	N/A
Treaty and Facultative reinsurer, **19,7%** (2016: 24,0%) of business ceded	AA-	Very Strong	N/A
Treaty and Facultative reinsurer, **29,5%** (2016: 32,4%) of business ceded	A-	Strong	Yes
Treaty and Facultative reinsurer, **24,6%** (2016: 11,6%) of business ceded	A-	Strong	Yes
Treaty and Facultative reinsurer, **0,1%** (2016: 0,1%) of business ceded	BBB-	Good	N/A
Treaty and Facultative reinsurer, **0,7%** (2016: 0,3%) of business ceded	Unrated	N/A	N/A
Treaty and Facultative reinsurer, **1,6%** (2016: 0,5%) of business ceded	Unrated	N/A	N/A

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 (2016: 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.

	2017				2016			
	Gross of reinsurance		**Net of reinsurance**		Gross of reinsurance		Net of reinsurance	
Benefit band per life assured (RSA entities only) (R'000)	**Total benefits assured Rm**	**%**	**Total benefits assured Rm**	**%**	Total benefits assured Rm	%	Total benefits assured Rm	%
0 – 250	**96 272**	**55**	**91 217**	**63**	83 821	54	78 439	61
250 – 500	**21 140**	**12**	**17 433**	**12**	21 306	14	17 383	14
500+	**57 653**	**33**	**36 216**	**25**	49 697	32	32 051	25
	175 065	**100**	**144 866**	**100**	154 824	100	127 873	100

In the case of the Group Life business, geographic concentration of risk exists. For Absa Life Limited, the largest concentration risk is in Johannesburg introduced by the Absa Staff Group Life Scheme. In addition to comprehensive quota share reinsurance, the Company also uses catastrophe reinsurance to provide further protection against an accumulation of losses in respect of risk retained.

Mortality and morbidity risks

The Group uses experienced underwriters to review risk cover applications in excess of specified limits and evaluates them against established standards. Where an applicant requires cover in excess of specified monetary or impairment limits, the excess is reinsured. Mortality and morbidity risks are managed per product line based on underwriting criteria, pricing, reinsurance and experience.

Effective claims management processes ensure that all valid claims are honoured, in line with policy documentation and allowances made in setting premiums or valuing liabilities. Proactive fraud detection capabilities continue to be developed and improved to minimise fraudulent claim payouts.

Human immunodeficiency virus and Aids risk

The Group's Life insurance business is exposed to human immunodeficiency virus (HIV) and Aids risk where an insufficient allowance has been made in the pricing and valuation bases. To manage risk for the business that is medically underwritten, HIV tests are performed as part of the normal underwriting process. Cover is not provided in instances where the mortality risk is uncertain or is deemed to be too high. For other lines of business, such as funeral and credit life, general pre-existing condition clauses are included in the contract to protect against anti-selection by policyholders. In such an event, a claim will not be paid if it occurs as a result of a condition existing at the inception of the policy or within a certain period (generally 12 months) from inception.

Aids mortality investigations are performed. The results of these investigations assist in setting the premium and mortality basis for life policies. Additional allowances are included in the valuation basis to allow for a worse than expected Aids risk experience.

Lapse risk

Lapse risk is the risk of not recouping expenses such as commission and/or underwriting costs generally incurred at the inception of the policy. In such instances, a loss is incurred if the policy lapses before the costs have been recouped. This risk is managed by entering into clawback arrangements with financial advisers, whereby at least a portion of the commission is recouped. Annual investigations of lapse experience are done to ensure pricing and valuation assumptions are appropriate, relevant and in line with experience.

63. Risk management *(continued)*

63.4 *Insurance risk management (continued)*

Expense risk

An allowance for future maintenance and claim expenses, inflated at the assumed expense inflation rate, is included in liability calculations based on the current level of maintenance and claim expenses per policy. The risk of understating and pricing insufficiently for this risk is managed by:

- conducting annual expense investigations based on the most recent operating expenditure incurred;
- monitoring costs monthly to ensure they remain within anticipated levels and identifying trends at an early stage; and
- basing the assumed future inflation rate on observable economic indicators and experience.

Model risk

Model risk is defined as the potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports. As such, it considers both the likelihood of an adverse event and the severity thereof. This risk is managed by placing the models through rigorous checking procedures and processes. The modelling methodologies used are in line with Prudential Standards issued by the Financial Services Board (FSB), standards and practice notes issued by the Actuarial Society of South Africa (ASSA), or in the absence of such standards or guidance, generally accepted actuarial methods.

Model governance is overseen by the WIMI Models Committee and governed by the WIMI Model Risk Standard.

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.

Oversight of WIMI Data Governance is governed by the WIMI Control Review Committee and the AFS Audit Risk and Compliance Committee.

Assumption risk

Assumption risk is the risk that the change and effect of the assumptions used in the most recent valuation are not considered. Best estimate assumptions are derived from annual investigations into the demographic experience of the business and economic assumptions are based on observable, actual, consistent economic indicators. Margins are added to best estimate assumptions to allow for variability in the assumptions. These margins include compulsory margins where considered necessary by the Standard of Actuarial Practice 104 (SAP 104) issued by ASSA.

The risk discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from assumptions. The government bond curve is used to determine the risk free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk free rate curve. The economic assumptions used, including certain representative points on the risk-free curve, are as follows (gross of tax where applicable):

Economic assumptions (RSA entities only)

	2017 **%**	2016 %
Risk-free rate of return		
1-year term	**7,26**	7,96
5-year term	**8,08**	8,58
10-year term	**9,29**	9,29
20-year term	**10,45**	10,22
Equity return differential	**3,36**	3,36
Cash return differential	**(2,00)**	(2,00)
Overall investment return differential	**(0,44)**	(0,44)
Risk discount rate differential	**3,15**	3,15

The expense inflation assumption is a company specific inflation rate assumption of 3,5% for the first three years and the general inflation rate is implied by the difference between the nominal and real yield curves from the seventh year. The curve is blended between the third and the sixth years.

Additional allowances are incorporated into the liabilities to mitigate assumption risk. The compulsory margins prescribed in the SAP 104 note have been applied in the valuation of liabilities.

63. Risk management *(continued)*

63.4 *Insurance risk management (continued)*

Compulsory margins as per SAP 104	2017 %	2016 %
Mortality	+7,5	+7,5
Morbidity	10	10
Lapse	±25	±25
Surrenders	±10	±10
Expenses	10	10
Expense inflation	10	10
Charge against investment return	±25 bps	±25 bps

The results of the sensitivities disclosed in the following table indicate that assumptions regarding future mortality and morbidity experience have a significant impact on the quantum of the actuarial liability. Future developments in mortality and morbidity experience, whether positive or negative, will impact on profits in future years, particularly in areas influenced by the Aids infection rates. A further factor to take into consideration is the impact of investment returns. Although a significant portion of the book, such as credit life, is short term, the mortgage protection business increases the duration of the overall business and therefore future investment returns. The business is not sensitive to changes in other assumptions.

Sensitivity analysis (RSA entities only)

	Group	
	2017	2016
	Potential effect recorded in (profit) or loss Rm	Potential effect recorded in (profit) or loss Rm
Mortality and morbidity +10%	118	117
Lapse rate +10%	(37)	(43)
Renewal and termination expenses +10%	34	23
Expense inflation +1%	27	32
Investment return -1%	36	39

Life insurance mismatch risk

A mismatch arises if the assets backing non-linked products do not grow sufficiently or materialise timeously to match specified amounts guaranteed on death, disability, critical illness or retrenchments, or on survival to the end of the policy. Mismatch risk is managed through setting asset allocations which appropriately match assets to underlying liabilities. Guaranteed life event benefits and guaranteed maturity benefits are each managed in terms of separate investment strategies.

Life insurance mismatch risk is monitored on a quarterly basis by the WIMI Financial Risk Committee. The Asset-Liability matching exercises carried out are reviewed by the WIMI Financial Risk Committee and the Statutory Actuary, and approved by the Group Actuarial Committee.

Through the use of asset-liability modelling, appropriate investment strategies for the assets backing policyholder liabilities are determined to mitigate mismatch risk as far as possible. These investment strategies are reviewed annually and the asset manager mandates amended accordingly. For guaranteed mortality, morbidity and retrenchment benefits as well as projected expenses, an asset allocation comprising cash and bonds of various terms to maturity is used. Quarterly meetings are held with the asset manager to monitor adherence to the mandated asset durations and targeted levels.

Life and short-term investment risks

Investment risk relates to the variability in the value of life and short-term shareholder assets and of assets backing policyholder liabilities. Interest rate/Equity risk relates to the change in investment value of assets due to a change in market interest rates/equity performance. Foreign exchange risk is the risk that a change in the exchange rate could affect the financial results of the insurance entity. Investment risk is mitigated through diversified asset allocations and investment mandates.

Life and short-term insurance investment risk is monitored by WIMI Financial Risk Committee on a quarterly basis.

A single investment strategy is maintained for short-term insurance shareholder assets and for assets backing short-term insurance policy holder liabilities. Assets are invested in short-dated interest-earning assets. The duration of interest-earning assets is monitored against a maximum effective duration.

The Life insurance shareholders' funds in South Africa are invested in a diversified portfolio to provide secure and stable growth over the long term. For entities outside of South Africa, the shareholder funds are invested in money market type instruments, with the exception of Barclays Life Assurance Kenya where the shareholder assets are invested in government bonds.

The following table indicates the asset allocations as at the reporting date:

63. Risk management *(continued)*

63.4 *Insurance risk management (continued)*

Life shareholder funds – actual asset allocation (%)

	Group 2017 %	Group 2016 %
Offshore equities	**6**	5
Offshore alternatives and cash	**3**	3
Domestic equities	**18**	22
Domestic bonds	**10**	20
Domestic cash	**63**	50
	100	100

Domestic assets have a limit on active equity exposures or tracking error taken on by the asset manager versus the underlying equity benchmark. Counterparty credit risk in respect of investments is managed by investing with a spread of issuers as required by the Insurance Investment Management Policy under the IPRCF. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Liquidity risk is managed in the short-term insurance businesses by investing in short-dated interest-earning assets, with limits on investments in less liquid assets such as preference shares and corporate bonds. The life insurance businesses are less exposed to liquidity risks due to the low risk of large cumulative claims. Liquidity risk is managed through close management of potential cash outflow in discussion with the asset managers, as well as the use of a liquidity fund consisting of cash and money market investments – set aside to meet large outflows.

63.5 *Equity investment risk*

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book for non-trading purposes.

The Group's equity investment risk objective is to balance the portfolio composition in line with the Group's risk appetite, with selective exits as appropriate.

Approach

The Group's governance of equity investments is based on the following key fundamental principles:

- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Group's equity investments are held in CIB and RBB – Business Banking. Equity and other investments held by insurance entities are addressed in the insurance risk management section of this report.

Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and Economic Capital (EC) requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Group has adopted the market-based simple risk-weighted approach to calculate Risk Weighted Assets (RWAs) and Regulatory Capital (RC) for equity risk in the banking book. According to this approach, the Group applies a 300% risk weighting to listed exposures and 400% to unlisted exposures in non-financial entities subject to a prescribed scaling factor of 1,06. Investments in financial entities are treated in line with the principles 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 financial investments constituting a significant minority investment (i.e. 20% to 50%) with no other significant shareholder, the Group applies a capital deduction.

The Solvency Assessment Management (SAM) regime is equivalent to Solvency II in the UK and went live in 2017. Absa Financial Services entities' liabilities, capital and solvency positions will continue to be reported under parallel processes.

Economic capital for equity investment risk in the banking book is based on the investment type and portfolio risk modelling and varies from 35,2% to 100%.

63. Risk management *(continued)*

63.5 *Equity investment risk (continued)*

Analysis of equity investment risk in the banking book

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

	Group									
	2017					2016				
	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]	**(120)**	**—**	**2 394**	**120**	**—**	(127)	—	2 551	127	—
Listed equity investments	**(120)**	**—**	**2 393**	**120**	**—**	(122)	—	2 450	122	—
Unlisted equity investments	**(0)**	**—**	**1**	**0**	**—**	(5)	—	101	5	—
Group listed and unlisted equity investments, excluding insurance activities' investments	**(100)**	**(38)**	**2 754**	**100**	**38**	(144)	(32)	3 531	144	32
Listed equity investments	**(17)**	**(6)**	**465**	**17**	**6**	(31)	(3)	694	31	3
Unlisted equity investments	**(83)**	**(32)**	**2 289**	**83**	**32**	(113)	(29)	2 837	113	29
Total on Group equity investments	**(220)**	**(38)**	**5 148**	**220**	**38**	(271)	(32)	6 082	271	32

63.6 *Liquidity risk*

Liquidity risk is the risk that the Group is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. These outflows would deplete available cash resources for client lending, trading activities and investments. Such outflows could be through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of group-specific and market-wide events.

Liquidity risk is monitored at a group level under a single group framework. The Liquidity Risk Framework is designed to deliver the appropriate term and structure of funding consistent with the Liquidity Risk Appetite (LRA) set by the local Board. This framework is delivered through a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring.

Each geographic entity is required to be self-sustaining from a liquidity and funding perspective, and is responsible for implementing appropriate processes and controls to ensure compliance with local LRA, regulatory limits and reporting requirements.

Strategy

The Group's liquidity risk management objectives are:

- manage the funding position and High Quality Liquid Asset (HQLA) position in line with board-approved liquidity risk appetite framework and regulatory requirements;
- build and maintain adequate liquidity buffers to ensure the bank remains continuously compliant with the liquidity coverage ratio and net stable funding ratio
- grow and diversify the funding base to support asset growth and other strategic initiatives while optimising the funding cost;
- grow core Retail, Business Bank, Corporate and Public Sector deposits faster than wholesale funding
- work with regulatory authorities and other stakeholders on resolution planning, and Deposit Insurance Scheme
- manage the Bank's maturity profile in order to achieve planned liquidity ratios; and
- balance the above objectives against the long-term impacts on the bank cost of funding.

Notes

1 The above sensitivities were only calculated on shareholder and non-linked policyholder assets (for unit linked policyholder liabilities there is no impact on the sensitivity analysis due to the fact that the asset and liability is 100% matched) and exclude all assets linked to investment and unit linked contracts due to the fact that the asset and liability is 100% matched.

2 The figures exclude all associates and joint ventures, which account for the differences in fair value compared to that shown in the table titled equity investments in the banking book.

63. Risk management *(continued)*

63.6 *Liquidity risk (continued)*

Approach to liquidity risk

The efficient management of liquidity is essential for safeguarding the Group's depositors, preserving market confidence and maintaining the Group's brand. The Group considers sustainable access to appropriate liquidity for each of its entities to be extremely important. Liquidity risk is managed in line with the Liquidity Risk Framework, which is designed to meet the following objectives:

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

The Barclays Africa Group applies a three-step risk management process:

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

Stress and scenario testing

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

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

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

Contingency funding planning

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

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

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

63. Risk management *(continued)*

63.6 *Liquidity risk* *(continued)*

Contractual maturity of financial assets and liabilities

The table below provides detail on the contractual maturity and mismatch position of all financial instruments and other assets and liabilities. Derivatives (other than those designated in a hedging relationship) and trading portfolio assets and liabilities are included in the 'on demand' time bucket at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity since they are not held for settlement according to such maturity and will frequently be settled before contractual maturity at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity

	Group				
	2017				
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	43 541	5 128	—	—	48 669
Investment securities	14 489	39 125	23 456	34 339	111 409
Loans and advances to banks	15 975	37 462	1 495	494	55 426
Trading portfolio assets	130 132	—	—	—	130 132
Derivative assets	56 853	—	—	—	56 853
Non-derivative assets	73 278	—	—	—	73 278
Hedging portfolio assets	—	254	1 439	980	2 673
Other financial assets	7 913	9 579	—	—	17 492
Loans and advances to customers	64 563	149 292	306 165	229 752	749 772
Non current asset held for sale – Loans and advances to customers	—	1 118	—	—	1 118
Reinsurance assets	—	600	—	292	892
Investments linked to investment contracts	754	2 624	7 372	8 186	18 936
Financial assets	277 367	245 181	339 927	274 043	1 136 518
Non-financial assets					29 461
Total assets					1 165 979
Liabilities					
Deposits from banks	5 982	50 800	10 455	153	67 390
Trading portfolio liabilities	64 047	—	—	—	64 047
Derivative liabilities	52 100	—	—	—	52 100
Non-derivative liabilities	11 946	—	—	—	11 946
Hedging portfolio liabilities	—	55	365	703	1 123
Other financial liabilities	19 734	8 056	47	4	27 840
Deposits due to customers	449 335	208 416	27 678	4 438	689 867
Debt securities in issue	2 458	68 348	54 210	12 932	137 948
Liabilities under investment contracts	5 169	2 483	12 651	10 282	30 585
Policyholder liabilities under insurance contracts	686	—	—	3 931	4 617
Borrowed funds	308	3 350	8 692	3 544	15 895
Financial liabilities	547 719	341 507	114 098	35 987	1 039 312
Non-financial liabilities					7 607
Total liabilities					1 046 919
Equity					119 060
Total liabilities and equity					1 165 979
Net liquidity position of financial instruments	(270 353)	(96 326)	225 829	238 056	97 206

63. Risk management *(continued)*

63.6 *Liquidity risk (continued)*

Discounted maturity	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
	Group				
	2016				
Assets					
Cash, cash balances and balances with central banks	47 380	2 258	368	—	50 006
Investment securities	10 531	44 805	17 705	41 274	114 315
Loans and advances to banks	20 388	25 785	2 869	746	49 788
Trading portfolio assets	94 751	—	—	—	94 751
Derivative assets	45 153	—	—	—	45 153
Non-derivative assets	49 598	—	—	—	49 598
Hedging portfolio assets	—	61	622	1 062	1 745
Other financial assets	9 023	12 386	166	554	22 129
Loans and advances to customers	85 164	150 629	255 531	228 986	720 310
Reinsurance assets	—	785	—	200	985
Investments linked to investment contracts	705	2 771	6 304	9 036	18 816
Financial assets	267 942	239 480	283 565	281 858	1 072 845
Non-financial assets					28 178
Total assets					1 101 023
Liabilities					
Deposits from banks	16 589	30 278	6 154	171	53 192
Trading portfolio liabilities	47 429	—	—	—	47 429
Derivative liabilities	40 920	—	—	—	40 920
Non-derivative liabilities	6 509	—	—	—	6 509
Hedging portfolio liabilities	—	398	568	1 098	2 064
Other financial liabilities	17 476	5 918	6	245	23 645
Deposits due to customers	469 882	170 992	28 368	5 623	674 865
Debt securities in issue	646	75 886	52 154	11 028	139 714
Liabilities under investment contracts	5 013	2 630	12 173	9 382	29 198
Policyholder liabilities under insurance contracts	196	921	—	3 352	4 469
Borrowed funds	530	2 863	10 173	2 107	15 673
Financial liabilities	557 761	289 886	109 596	33 006	990 249
Non-financial liabilities					8 494
Total liabilities					998 743
Equity					102 280
Total liabilities and equity					1 101 023
Net liquidity position of financial instruments	(289 819)	(50 406)	173 969	248 852	82 596

63. Risk management *(continued)*
63.6 *Liquidity risk (continued)*

Liquidity risk measurement – undiscounted (statement of financial position value with impact of future interest)	Group 2017 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	5 982	51 103	13 944	301	(3 940)	67 390
Trading portfolio liabilities	64 047	—	—	—	—	64 047
Derivative liabilities	52 100	—	—	—	—	52 100
Non-derivative liabilities	11 946	—	—	—	—	11 946
Hedging portfolio liabilities	—	57	501	1 454	(889)	1 123
Other financial liabilities	19 734	8 204	52	6	(156)	27 840
Deposits due to customers	449 335	212 752	34 494	9 831	(16 546)	689 867
Debt securities in issue	2 458	70 727	67 959	26 140	(29 336)	137 948
Liabilities under investment contracts	5 169	2 572	15 919	22 176	(15 252)	30 585
Policyholder liabilities under insurance contracts	686	—	—	14 274	(10 344)	4 617
Borrowed funds	308	3 567	12 619	9 309	(9 910)	15 895
Financial liabilities	547 719	348 982	145 488	83 491	(86 373)	1 039 312
Non-financial liabilities						7 607
Total liabilities	—	—	—	—	—	1 046 919
Off-statement of financial position						
Financial guarantee contracts	10	—	—	—	—	10
Loan commitments	174 259	38 789	—	—	—	213 048

Undiscounted maturity (statement of financial position value with impact of future interest)	2016 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	16 589	30 642	9 236	381	(3 656)	53 192
Trading portfolio liabilities	47 429	—	—	—	—	47 429
Derivative liabilities	40 920	—	—	—	—	40 920
Non-derivative liabilities	6 509	—	—	—	—	6 509
Hedging portfolio liabilities	—	422	814	2 437	(1 609)	2 064
Other financial liabilities	17 476	5 980	7	546	(364)	23 645
Deposits due to customers	469 882	177 193	38 838	12 491	(23 539)	674 865
Debt securities in issue	646	76 395	57 051	15 032	(9 410)	139 714
Liabilities under investment contracts	5 013	2 740	18 613	20 898	(18 066)	29 198
Policyholder liabilities under insurance contracts	196	948	—	8 933	(5 608)	4 469
Borrowed funds	530	3 086	15 607	4 513	(8 064)	15 672
Financial liabilities	557 761	297 406	140 166	65 231	(70 316)	990 248
Non-financial liabilities						8 495
Total liabilities						998 743
Off-statement of financial position						
Financial guarantee contracts	10	—	—	—	—	10
Loan commitments	143 576	39 281	—	—	—	182 857

63. Risk management *(continued)*

63.7 Capital management

Capital risk is the risk that the Group has an insufficient level or inappropriate composition of capital to support its normal business activities and to remain within its Board-approved capital target ranges under normal operating conditions or above regulatory capital requirements under stressed conditions (both actual and as defined for internal planning or regulatory stress testing purposes).

The Group's capital management strategy, which is in line with and in support of the Group's strategy, is to create sustainable value for shareholders within the boundaries imposed by the Group's risk appetite

The Group's capital management objectives are to:

- Optimise the level and mix of capital resources and the utilisation of those resources;
- Meet RC requirements and the Board-approved capital target ranges;
- Maintain an adequate level of capital resources in excess of both RC and EC requirements and within Board-approved target ranges;
- Increase business and legal entity accountability for the use of capital and, where relevant, the use of allocated capital per client or portfolio;
- Assess, manage and efficiently implement regulatory changes to optimise capital usage; and
- Maintain a strong credit rating.

Various processes play a role in ensuring that the Group's capital management objectives are met, including:

- The Internal Capital Adequacy Assessment Process (ICAAP);
- Stress testing; and
- Recovery and Resolution Planning.

The capital management process in the Group encompasses all regulated entities within it (including insurance entities and banking subsidiaries in the Rest of Africa). Appropriate Board-approved capital buffers, above the minimum regulatory requirements, are held at an entity level. The Group ensures that all regulated entities are adequately capitalised in terms of their respective minimum capital adequacy requirements (CARs). The Group's capital target ranges for the current reporting period were set after considering the following:

- Capital risk appetite;
- The preference of rating agencies for loss absorbing capital;
- Stress scenarios and its impact on the integrated plan, including the capital position of the Group;
- Current and future Basel III requirements and accounting developments; and
- Peer analysis

Capital adequacy ratios (unaudited)

Group	**2017**	2016	**2017 Board target ranges %**	**2017 Minimum regulatory capital requirements %**	2016 Board target ranges %	2016 Minimum regulatory capital requirements %
Statutory capital ratios (includes unappropriated profits) (%)						
Common Equity Tier 1	**13,5**	12,1	**10,0 – 11,5**	**7,3**	9,5 – 11,5	6,9
Tier 1	**14,1**	12,6	**11,5 – 13,0**	**8,5**	10,5 – 12,5	8,1
Total	**16,1**	14,8	**14,0 – 15,5**	**10,8**	13,0 – 15,0	10,4
Capital supply and demand for the reporting period (Rm)						
Qualifying capital	**118 899**	104 486				
Total RWA	**736 892**	703 785				

Notes

[1] Includes the contribution amounts received from Barclays PLC as part of the separation.

[2] The 2017 minimum regulatory capital requirements of 10,75% include the capital conservation buffer which is phased in between 1 January 2016 and 1 January 2019 but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the D-SIB add-on.

64. Going concern

The directors assess the Group's future performance and financial position on an ongoing basis and have no reason to believe that the Group will not be a going concern in the reporting period ahead. For this reason, these consolidated financial statements are prepared on a going concern basis.

65. Events after the reporting period

The directors are not aware of any other events after the reporting date of 31 December 2017 and the date of authorisation of these financial statements (as defined per IAS 10).

66. Directors' and prescribed officers' remuneration

The Barclays Africa Group Remuneration Committee's (Remco) mandate is to ensure that reward practices are aligned with shareholder interests, both in the performance of our employees and the values they uphold. The Group strives to promote reward practices that foster sustainable high performance and accordingly, the Group rewards both short and longer term performance. All elements of pay are benchmarked against the market, as well as local and international best practice.

The Remco evaluates prescribed officer and executive pay against the Balanced Scorecard, which ensures rigorous concentration on business imperatives including, importantly, financial performance. Risk management is carefully considered.

Remuneration of risk and compliance employees is determined independently within the function, rather than by the business the function supports, and within the parameters of the pool allocated to the function by the Remco.

The Barclays Africa remuneration approach is fully compliant with the regulatory and statutory provisions relating to reward governance, in all the countries where the Group operates and in accordance with relevant requirements in Africa, the United Kingdom and European Union.

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66. Directors' and prescribed officers' remuneration *(continued)*

Combined tables for 2016 total remuneration

	Group 2017			
	Maria Ramos		David Hodnett	
Executive directors	**2017 R**	2016 R	**2017 R**	2016 R
Salary	**8 130 855**	7 622 073	**6 656 796**	6 388 552
Role based pay	**6 500 000**	6 500 000	**5 000 000**	4 250 000
Medical aid	**106 476**	97 680	**136 980**	125 664
Pension	**175 000**	244 599	**175 000**	226 599
Other employee benefits	**46 981**	44 960	**40 536**	39 498
Total fixed remuneration	**14 959 312**	14 509 312	**12 009 312**	11 030 313
Non-deferred cash award	**3 000 000**	3 000 000	**2 900 000**	2 900 000
Non-deferred share award	**3 000 000**	3 000 000	**2 900 000**	2 900 000
Deferred cash award[1]	**4 500 000**	4 500 000	**4 350 000**	4 350 000
Deferred share award[1]	**4 500 000**	4 500 000	**4 350 000**	4 350 000
Total variable remuneration	**15 000 000**	15 000 000	**14 500 000**	14 500 000
Total remuneration	**29 959 312**	29 509 312	**26 509 312**	25 530 313

	Craig Bond[3]		Stephen van Coller[4]	
Prescribed officers	**2017 R**	2016 R	**2017 R**	2016 R
Salary	**2 376 276**	5 668 964	**n/a**	2 730 389
Role based pay	**2 083 333**	5 000 000	**n/a**	5 250 000
Medical aid	**57 075**	125 664	**n/a**	104 742
Pension	**72 917**	220 426	**n/a**	151 466
Other employee benefits	**15 112**	36 258	**n/a**	515 824
Total fixed remuneration	**4 604 713**	11 051 312	**n/a**	8 752 421
Non-deferred cash award	**833 333**	1 840 000	**n/a**	—
Non-deferred share award	**833 333**	1 840 000	**n/a**	—
Deferred cash award	**833 333**	2 760 000	**n/a**	—
Deferred share award	**833 333**	2 760 000	**n/a**	—
Total variable remuneration	**3 333 332**	9 200 000	**n/a**	—
Total remuneration	**7 938 045**	20 251 312	**n/a**	8 752 421

Board appointment dates and contract terms

Maria Ramos and David Hodnett were appointed to the Board on 1 March 2009 and 1 March 2010 respectively. Peter Matlare and Jason Quinn were appointed to the Board on 1 August 2016 and 1 September 2016 respectively. Nomkhita Nqweni was appointed to the Board as a prescribed officer on 1 October 2015. Craig Bond who was appointed 1 January 2013, resigned as a prescribed officer from the Board in May 2017. All executive directors and prescribed officers have a notice period of six months.

Notes

1 The non-deferred share award is granted in the form of a Share Incentive Award subject to a 12 month holding period from the date of award.
2 Note that the election between deferred cash award and deferred share award will be made once the Bank is no longer in a closed period.
3 Craig Bond stepped down from the BAGL Exco effective 16 May 2017. The amount reflected is pro-rated for 5 full months for the time Craig Bond was a prescribed officer. His total pension contribution for 2017 was R175 000.
4 Resigned effective 30 September 2016. Stephen van Coller's other benefits include leave payouts following his resignation. No amounts were paid as compensation for loss of office.

					Group 2017	
	Jason Quinn		Peter Matlare		Total	
	2017 R	2016 R	**2017 R**	2016 R	**2017 R**	2016 R
	4 793 007	3 459 337	**5 806 948**	2 439 812	**25 387 606**	19 909 774
	—	333 333	**3 500 000**	1 458 333	**15 000 000**	12 541 666
	90 732	84 012	**182 568**	55 828	**516 756**	363 184
	392 593	284 843	**481 482**	200 617	**1 224 075**	956 658
	32 981	26 495	**38 314**	15 180	**158 812**	126 133
	5 309 313	4 188 020	**10 009 312**	4 169 770	**42 287 249**	33 897 415
	1 600 000	1 000 000	**2 000 000**	800 000	**9 500 000**	7 700 000
	1 600 000	1 000 000	**2 000 000**	800 000	**9 500 000**	7 700 000
	2 400 000	1 500 000	**3 000 000**	1 200 000	**14 250 000**	11 550 000
	2 400 000	1 500 000	**3 000 000**	1 200 000	**14 250 000**	11 550 000
	8 000 000	5 000 000	**10 000 000**	4 000 000	**47 500 000**	38 500 000
	13 309 313	9 188 020	**20 009 312**	8 169 770	**89 787 249**	72 397 415

	Nomkhita Nqweni		Total	
	2017 R	2016 R	**2017 R**	2016 R
	4 667 804	4 049 835	**7 044 080**	12 449 188
	2 500 000	2 500 000	**4 583 333**	12 750 000
	54 444	50 412	**111 519**	280 818
	175 000	195 216	**247 917**	567 108
	112 064	47 182	**127 176**	599 264
	7 509 312	6 842 645	**12 114 025**	26 646 378
	1 200 000	1 300 000	**2 033 333**	3 140 000
	1 200 000	1 300 000	**2 033 333**	3 140 000
	1 800 000	1 950 000	**2 633 333**	4 710 000
	1 800 000	1 950 000	**2 633 333**	4 710 000
	6 000 000	6 500 000	**9 333 332**	15 700 000
	13 509 312	13 342 645	**21 447 357**	42 346 378

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives

The table below outlines share-based and long-term incentive awards (awarded in respect of performance in a prior period) and role based pay delivered as phantom shares in the year.

	Group 2017			
	Number of shares under award at 1 January 2017	Number of shares awarded during 2017	Share price on award R	Number of shares released during 2017
Executive directors				
Maria Ramos				
Barclays Africa Long-term incentive Plan 2013 – 2015	59 408	—	139	59 408
Share Value Plan 2014 – 2016	17 054	—	129	17 054
Share Value Plan 2015 – 2017	30 452	—	189	15 226
Share Value Plan 2016 – 2018	56 312	—	146	18 770
Share Value Plan 2017 – 2019	—	28 497	158	—
Role based pay March 2014	7 542	—	129	2 514
Role based pay June 2014	6 276	—	155	2 092
Role based pay September 2014	5 798	—	168	1 932
Role based pay December 2014	5 574	—	175	1 858
Role based pay March 2015	6 873	—	189	1 718
Role based pay June 2015	7 115	—	183	1 778
Role based pay September 2015	7 284	—	178	1 821
Role based pay December 2015	8 128	—	160	2 032
Role based pay March 2016	5 566	—	146	1 113
Role based pay June 2016	5 593	—	145	1 118
Role based pay September 2016	5 578	—	146	1 115
Role based pay December 2016	5 117	—	159	1 023
Role based pay March 2017	—	5 145	158	—
Role based pay June 2017	—	5 589	145	—
Non-deferred share award 2017	—	18 998	158	18 998
Restricted award – Share Value Plan 2016	—	55 290	145	—
Restricted award – Share Value Plan 2017	—	56 893	141	—
Long Term Incentive Award 2017	—	165 870	145	—
Total	239 670	336 282		149 570
David Hodnett				
Barclays Africa Long-term incentive Plan 2013 – 2015	29 704	—	139	29 704
Share Value Plan 2014 – 2016	13 257	—	129	13 257
Share Value Plan 2015 – 2017	28 548	—	189	14 274
Share Value Plan 2016 – 2018	53 434	—	146	17 810
Share Value Plan 2017 – 2019	—	27 547	158	—
Non-deferred share award 2017	—	18 364	158	18 364
Restricted award – Share Value Plan 2016	—	48 379	145	—
Restricted award – Share Value Plan 2017	—	49 781	141	—
Long Term Incentive Award 2017	—	145 137	145	—
Total	124 943	289 208		93 409
Peter Matlare				
Share Value Plan 2017 – 2019	—	7 599	158	—
Non-deferred share award 2017	—	5 066	158	5 066
Long Term Incentive Award 2017	—	134 770	145	—
Total	—	147 435		5 066

Notes to the consolidated financial statements

for the reporting period ended 31 December

Group 2017					
Market price on release date R	Value of release R	Value of dividend released R	**Number of shares/options lapsed in 2017**	**Number of shares under award at 31 December 2017**	Last scheduled vesting date
139	8 257 712	582 549	—	—	2016/10/01
148	2 530 473	603 758	—	—	2017/09/01
148	2 259 234	317 533	—	**15 226**	2018/09/01
148	2 785 093	310 114	—	**37 542**	2019/09/01
—	—	—	—	**28 497**	2022/09/01
152	382 002	74 456	—	**5 028**	2019/03/01
145	304 123	61 348	—	**4 184**	2019/06/01
150	289 093	49 978	—	**3 866**	2019/09/01
147	272 745	57 691	—	**3 716**	2019/12/01
152	261 050	34 493	—	**5 155**	2020/03/01
145	258 475	36 198	—	**5 337**	2020/06/01
150	272 484	38 306	—	**5 463**	2020/09/01
147	298 288	44 185	—	**6 096**	2020/12/01
152	169 120	12 308	—	**4 453**	2021/03/01
145	162 528	11 048	—	**4 475**	2021/06/01
150	166 842	11 223	—	**4 463**	2021/09/01
147	150 171	10 569	—	**4 094**	2021/12/01
—	—	—	—	**5 145**	2022/03/01
—	—	—	—	**5 589**	2022/06/01
148	2 818 923	102 382	—	—	2017/09/01
—	—	—	—	**55 290**	2022/03/30
—	—	—	—	**56 893**	2020/09/30
—	—	—	—	**165 870**	2020/07/31
	21 638 356	2 358 139	—	**426 382**	
139	4 128 856	291 205	—	—	2016/10/01
148	1 967 074	469 326	—	—	2017/09/01
148	2 117 976	297 947	—	**14 274**	2018/09/01
148	2 642 648	294 089	—	**35 624**	2019/09/01
—	—	—	—	**27 547**	2022/09/01
148	2 724 850	98 969	—	—	2017/09/01
—	—	—	—	**48 379**	2022/03/30
—	—	—	—	**49 781**	2020/09/30
—	—	—	—	**145 137**	2020/07/31
	13 581 404	1 451 537	—	**320 742**	
—	—	—	—	**7 599**	2022/09/01
148	751 693	27 302	—	—	2017/09/01
—	—	—	—	**134 770**	2020/07/31
	751 693	27 302	—	**142 369**	

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives (continued)

	Group 2017			
	Number of shares under award at 1 January 2017	Number of shares awarded during 2017	Share price on award R	Number of shares released during 2017
Executive directors				
Jason Quinn[1]				
Share Value Plan 2014 – 2016	1 910	—	129	1 910
Share Value Plan 2015 – 2017	3 172	—	189	1 586
Share Value Plan 2016 – 2018	5 480	—	146	1 826
Share Value Plan 2017 – 2019	—	9 499	158	—
Retention award 2014	19 494	—	129	19 494
Non-deferred share award 2017	—	6 332	158	6 332
Restricted award – Share Value Plan 2016	—	20 733	145	—
Restricted award – Share Value Plan 2017	—	21 334	141	—
Long Term Incentive Award 2017	—	96 758	145	—
Total	30 056	154 656		31 148
Prescribed officers				
Craig Bond[2]				
Barclays Africa Long-term incentive Plan 2013 – 2015	35 645	—	139	35 645
Share Value Plan 2014 – 2016	16 375	—	129	16 375
Share Value Plan 2015 – 2017	16 918	—	189	8 459
Share Value Plan 2016 – 2018	27 950	—	146	9 316
Share Value Plan 2017 – 2019	—	17 478	158	—
Joiners Share Value Plan	2 704	—	156	2 704
Non-deferred share award 2017	—	11 652	158	11 652
Restricted award – Share Value Plan 2016	—	20 733	145	—
Restricted award – Share Value Plan 2017	—	21 334	141	—
Long Term Incentive Award 2017	—	96 758	145	—
Total	99 592	167 955		84 151
Nomkhita Nqweni[3]				
Barclays Africa Long-term incentive Plan 2013 – 2015	11 881	—	139	11 881
Share Value Plan 2014 – 2016	4 641	—	129	4 641
Share Value Plan 2015 – 2017	5 076	—	189	2 538
Share Value Plan 2016 – 2018	21 784	—	146	7 260
Share Value Plan 2017 – 2019	—	12 348	158	—
Non-deferred share award 2017	—	8 232	158	8 232
Restricted award – Share Value Plan 2016	—	20 733	145	—
Restricted award – Share Value Plan 2017	—	21 334	141	—
Long Term Incentive Award 2017	—	96 758	145	—
Total	43 382	159 405		34 552

Notes

[1] Jason Quinn's outstanding share-based long-term incentives include awards received prior to being appointed as an Executive Director in 2016.

[2] Craig Bond stepped down from the BAGL Exco effective 16 May 2017. The number of share awards at 31 Dec 2017 have been disclosed although Craig Bond is no longer a prescribed officer.

[3] Nomkhita Nqweni's outstanding share-based long-term incentives include awards received prior to being appointed as a Prescribed Officer on 1 October 2015.

Group 2017					
Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2017	Number of shares under award at 31 December 2017	Last scheduled vesting date
152	290 225	56 525	—	—	2017/09/01
148	235 331	33 089	—	**1 586**	2018/09/01
148	270 942	30 121	—	**3 654**	2019/09/01
—	—	—	—	**9 499**	2022/09/01
152	2 962 113	578 170	—	—	2017/03/01
148	939 542	34 127	—	—	2017/09/01
—	—	—	—	**20 733**	2022/03/30
—	—	—	—	**21 334**	2020/09/30
—	—	—	—	**96 758**	2020/07/31
	4 698 153	732 032	—	**153 564**	
139	4 954 655	349 446	—	—	2016/10/01
148	2 429 723	579 572	—	—	2017/09/01
148	1 255 146	176 572	—	**8 459**	2018/09/01
148	1 382 308	153 870	—	**18 634**	2019/09/01
—	—	—	—	**17 478**	2022/09/01
152	410 873	132 045	—	—	2017/03/31
148	1 728 924	62 765	—	—	2017/09/01
—	—	—	—	**20 733**	2022/03/30
—	—	—	—	**21 334**	2020/09/30
—	—	—	—	**96 758**	2020/07/31
	12 161 629	1 454 270	—	**183 396**	
139	1 651 459	116 482	—	—	2016/10/01
152	705 200	137 667	—	—	2017/09/01
148	376 588	52 823	—	**2 538**	2018/09/01
148	1 077 239	119 594	—	**14 524**	2019/09/01
—	—	—	—	**12 348**	2022/09/01
148	1 221 464	44 366	—	—	2017/09/01
—	—	—	—	**20 733**	2022/03/30
—	—	—	—	**21 334**	2020/09/30
—	—	—	—	**96 758**	2020/07/31
	5 031 950	470 932	—	**168 235**	

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives (continued)

	Group 2016			
	Number of shares under award at 1 January 2016	Number of shares awarded during 2016	Share price on award R	Number of shares released during 2016
Executive directors				
Maria Ramos				
Absa Long-term incentive Plan 2012 – 2014	4 746	—	151	4 746
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	216 029	—	139	59 408
Share Value Plan 2014 – 2016	34 108	—	129	17 054
Share Value Plan 2015 – 2017	45 678	—	189	15 226
Share Value Plan 2016 – 2018	—	56 312	146	—
Role based pay March 2014	10 055	—	129	2 513
Role based pay June 2014	8 368	—	155	2 092
Role based pay October 2014	7 730	—	168	1 932
Role based pay December 2014	7 431	—	175	1 857
Role based pay March 2015	8 591	—	189	1 718
Role based pay June 2015	8 893	—	183	1 778
Role based pay September 2015	9 105	—	178	1 821
Role based pay December 2015	10 160	—	160	2 032
Role based pay March 2016	—	5 566	146	—
Role based pay June 2016	—	5 593	145	—
Role based pay September 2016	—	5 578	146	—
Role based pay December 2016	—	5 117	159	—
Non-deferred share award 2016	—	18 770	146	18 770
Total	370 894	96 936		130 947
David Hodnett				
Absa Long-term incentive Plan 2012 – 2014	2 966	—	151	2 966
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	108 014	—	139	29 704
Share Value Plan 2013 – 2015	7 262	—	166	7 262
Share Value Plan 2014 – 2016	26 513	—	129	13 256
Share Value Plan 2015 – 2017	42 824	—	189	14 276
Share Value Plan 2016 – 2018	—	53 434	146	—
Non-deferred share award 2016	—	17 811	146	17 811
Total	187 579	71 245		85 275
Jason Quinn[2]				
Absa Long-term incentive Plan 2012 – 2014	2 373	—	151	2 373
Share Value Plan 2013 – 2015	2 663	—	166	2 663
Share Value Plan 2014 – 2016	3 820	—	129	1 910
Share Value Plan 2015 – 2017	4 758	—	189	1 586
Share Value Plan 2016 – 2018	—	5 480	146	—
Retention award 2014	19 494	—	129	—
Non-deferred share award 2016	—	5 480	146	5 480
Total	33 108	10 960		14 012

Notes

[1] The Barclays Africa Long-term incentive plan 2013 – 2015 was expected to vest at 55% of the maximum based on performance achieved against the metrics.

[2] Jason Quinn's outstanding share-based long-term incentives include awards received prior to being appointed as an Executive Director in 2016.

Group 2016					
Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2016	Number of shares under award at 31 December 2016	Last scheduled vesting date
145	687 695	99 740	—	—	2015/06/14
151	8 970 608	6 376 428	97 213	59 408	2016/10/01
149	2 539 341	495 539	—	17 054	2017/09/01
149	2 267 151	228 115	—	30 452	2018/09/01
—	—	—	—	56 312	2019/09/01
142	356 871	41 041	—	7 542	2019/03/01
146	305 327	31 791	—	6 276	2019/06/01
149	287 675	37 970	—	5 798	2019/09/01
157	292 125	38 541	—	5 574	2019/12/01
142	243 973	13 491	—	6 873	2020/03/01
146	259 499	26 805	—	7 115	2020/06/01
149	271 147	27 249	—	7 284	2020/09/01
157	319 654	23 125	—	8 128	2020/12/01
—	—	—	—	5 566	2021/12/01
—	—	—	—	5 593	2021/12/01
—	—	—	—	5 578	2021/12/01
—	—	—	—	5 117	2021/12/01
149	2 794 853	202 206	—	—	2016/09/01
	19 595 919	7 642 041	97 213	239 670	
145	429 773	62 374	—	—	2015/06/14
151	4 485 304	3 188 214	48 606	29 704	2016/10/01
149	1 081 312	347 384	—	—	2016/03/01
149	1 973 818	385 204	—	13 257	2017/09/01
149	2 125 696	214 118	—	28 548	2018/09/01
—	—	—	—	53 434	2019/09/01
149	2 652 058	191 932	—	—	2016/09/01
	12 747 961	4 389 226	48 606	124 943	
145	343 848	49 870	—	—	2016/06/14
142	378 173	87 762	—	—	2016/03/01
149	284 399	32 609	—	1 910	2017/09/01
149	236 155	23 824	—	3 172	2018/09/01
—	—	—	—	5 480	2019/09/01
—	—	—	—	19 494	2017/03/01
149	815 972	58 964	—	—	2016/09/01
	2 058 547	253 029	—	30 056	

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives (continued)

	Group 2016			
	Number of shares under award at 1 January 2016	Number of shares awarded during 2016	Share price on award R	Number of shares released during 2016
Prescribed officers				
Craig Bond				
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	129 617	—	139	35 645
Share Value Plan 2014 – 2016	32 750	—	129	16 375
Share Value Plan 2015 – 2017	25 377	—	189	8 459
Share Value Plan 2016 – 2018	—	27 950	146	—
Joiners Share Value Plan	48 910	—	156	46 206
Non-deferred share award 2016	—	18 633	146	18 633
Total	236 654	46 583		125 318
Stephen van Coller[2]				
Absa Long-term incentive Plan 2012–2014	2 966	—	151	2 966
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	108 014	—	139	29 704
Share Value Plan 2013 – 2015	16 340	—	166	16 340
Share Value Plan 2014 – 2016	33 530	—	129	16 765
Share Value Plan 2015 – 2017	45 996	—	189	15 332
Share Value Plan 2016 – 2018	—	51 380	146	—
Non-deferred share award 2016	—	17 126	146	17 126
Total	206 846	68 506		98 233
Nomkhita Nqweni[3]				
Absa Long -term incentive Plan 2012–2014	1 186	—	151	1 186
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	43 205	—	139	11 881
Share Value Plan 2013 – 2015	3 019	—	166	3 019
Share Value Plan 2014 – 2016	9 281	—	129	4 640
Share Value Plan 2015 – 2017	7 613	—	189	2 537
Share Value Plan 2016 – 2018	—	21 784	146	—
Non-deferred share award 2016	—	7 261	146	7 261
Total	64 304	29 045		30 524

Notes

1 The Barclays Africa Long-term incentive plan 2013 – 2015 was expected to vest at 55% of the maximum based on performance achieved against the metrics.

2 Resigned effective 30 September 2016. Stephen van Coller's other benefits include leave payouts following his resignation. No amounts were paid as compensation for loss of office.

3 Nomkhita Nqweni's outstanding share-based long-term incentives include awards received prior to being appointed as a Prescribed officer on 1 October 2015.

Group 2016					
Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2016	Number of shares under award at 31 December 2016	Last scheduled vesting date
151	5 382 395	3 825 887	58 327	35 645	2016/10/01
149	2 438 238	475 736	—	16 375	2017/09/01
149	1 259 545	126 863	—	16 918	2018/09/01
—	—	—	—	27 950	2019/09/01
146	6 737 297	1 564 687	—	2 704	2017/03/31
149	2 774 454	200 568	—	—	2016/09/01
	18 591 929	6 193 741	58 327	99 592	
145	429 773	62 374	—	—	2015/06/14
151	4 485 304	3 188 214	48 606	29 704	2016/10/01
149	2 433 026	781 576	—	—	2016/03/01
149	2 496 309	487 201	—	16 765	2017/09/01
149	2 282 935	229 902	—	30 664	2018/09/01
—	—	—	—	51 380	2019/09/01
149	2 550 061	184 338	—	—	2016/09/01
	14 677 408	4 933 605	48 606	128 513	
145	171 851	25 007	—	—	2015/06/14
151	1 794 031	1 275 346	19 443	11 881	2016/10/01
142	428 728	99 833	—	—	2016/03/01
149	690 896	79 364	—	4 641	2017/09/01
149	377 759	37 970	—	5 076	2018/09/01
—	—	—	—	21 784	2019/09/01
149	1 081 163	78 321	—	—	2016/09/01
	4 544 428	1 595 841	19 443	43 382	

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding cash-based long-term awards

	Group 2017				
	Value under award at 1 January 2017 R	Maximum potential value at 1 January 2017 R	Value awarded in the year R	Value released in the year R	Value forfeited in the year R
Executive directors					
Maria Ramos					
Cash value plan 2014 – 2016	2 200 000	2 860 000	—	2 200 000	—
Cash value plan 2017 – 2019	—	—	4 500 000	—	—
Restricted award 2016[1]	8 000 000	8 000 000	—	—	—
Total	10 200 000	10 860 000	4 500 000	2 200 000	—
David Hodnett					
Cash value plan 2014 – 2016	1 700 000	2 210 000	—	1 700 000	—
Cash value plan 2017 – 2019	—	—	4 350 000	—	—
Restricted award 2016[1]	7 000 000	7 000 000	—	—	—
Total	8 700 000	9 210 000	4 350 000	1 700 000	—
Peter Matlare					
Cash value plan 2017 – 2019	—	—	1 200 000	—	—
Total	—	—	1 200 000	—	—
Jason Quinn[2]					
Cash value plan 2014 – 2016	246 400	320 320	—	246 400	—
Cash value plan 2015 – 2017	600 000	690 000	—	300 000	—
Cash value plan 2016 – 2018	800 000	880 000	—	266 666	—
Cash value plan 2017 – 2019	—	—	1 500 000	—	—
Restricted award 2016[1]	3 000 000	3 000 000	—	—	—
Total	4 646 400	4 890 320	1 500 000	813 066	—
Prescribed officers					
Craig Bond[3]					
Cash value plan 2014 – 2016	2 100 000	2 730 000	—	2 100 000	—
Cash value plan 2015 – 2017	3 200 000	3 680 000	—	1 600 000	—
Cash value plan 2016 – 2018	4 080 000	4 488 000	—	1 360 000	—
Cash value plan 2017 – 2019	—	—	2 760 000	—	—
Restricted award 2016[1]	3 000 000	3 000 000	—	—	—
Total	12 380 000	13 898 000	2 760 000	5 060 000	—
Nomkhita Nqweni[4]					
Cash value plan 2014 – 2016	600 000	780 000	—	600 000	—
Cash value plan 2015 – 2017	960 000	1 104 000	—	480 000	—
Cash value plan 2017 – 2019	—	—	1 950 000	—	—
Restricted award 2016[1]	3 000 000	3 000 000	—	—	—
Total	4 560 000	4 884 000	1 950 000	1 080 000	—

Notes

1 Due to JSE listing restrictions, the 2016 Restricted Award was made in cash but converted to equity 2017.

2 Jason Quinn's outstanding cash-based long-term awards include awards received prior to being appointed as an Executive Director in 2016.

3 Craig Bond stepped down from the BAGL Exco effective 16 May 2017. The number of share awards as at 31 Dec 2017 have been disclosed although Craig Bond is no longer a prescribed officer.

4 Nomkhita Nqweni's outstanding share-based long-term incentives include awards received prior to being appointed as a Prescribed Officer on 1 October 2015.

Group 2017						
Converted to Equity R	Service credit awarded in the year R	Service credit released in the year R	Service credit forfeited in the year R	Value under award at 31 December 2017 R	Maximum potential value at 31 December 2017 R	Last scheduled vesting date
—	—	660 000	—	—	—	2017/03/01
—	450 000	—	—	4 500 000	4 950 000	2022/03/01
8 000 000	—	—	—	—	—	2018/09/30
8 000 000	450 000	660 000	—	4 500 000	4 950 000	
—	—	510 000	—	—	—	2017/03/01
—	435 000	—	—	4 350 000	4 785 000	2022/03/01
7 000 000	—	—	—	—	—	2018/09/30
7 000 000	435 000	510 000	—	4 350 000	4 785 000	
—	120 000	—	—	1 200 000	1 320 000	2022/03/01
—	120 000	—	—	1 200 000	1 320 000	
—	—	73 920	—	—	—	2017/03/01
—	—	—	—	300 000	390 000	2018/03/01
—	—	—	—	533 334	613 334	2019/03/01
—	150 000	—	—	1 500 000	1 650 000	2022/03/01
3 000 000	—	—	—	—	—	2018/09/30
3 000 000	150 000	73 920	—	2 333 334	2 653 334	
—	—	630 000	—	—	—	2017/03/01
—	—	—	—	1 600 000	2 080 000	2018/03/01
—	—	—	—	2 720 000	3 128 000	2019/03/01
—	276 000	—	—	2 760 000	3 036 000	2022/03/01
3 000 000	—	—	—	—	—	2018/09/30
3 000 000	276 000	630 000	—	7 080 000	8 244 000	
—	—	180 000	—	—	—	2017/03/01
—	—	—	—	480 000	624 000	2018/03/01
—	195 000	—	—	1 950 000	2 145 000	2022/03/01
3 000 000	—	—	—	—	—	2018/09/30
3 000 000	195 000	180 000	—	2 430 000	2 769 000	

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding cash-based long-term awards

	Group 2016			
	Value under award at 1 January 2016 R	Maximum potential value at 1 January 2016 R	Value awarded in the year R	Value released in the year R
Executive directors				
Maria Ramos				
Cash value plan 2014 – 2016	4 400 000	5 060 000	—	2 200 000
One Africa Long-term incentive Plan 2012 – 2014[2]	2 285 714	2 285 714	—	2 285 714
Restricted award 2016[1]	—	—	8 000 000	—
Total	6 685 714	7 345 714	8 000 000	4 485 714
David Hodnett				
Cash value plan 2014 – 2016	3 400 000	3 910 000	—	1 700 000
One Africa Long-term incentive Plan 2012 – 2014[2]	1 428 571	1 428 571	—	1 428 571
Restricted award 2016[1]	—	—	7 000 000	—
Total	4 828 571	5 338 571	7 000 000	3 128 571
Jason Quinn[3]				
Cash value plan 2014 – 2016	492 800	566 720	—	246 400
Cash value plan 2015 – 2017	900 000	990 000	—	300 000
Cash value plan 2016 – 2018	—	—	800 000	—
Restricted award 2016[1]	—	—	3 000 000	—
Total	1 392 800	1 556 720	3 800 000	546 400
Prescribed officers				
Craig Bond				
Cash value plan 2014 – 2016	4 200 000	4 830 000	—	2 100 000
Cash value plan 2015 – 2017	4 800 000	5 280 000	—	1 600 000
Cash value plan 2016 – 2018	—	—	4 080 000	—
Restricted award 2016[1]	—	—	3 000 000	—
Total	9 000 000	10 110 000	7 080 000	3 700 000
Stephen van Coller[4]				
Cash value plan 2014 – 2016	4 300 000	4 945 000	—	2 150 000
One Africa Long-term incentive Plan 2012 – 2014[2]	1 428 571	1 428 571	—	1 428 571
Total	5 728 571	6 373 571	—	3 578 571
Nomkhita Nqweni[5]				
Cash value plan 2014 – 2016	1 200 000	1 380 000	—	600 000
Cash value plan 2015 – 2017	1 440 000	1 584 000	—	480 000
Restricted award 2016[1]	—	—	3 000 000	—
Total	2 640 000	2 964 000	3 000 000	1 080 000

Notes

1 Due to JSE listing restrictions, the 2016 Restricted Award was made in cash but converted to equity in 2017.
2 The remaining value of the One Africa Long-term incentive plan 2012 – 2014 was released in June 2016 as shares.
3 Jason Quinn's outstanding cash-based long-term awards include awards received prior to being appointed as an Executive Director in 2016.
4 Resigned effective 30 September 2016. Stephen van Coller's other benefits include leave payouts following his resignation. No amounts were paid as compensation for loss of office.
5 Nomkhita Nqweni's outstanding share-based long-term incentives include awards received prior to being appointed as a Prescribed Officer on 1 October 2015.

Value forfeited in the year R	Grant credit R	Group 2016 Value under award at 31 December 2016 R	Maximum potential value at 31 December 2016 R	Last scheduled vesting date
—	—	2 200 000	2 860 000	2017/03/01
—	—	—	—	2016/06/14
—	—	8 000 000	8 000 000	2018/09/30
—	—	10 200 000	10 860 000	
—	—	1 700 000	2 210 000	2017/03/01
—	—	—	—	2016/06/14
—	—	7 000 000	7 000 000	2018/09/30
—	—	8 700 000	9 210 000	
—	—	246 400	320 320	2017/03/01
—	—	600 000	690 000	2018/03/01
—	80 000	800 000	880 000	2019/03/01
—	—	3 000 000	3 000 000	2018/09/30
—	80 000	4 646 400	4 890 320	
—	—	2 100 000	2 730 000	2017/03/01
—	—	3 200 000	3 680 000	2018/03/01
—	408 000	4 080 000	4 488 000	2019/03/01
—	—	3 000 000	3 000 000	2018/09/30
—	408 000	12 380 000	13 898 000	
—	—	2 150 000	2 795 000	2017/03/01
—	—	—	—	2016/06/14
—	—	2 150 000	2 795 000	
—	—	600 000	780 000	2017/03/01
—	—	960 000	1 104 000	2018/03/01
—	—	3 000 000	3 000 000	2018/09/30
—	—	4 560 000	4 884 000	

66. Directors' and prescribed officers' remuneration *(continued)*

Group Chairman and non-executive directors' fees

	Group					
	2017					
			Subsidiary boards and committees			
	Group Board R	Group Board committees and sub-committees[5] R	Absa Bank R	Absa Financial Services R	Other R	**Total R**
Alex Darko[8,11]	560 419	810 593	—	—	6 715	**1 377 727**
Ashok Vaswani[4,7]	253 679	200 979	—	—	—	**454 658**
Colin Beggs[9,11]	560 419	1 608 138	171 664	208 667	161 511	**2 710 399**
Dhanasagree (Daisy) Naidoo	560 419	452 211	—	—	—	**1 012 630**
Daniel (Dan) Hodge[3,7]	373 737	199 340	—	—	—	**573 077**
Francis Okomo-Okello	560 419	116 599	—	—	—	**677 018**
Mark Merson[6,7]	560 419	437 540	—	—	—	**997 959**
Mohamed Husain[11]	560 419	1 144 452	171 664	—	—	**1 876 535**
Monwabisi Fandeso[5]	176 293	79 347	—	—	—	**255 640**
Patrick Clackson[2,7,11]	165 532	128 960	—	—	—	**294 492**
Paul O'Flaherty[11]	518 119	1 402 521	171 664	—	—	**2 092 304**
René van Wyk[1,11]	519 036	1 409 642	157 953	—	—	**2 086 631**
Trevor Munday[11]	539 269	872 658	171 664	—	—	**1 583 591**
Wendy Lucas-Bull (Group Chairman)[10]	5 707 950	146 760	—	—	—	**5 854 710**
Yolanda Cuba[11]	560 419	497 480	—	—	—	**1 057 899**
Total	12 176 548	9 507 220	844 609	208 667	168 226	**22 905 270**

	Group					
	2016					
			Subsidiary boards and committees			
	Group Board R	Group Board committees and sub-committees[5] R	Absa Bank R	Absa Financial Services R	Other R	Total R
Alex Darko[8,11]	518 520	561 110	—	—	16 113	1 095 743
Ashok Vaswani[4,7]	486 497	377 370	—	—	—	863 867
Colin Beggs[9,11]	518 520	1 710 624	161 187	209 612	140 302	2 740 245
Dhanasagree (Daisy) Naidoo	341 729	258 391	—	—	—	600 120
Francis Okomo-Okello	518 520	109 485	—	—	—	628 005
Mark Merson[6,7]	486 497	389 866	—	—	—	876 363
Mohamed Husain[11]	518 520	1 376 010	161 187	—	—	2 055 717
Patrick Clackson[2,7,11]	486 497	365 717	—	—	—	852 214
Paul O'Flaherty[11]	479 662	915 411	148 313	—	—	1 543 386
Peter Matlare[5]	279 581	87 945	—	—	—	367 526
Trevor Munday[11]	518 520	1 551 760	161 187	—	—	2 231 467
Wendy Lucas-Bull (Chairman)[10]	5 275 300	—	—	—	—	5 275 300
Yolanda Cuba[11]	518 520	467 814	78 921	—	—	1 065 255
Total	10 946 883	8 171 503	710 795	209 612	156 415	20 195 208

Notes

1 René van Wyk joined the Board on 1 February 2017.
2 Patrick Clackson resigned from the Board on 30 April 2017.
3 Dan Hodge joined the Board on 1 May 2017.
4 Ashok Vaswani resigned from the Board on 30 June 2017.
5 Monwabisi Fandeso joined the Board on 1 September 2017.
6 Mark Merson remained on the Board as a Non-executive Director after his departure from Barclays PLC.
7 Fees are paid to Barclays PLC and not to the individual.
8 Member of the Share Incentive Trust (reported under Other).
9 Member of the Group Actuarial Committee and/or AFS Audit Risk and Compliance Committee (under Absa Financial Services); and a Trustee of the Absa Group Pension Fund (reported under Other).
10 Fee applicable to the Group Chairman, which covers chairmanship and membership of all Board committees and sub-committees including the Chairman of the Absa Bank and Absa Financial Services boards. A decision was taken by the Directors' Affairs Committee in early 2017 to provide the Chairman with compensation for the attendances at the Separation Oversight Committee, which is a special committee established in relation to the Barclays PLC sell-down, on an equivalent basis to the other members.
11 Chairmen of sub-committees receive additional fees. The GACC, GRCMC, Remco and SEC Chairmen receive fees equal to two and a half times (2,5x) the fee payable to members of these committees.

Annexure A: Embedded value report for Life Insurance entities (unaudited)

Scope of the embedded value report

This report deals with the embedded value of the life insurance entities (including Absa Life Limited, Barclays Life Botswana Proprietary Limited, Barclays Life Zambia Limited, Global Alliance Seguros S.A., Barclays Life Assurance Kenya, Woolworths Financial Services and Instant Life), including the value of new business written during the current reporting period in respect of these entities.

The embedded value as at 31 December 2017 has been calculated in accordance with the principles contained in the Actuarial Society of South Africa's guidance note APN 107: Embedded value reporting.

Embedded value

The present value of in-force covered business (PVIF) is the discounted value of the projected stream of future after tax shareholder profits arising in the company's accounts from covered business in force at the valuation date. Covered business is taken to be all long-term insurance business written on the company's licences.

The free surplus is the excess of assets over the sum of liabilities and required capital, with assets at market value and liabilities on the statutory valuation method, adjusted to add back inadmissible assets. The required capital is taken to be two times the statutory capital adequacy requirement, in line with the results of internal capital models and the company's dividend policy.

Value of new business

The value of new business is the discounted value, at the date of sale, of the projected after tax shareholder profits from new covered business (net of the opportunity cost of the required capital for new business). New covered business is defined as long-term insurance contracts written by the respective life insurance licenses during the financial year and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Embedded value and value of new business

	Group	
	2017 Rm	2016 Rm
Free surplus[1]	**497**	507
Required capital	**917**	862
Covered business adjusted net worth (ANW)	**1 414**	1 369
Present value of in-force business (PVIF)	**4 408**	3 763
Cost of required capital (CoC)	**(275)**	(282)
Total embedded value (EV)	**5 547**	4 850
Value of new business (before CoC)	**636**	579
CoC	**(36)**	(32)
Value of new business (VNB)	**600**	547
Present value of future premiums (gross of reinsurance premiums)	**5 926**	10 890
Value of new business as a percentage of the present value of future premiums[2]		
All business (%)	**10,1**	5,0
Excluding investment business (%)	**17,2**	17,6

Notes

[1] A full year dividend of **R763m** (2016: R779m) was proposed for the reporting period ended 31 December 2017.

[2] Reported gross of reinsurance premiums.

Annexure A: Embedded value report for Life Insurance entities (unaudited)

Assumptions

The value of the covered in-force and new business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the 'best estimate' assumptions used in the statutory valuation. These assumptions were based on recent experience investigations.

For Absa Life Limited, the government bond curve is used to determine the risk free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk free rate curve. The economic assumptions used including certain representative points on the risk free curve are as follows (gross of tax where applicable):

	2017 Absa Life Limited Rm	2016 Absa Life Limited Rm
Risk-free rate of return:		
1-year term	**7,26**	7,97
5-year term	**8,08**	8,6
10-year term	**9,29**	9,3
20-year term	**10,45**	10,22
Equity return differential	**3,36**	3,36
Cash return differential	**(2,00)**	(2,00)
Overall investment return differential	**(0,44)**	(0,44)
Risk discount rate differential	**3,15**	3,15

For the non South-African life licences, all values are discounted using an assumed country-specific risk discount rate. Each risk discount rate was set equal to the country-specific risk-free rate of return plus the fixed beta percentage of 90% multiplied by the assumed equity risk premium of 3,5%, plus a further company risk specific margin of 0,25%. The economic assumptions used including the country-specific risk free rates for the non South-African life insurance entities are as follows (gross of tax where applicable):

	2017				2016			
	Barclays Life Botswana Proprietary Limited Rm	**Barclays Life Zambia Limited Rm**	**Global Alliance Seguros S.A. Rm**	**Barclays Life Assurance Kenya Limited Rm**	Barclays Life Botswana Proprietary Limited Rm	Barclays Life Zambia Limited Rm	Global Alliance Seguros S.A. Rm	Barclays Life Kenya Limited Rm
Risk-free rate of return	**4,0**	**21,5**	**20,0**	**12,5**	4,5	26,5	10,0	12,5
Equity return – unhedged	**n/a**	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a
Cash return	**4,0**	**19,0**	**18,0**	**0,0**	4,5	24,0	8,0	0,0
Overall investment return	**2,0**	**19,0**	**20,0**	**12,5**	2,5	24,0	10,0	12,5
Risk discount rate	**7,4**	**22,4**	**23,4**	**15,9**	7,9	27,4	13,4	15,9
Expense inflation	**2,9**	**6,3**	**15,0**	**9,5**	3,0	7,5	7,0	9,5

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 2017							
Percentage change	**Risk discount rate +1%**	**Interest rates –1%**	**Equity capital values x 0,9**	**Equity returns +1%**	**Mortality/ morbidity x 0,9**	**Mainte-nance expenses x 0,9**	**Lapse/ surrender x 0,9**	**Initial expenses x 0,9**
ANW	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**n/a**
PVIF	**(4,6)**	**3,3**	**(1,3)**	**0,3**	**3,7**	**2,0**	**4,6**	**n/a**
CoC	**12,5**	**3,6**	**0,0**	**(5,2)**	**0,0**	**0,0**	**10,7**	**n/a**
EV	**(4,1)**	**2,5**	**(1,0)**	**0,4**	**3,0**	**1,6**	**3,2**	**n/a**
VNB	**(5,0)**	**-5,3**	**(0,1)**	**0,1**	**3,8**	**2,3**	**11,1**	**3,0**

Annexure A: Embedded value report for Life Insurance entities (unaudited)

Sensitivities *(continued)*

Percentage change	2016 Risk discount rate +1%	Interest rates –1%	Equity capital values x 0,9	Equity returns +1%	Mortality/ morbidity x 0,9	Mainte-nance expenses x 0,9	Lapse/ surrender x 0,9	Initial expenses x 0,9
ANW	0,0	0,0	0,0	0,0	0,0	0,0	0,0	n/a
PVIF	(4,7)	3,0	(1,8)	0,3	3,7	2,2	4,6	n/a
CoC	10,3	12,9	0,0	(5,2)	3,2	0,0	11,6	n/a
EV	(4,2)	1,5	(1,4)	0,5	2,7	1,7	3,0	n/a
VNB	(4,4)	3,5	0,3	0,1	3,0	2,1	9,1	2,3

The development of the embedded value of Absa Life Limited (South Africa) can be analysed as follows:

	Group **2017** **Rm**	2016 Rm
Embedded value at the end of the reporting period	**4 853**	4 279
Dividends accrued or paid	**823**	829
Embedded value at the beginning of the reporting period	**(4 279)**	(3 936)
Embedded value earnings	**1 397**	1 172
Components of embedded value earnings:		
Value of new business at point of sale	**532**	517
Expected return on covered business (unwinding)	**365**	332
Operating experience variances	**152**	161
Operating assumption and model changes	**(59)**	12
Modelling net of tax	**42**	4
Release of gross-up reserve	**6**	2
Expected return on ANW	**90**	102
Embedded value operating return	**1 128**	1 130
Investment return variances on in-force covered business	**4**	4
Investment return variances on ANW	**(1)**	(27)
Effect of economic assumption changes	**267**	65
Embedded value earnings	**1 398**	1 172
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 and Touche.

Company statement of financial position

as at 31 December

	Note	Company 2017 Rm	Company 2016 Rm
Assets			
Loans and advances to banks	2	**954**	620
Investment securities	3	**375**	360
Other assets	4	**—**	290
Current tax assets		**32**	—
Deferred tax assets	9	**68**	70
Subsidiaries	5	**67 852**	59 536
Total assets		**69 281**	60 876
Liabilities			
Other liabilities	6	**208**	299
Borrowed funds	7	**12 741**	10 557
Debt securities in issue	8	**132**	200
Current tax liabilities		**—**	25
Total liabilities		**13 081**	11 081
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Ordinary share capital	10	**1 696**	1 696
Ordinary share premium	10	**23 786**	23 786
Retained earnings		**29 218**	24 313
Total equity		**54 700**	49 795
Non-controlling interest – Additional Tier 1 Capital	11	**1 500**	—
Total equity and liabilities		**69 281**	60 876

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2017 Rm	Company 2016 Rm
Net interest income	12	**24**	159
Non-interest income			
Gains and losses from investment activities	13	**13 424**	9 172
Other operating income	14	**48**	
Total income		**13 496**	9 331
Operating expenses		**524**	(547)
Operating expenses	15	**31**	(410)
Other impairments	16	**493**	(63)
Indirect taxation	17	**—**	(74)
Operating profit before income tax		**14 020**	8 784
Taxation expense	18	**(208)**	(130)
Profit for the reporting period		**13 812**	8 654
Ordinary equity holders		**13 764**	8 654
Non-controlling interest Additional Tier 1 Capital		**48**	—
		13 812	8 654
Earnings per share			
Basic earnings per share	19	**1 623,5**	1 020,8
Diluted earnings per share	19	**1 623,5**	1 020,8

	Note	Company 2017 Rm	Company 2016 Rm
Profit for the reporting period		**13 812**	8 654
Other comprehensive income			
Total items that are or may be reclassified to profit or loss			
Movement in cash flow hedging reserve		**—**	—
Fair value (losses)/gains arising during the reporting period		**—**	8
Amount removed from other comprehensive income and recognised in profit or loss		**—**	(8)
Deferred tax		**—**	—
Total comprehensive income		**13 812**	8 654
Ordinary equity holders		**13 764**	8 654
Non-controlling interest Additional Tier 1 Capital		**48**	—
		13 812	8 654

Company statement of changes in equity

for the reporting period ended 31 December

	Company 2017						
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Total equity attributable to ordinary equity holders Rm	Non-controlling interest – Additional Tier 1 Capital Rm	Total Rm
Balance at the beginning of the reporting period	**847 750**	**1 696**	**23 786**	**24 312**	**49 794**	**—**	**49 794**
Profit and total comprehensive income for the reporting period	—	—	—	13 764	13 764	48	13 812
Dividends paid during the reporting period	—	—	—	(8 858)	(8 858)	—	(8 858)
Distributions paid during the reporting period	—	—	—	—	—	(48)	(48)
Issuance of Additional Tier 1 Capital	—	—	—	—	—	1 500	1 500
Barclays separation – Empowerment Trust	—	—	—	1 891	1 891	—	1 891
Transaction with Absa Empowerment Trust	—	—	—	(1 891)	(1 891)	—	(1 891)
Balance at the end of the reporting period	**847 750**	**1 696**	**23 786**	**29 218**	**54 700**	**1 500**	**56 200**
Notes	10	10	10		11		

	2016						
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Total equity attributable to ordinary equity holders Rm	Non-controlling interest – Additional Tier 1 Capital Rm	Total Rm
Balance at the beginning of the reporting period	847 750	1 696	23 786	24 220	49 702	—	49 702
Profit and total comprehensive income for the reporting period	—	—	—	8 654	8 654	—	8 654
Dividends paid during the reporting period	—	—	—	(8 562)	(8 562)	—	(8 562)
Distributions paid during the reporting period	—	—	—	—	—	—	—
Issuance of Additional Tier 1 Capital	—	—	—	—	—	—	—
Balance at the end of the reporting period	847 750	1 696	23 786	24 312	49 794	—	49 794
Notes	10	10	10		11		

All movements are reflected net of taxation.

Company statement of cash flows

for the reporting period ended 31 December

	Note	Company 2017 Rm	2016 Rm
Cash flow from operating activities			
Net interest (paid)/received		**(72)**	226
Cash payments to employees and suppliers		**158**	(484)
Dividends received from investment activities		**13 345**	9 141
Income taxes paid		**(262)**	(173)
Cash flow from operating activities before changes in operating assets and liabilities		**13 169**	8 710
Increase in investment securities		**(15)**	(117)
Decrease in other assets		**290**	—
Decrease in debt securities in issue		**(68)**	(12)
Decrease in other liabilities		**(92)**	(210)
Net cash generated from operating activities		**13 284**	8 371
Cash flow from investing activities			
Increase in investment in subsidiaries		**(7 823)**	(6 371)
Net cash utilised in investing activities		**(7 823)**	(6 371)
Cash flow from financing activities			
Dividends paid		**(8 859)**	(8 562)
Proceeds from borrowed funds		**2 841**	3 697
Repayment of borrowed funds		**(561)**	—
Issue of Additional Tier 1 Capital		**1 500**	—
Distributions paid to Tier 1 Capital holders		**(48)**	—
Net cash utilised in financing activities		**(5 127)**	(4 865)
Net increase/(decrease) in cash and cash equivalents		**334**	(2 865)
Cash and cash equivalents at the beginning of the reporting period		**620**	3 485
Cash and cash equivalents at the end of the reporting period	2	**954**	620

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

1. Accounting policies

The financial statements of the Company are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Group. For detailed accounting policies, refer to the Group's financial statements.

	Company 2017 Rm	2016 Rm
2. Loans and advances to banks		
Subsidiary companies	**954**	620

All the aforementioned loans are at variable rates.

	Company 2017 Rm	2016 Rm
3. Investment securities		
Debt securities	**375**	360

	Company 2017 Rm	2016 Rm
4. Other assets		
Accrued dividends	**—**	219
Other	**—**	71
	—	290

	Company 2017 Rm	2016 Rm
5. Subsidiaries		
Equity investments	**55 268**	50 598
Impairment allowance of equity investments	**(327)**	(820)
	54 941	49 778
Debt instruments	**12 911**	9 758
	67 852	59 536

The increase in debt instruments is related to borrowed funds issued by the Company's Subsidiaries as qualifying Tier 2 capital.

During the current year, the investment in subsidiaries increased mainly as a result of the Company acquiring additional 'A' ordinary shares in Absa Bank Limited for **R3,5bn** (2016: R3,5bn) and Tier 1 capital for R1,5bn.

	Company 2017 Rm	2016 Rm
6. Other liabilities		
Unclaimed dividends	**208**	210
Other	**—**	89
	208	299

			Company 2017 Rm	Company 2016 Rm
7. Borrowed funds				
Subordinated callable notes issued by Barclays Africa Group Limited				
The following subordinated debt instruments qualify as Tier 2 capital in terms of the Basel III.				
Interest rate	**Final maturity date**	**Note**		
10,05%	5 February 2025	i	**807**	807
10,835%	19 November 2024	ii	**130**	130
11,365%	4 September 2025	iii	**508**	508
11,40%	29 September 2025	iv	**288**	288
11,74%	20 August 2026	v	**140**	140
11,81%	3 September 2027	vi	**737**	737
12,43%	5 May 2026	vii	**200**	200
Three-month Johannesburg Interbank Agreed rate (JIBAR)				
Three-month JIBAR + 3,30%	19 November 2024	viii	**370**	370
Three-month JIBAR + 3,50%	5 February 2025	ix	**1 693**	1 693
Three-month JIBAR + 3,50%	4 September 2025	x	**437**	437
Three-month JIBAR + 3,60%	3 September 2027	xi	**30**	30
Three-month JIBAR + 4,00%	5 May 2026	xii	**31**	31
Three-month JIBAR + 4,00%	20 August 2026	xiii	**1 510**	1 510
Three-month JIBAR + 4,00%	3 November 2026	xiv	**500**	500
Three-month JIBAR + 3,78%	17 March 2027	xv	**642**	—
Three-month JIBAR + 3,85%	25 May 2027	xvi	**500**	—
Three-month JIBAR + 3,85%	14 August 2029	xvii	**390**	—
Three-month JIBAR + 3,15%	30 September 2027	xviii	**295**	—
Three-month JIBAR + 3,45%	29 September 2029	xix	**1 014**	—
Accrued interest			**180**	166
			10 402	7 547
Non-subordinated debt extended by Barclays Africa Group Limited				
Three-month JIBAR + 1,31%	11 June 2020	xx	**58**	58
Three-month JIBAR + 1,40%	15 January 2021	xxi	**114**	114
Three-month JIBAR + 0,90%	30 November 2017	xxii	**—**	211
Three-month JIBAR + 1,265%	30 January 2020	xxiii	**301**	301
Three-month JIBAR + 1,20%	29 July 2019	xxiv	**516**	516
Three-month JIBAR + 1,12%	29 January 2019	xxv	**179**	179
Three-month JIBAR + 0,55%	8 March 2017	xxvi	**—**	350
Three-month LIBOR + 0,87%	26 March 2020	xxvii	**618**	596
Three-month LIBOR + 0,92%	30 March 2021	xxviii	**124**	149
Three-month LIBOR + 0,89%	27 January 2021	xxix	**371**	492
Accrued interest			**58**	44
			2 339	3 010
			12 741	10 557

Included in interest paid on the statement of cash flows is **R1 055m** (2016: R570m) interest on borrowed funds.

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

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

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

7. Borrowed funds *(continued)*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

xv. The three month JIBAR plus 3,78% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 17 March 2022. Interest is paid quarterly in arrears on 17 March, 17 June, 17 September, 17 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 17 March 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xvi. The three month JIBAR plus 3,85% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 25 May 2022. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August, 25 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 25 May 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xvii. The three month JIBAR plus 3,85% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 14 August 2024. Interest is paid quarterly in arrears on 14 February, 14 May, 14 August, 14 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 14 August 2024. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xviii. The three month JIBAR plus 3,15% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 30 September 2022. Interest is paid quarterly in arrears on 30 March, 30 June, 30 September, 30 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 30 September 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xix. The three month JIBAR plus 3,45% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 29 September 2024. Interest is paid quarterly in arrears on 29 March, 29 June, 29 September, 29 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 29 September 2024. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xx. The three month JIBAR plus 1,31% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 11 June 2020. Interest is paid quarterly in arrears on 11 March, 11 June, 11 September and 11 December. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50 million) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxi. The three month JIBAR plus 1,40% floating rate notes are to be redeemed in full at the option of Barclays Africa Group Limited on 15 January 2021. Interest is paid first on 31 May 2016 and after that annually 31 May. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50 million) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxii. The three month JIBAR plus 0,90% floating rate notes were redeemed in full by Barclays Africa Group Limited on 30 November 2017. Interest was paid quarterly in arrears on 28 February, 30 May, 30 August and 30 November.

xxiii. The three month JIBAR plus 1,265% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 30 January 2020. Interest is paid semi-annually in arrears on 30 January and 31 July. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100 million) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxiv. The three month JIBAR plus 1,20% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 29 July 2019. Interest is paid semi-annually in arrears on 29 January and 29 July. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100 million) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxv. The three month JIBAR plus 1,12% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 29 January 2019. Interest is paid semi-annually in arrears on 29 January and 29 July. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100 million) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxvi. The three month JIBAR plus 0,55% floating rate notes were redeemed in full by Barclays Africa Group Limited on 8 March 2017. Interest was paid quarterly in arrears on 8 June, 8 September, 8 December and 8 March.

xxvii. The three month LIBOR plus 0,87% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 26 March 2020. Interest is paid quarterly in arrears on 26 March, 26 June, 26 September and 26 December. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD 10 million) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxviii. The three month LIBOR plus 0,92% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 30 March 2021. Interest is paid quarterly in arrears on 30 June, 30 September, 30 December and 30 March. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD 10 million) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxix. The three month LIBOR plus 0,89% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 27 January 2021. Interest is paid quarterly in arrears on 27 April, 27 July, 27 October and 27 January. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD 10 million) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

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

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

	Company 2017 Rm	Company 2016 Rm
8. Debt securities in issue		
Senior notes	**132**	200

	Company 2017 Rm	Company 2016 Rm
9. Deferred tax		
Reconciliation of net deferred tax asset		
Balance at the beginning of the reporting period	**70**	25
Charge to profit or loss (refer to note 18)	**(2)**	45
Balance at the end of the year	**68**	70
Deferred tax asset/(liability)		
Tax effects of temporary differences between tax and book value for:		
Other	**112**	112
Exchange differences – unrealised	**(44)**	(42)
Net deferred tax asset	**68**	70

	Company 2017 Rm	Company 2016 Rm
10. Share capital and premium		
Ordinary share capital		
Authorised		
880 467 500 (2016: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
847 750 679 (2016: 847 750 679) ordinary shares of R2,00 each	**1 696**	1 696
Total issued capital		
Share capital	**1 696**	1 696
Share premium	**23 786**	23 786
	25 482	25 482

Authorised shares

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

Unissued shares

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

Shares issued during the year under review

There were no shares issued during the current reporting period.

Shares issued during the prior year

There were no shares issued during the previous reporting period.

All shares issued by the Company were paid in full.

	Company 2017 Rm	2016 Rm
11. Non-controlling interest – Additional		
Subordinated Callable notes issued by Barclays Africa Group Limited		
Interest rate / **Date of issue**		
Three month JIBAR + 5,65% / 11 September 2017	**1 500**	—

The Additional Tier 1 Capital notes represent perpetual, subordinated instruments redeemable in full at the option of Barclays Africa Group Limited (the issuer) on 12 September 2022 subject to regulatory approval. Interest is paid at the discretion of the issuer and is non-cumulative. In addition, if certain conditions are reached, the regulator may prohibit the issuer from making interest payments. Accordingly, the instruments are classified as equity instruments.

	Company 2017 Rm	2016 Rm
12. Net interest income		
Net interest and similar income is earned from:		
Investment securities	**26**	33
Loans and advances to banks	**10**	31
Other interest	**(12)**	95
	24	159

	Company 2017 Rm	2016 Rm
13. Gains and losses from investment activities		
Dividends received from subsidiaries	**13 424**	9 172

	Company 2017 Rm	2016 Rm
14. Other operating income		
Sundry income	**48**	—

	Company 2017 Rm	2016 Rm
15. Operating expenses		
Administrative and other expenses	**(31)**	410

	Company 2017 Rm	Company 2016 Rm
16. Other impairments		
Investments in associates and joint ventures	—	16
Equity investment in subsidiaries	(493)	47
	(493)	63

In the current reporting period management re-assessed the impairment raised on the investment in Barclays Bank Mozambique and has reversed the impairment raised in 2015 as the entity is now in a profit position and is forecasting to remain profitable. The recoverable amount was determined using a value in use calculation.

	Company 2017 Rm	Company 2016 Rm
17. Indirect taxation		
VAT net of input credits	—	74

	Company 2017 Rm	Company 2016 Rm
18. Taxation expense		
Current		
Current tax	89	26
Current tax – previous reporting period	—	18
Foreign tax	117	131
	206	175
Deferred	2	(45)
Other	—	(70)
Exchange difference	2	25
	208	130
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	14 020	8 784
Tax calculated at a tax rate of 28%	3 924	2 460
Expenses not deductible for tax purposes	55	92
Income not subject to tax	(3 750)	(2 571)
Items of a capital nature	(138)	—
South African current taxation prior year	—	18
Foreign tax	117	131
	208	130

	Company 2017 Rm	Company 2016 Rm
19. Earnings per share		
Basic and diluted earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the year.		
Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares, of which there are none.		
Basic and diluted earnings attributable to ordinary equity holders of the Company	**13 764**	8 654
Weighted average number of ordinary shares in issue (millions)	**847,8**	847,8
Issued shares at the beginning and end of the reporting period	**847,8**	847,8
Basic earnings per ordinary share/diluted earnings per ordinary share (cents)	**1 623,5**	1 020,8

	Company 2017 Gross Rm	Company 2017 Net Rm	Company 2016 Gross Rm	Company 2016 Net Rm
20. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Company		**13 764**		8 654
Total headline earnings adjustment:		**(493)**		63
IAS 36 – Impairment of investments in associates and joint ventures (refer to note 16)	**—**	**—**	16	16
IAS 36 – Impairment of investment in subsidiary (refer to note 16)	**(493)**	**(493)**	47	47
Headline earnings/diluted headline earnings		**13 271**		8 717
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		**1 565,3**		1 028,3

Note

[1] The dividend paid dates have been corrected to reflect date of payment. Previously these dates referred to date of declaration.

	Company 2017 Rm	Company 2016 Rm
21. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend **(28 July 2017: 475 cents)** (29 July 2016: 450 cents)	**4 027**	3 900
Final dividend **(1 March 2018: 595 cents)** (23 February 2017: 570 cents)	**5 044**	4 832
	9 071	8 732
Distributions declared to Additional Tier 1 Capital note holders		
Distribution (12 December 2017)	**48**	—
Dividends paid to ordinary equity holders[1]		
Final dividend **(10 April 2017: 570 cents)** (11 April 2016: 550 cents)	**4 832**	4 662
Interim dividend **(11 September 2017: 475 cents)** (12 September 2016: 460 cents)	**4 027**	3 900
	8 859	8 562
Distributions paid to Additional Tier 1 Capital note holders		
Distribution (12 December 2017)	**48**	—

22. Related parties

Refer to note 49 of the Group's financial statements for the full disclosure of related-party transactions. In addition to this disclosure the following related party transactions and balances exist for the Company.

22.1 *Balances and transactions with subsidiaries*

Debit amounts are shown as positive, credit amounts are shown as negative.

	Company 2017 Rm	Company 2016 Rm
Balances		
Loans and advances to banks	**954**	620
Investment securities	**375**	360
Loans to subsidiaries	**12 912**	10 132
Other assets	**—**	290
Other liabilities	**—**	89
Borrowed funds	**(2 339)**	(3 010)
Transactions		
Interest and similar income	**(1 021)**	(843)
Interest expense and similar charges	**25**	29
Operating (recoveries)/expenses	**(25)**	112
Operating income	**(48)**	—
Dividends received	**(13 424)**	(9 172)

During the previous reporting period, Barclays Africa Limited declared a dividend in specie to the Company, consisting of shares in the following subsidiary: Barclays Bank of Zambia PLC.

Note

[1] The dividend paid dates have been corrected to reflect date of payment. Previously these dates referred to date of declaration.

23. Risk management

In order to gain an understanding of the risk management framework applied by the Company please refer to note 63 of the Group's financial statements.

Credit risk	Company 2017 Gross maximum exposure – neither past due nor impaired Rm	Company 2016 Gross maximum exposure – neither past due nor impaired Rm
Maximum exposure to credit risk		
Loans and advances to banks	954	620
Investment securities	375	360
Other assets	—	290
Subsidiaries	12 911	9 758
	14 240	11 028

23. Risk management *(continued)*

Liquidity risk

Analysis of liquidity risk:

Discounted maturity	Company 2017 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Investment securities	—	—	—	375	375
Loans and advances to banks	954	—	—	—	954
Other financial assets	—	—	—	—	—
Subsidiaries	—	240	10 762	1 909	12 911
Financial assets	954	240	10 762	2 284	14 240
Non-financial assets					55 041
Total assets					69 281
Liabilities					
Other financial liabilities	208	—	—	—	208
Debt securities in issue	—	132	—	—	132
Borrowed funds	—	239	11 098	1 404	12 741
Financial liabilities	208	371	11 098	1 404	13 081
Non-financial liabilities					—
Total liabilities					13 081
Equity					56 200
Total equity and liabilities					69 281
Net liquidity position of financial instruments	746	(131)	(336)	880	1 159

23. Risk management *(continued)*

Liquidity risk

Discounted maturity	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
	Company 2016				
Assets					
Investment securities	—	—	—	360	360
Loans and advances to banks	620	—	—	—	620
Other financial assets	290	—	—	—	290
Subsidiaries	—	—	8 991	767	9 758
Financial assets	910	—	8 991	1 127	11 028
Non-financial assets					49 848
Total assets					60 876
Liabilities					
Other financial liabilities	299	—	—	—	299
Debt securities in issue	—	200	—	—	200
Borrowed funds	—	771	9 019	767	10 557
Financial liabilities	299	971	9 019	767	11 056
Non-financial liabilities					25
Total liabilities					11 081
Equity					49 795
Total equity and liabilities					60 876
Net liquidity position of financial instruments	611	(971)	(28)	360	(28)

Undiscounted maturity (statement of financial position value with impact of future interest)	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
	Company 2017					
Liabilities						
On-statement of financial position						
Other financial liabilities	**208**	**—**	**—**	**—**	**—**	**208**
Debt securities in issue	**—**	**134**	**—**	**—**	**(2)**	**132**
Borrowed funds	**—**	**250**	**13 219**	**1 924**	**(2 652)**	**12 741**
Financial liabilities	**208**	**384**	**13 219**	**1 924**	**(2 654)**	**13 081**
Non-financial liabilities						**—**
Total liabilities						**13 081**

23. Risk management *(continued)*

Undiscounted maturity (statement of financial position value with impact of future interest)	2016 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Other financial liabilities	299	—	—	—	—	299
Debt securities in issue	—	214	—	—	(14)	200
Borrowed funds	—	590	14 182	1 709	(5 924)	10 557
Financial liabilities	299	804	14 182	1 709	(5 938)	11 056
Non-financial liabilities						25
Total liabilities						11 081

Market risk
Interest rate risk in the banking book
Impact on earnings

	2017 Change in market risk 200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	**(8)**	**(4)**	**4**	**8**
Percentage of the Company's net interest income (%)	**(31)**	**(16)**	**16**	**31**
With respect to investment securities balance	**368**	**371**	**379**	**383**

Interest rate risk in the banking book
Impact on earnings

	2016 Change in market risk 200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(6)	(3)	3	6
Percentage of the Company's net interest income (%)	(4)	(2)	2	4
With respect to investment securities balance	354	357	363	366

24. Fair value disclosures

24.1 *Assets and liabilities not held at fair value*

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

	Carrying value Rm	Fair value Rm	Company 2017 Carrying Level 1 Rm	Carrying Level 2 Rm	Carrying Level 3 Rm
Financial assets					
Loans and advances to banks	954	954	—	954	—
Subsidiaries	12 911	12 911	—	12 911	—
Total financial assets	**13 865**	**13 865**	—	**13 865**	—
Financial liabilities					
Debt securities in issue	132	132	—	132	—
Borrowed funds	12 741	12 741	—	12 741	—
Total financial liabilities	**12 873**	**12 873**	—	**12 873**	—

	Carrying value Rm	Fair value Rm	Company 2016 Carrying Level 1 Rm	Carrying Level 2 Rm	Carrying Level 3 Rm
Financial assets					
Loans and advances to banks	620	620	—	620	—
Subsidiaries	9 758	9 758	—	9 758	—
Total financial assets	10 378	10 378	—	10 378	—
Financial liabilities					
Debt securities in issue	200	200	—	200	—
Borrowed funds	10 557	10 557	—	10 557	—
Total financial liabilities	10 757	10 757	—	10 757	—

24.2 *Assets and liabilities held at fair value*

The Company holds investments in debt instruments which are measured at fair value.

The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

	Company 2017 Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
Investment securities	—	**375**	—	**375**

	Company 2016 Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
Investment securities	—	360	—	360

Refer to note 1.2 of the Group's financial statements for valuation methodology and valuation techniques of fair value and non-fair value items

25. Derivatives

Derivatives designated as cash flow hedging instruments to protect against foreign currency risk

During the current reporting period there were no cash flow hedges to protect against foreign currency risk. During the previous reporting period, forward exchange contracts were designated by the Company as cash flow hedges in mitigating potential cash flow variability that results from the Company's exposure to foreign currency dividends. Net gains of **Rnil** (2016: R8m) were recycled from other comprehensive income to profit or loss, and are presented within operating expenses.

26. Going concern

The directors assess the Company's future performance and financial position on an ongoing basis and have no reason to believe that the Company will not be a going concern in the reporting period ahead. For this reason, these financial statements are prepared on a going concern basis.

27. Events after the reporting period

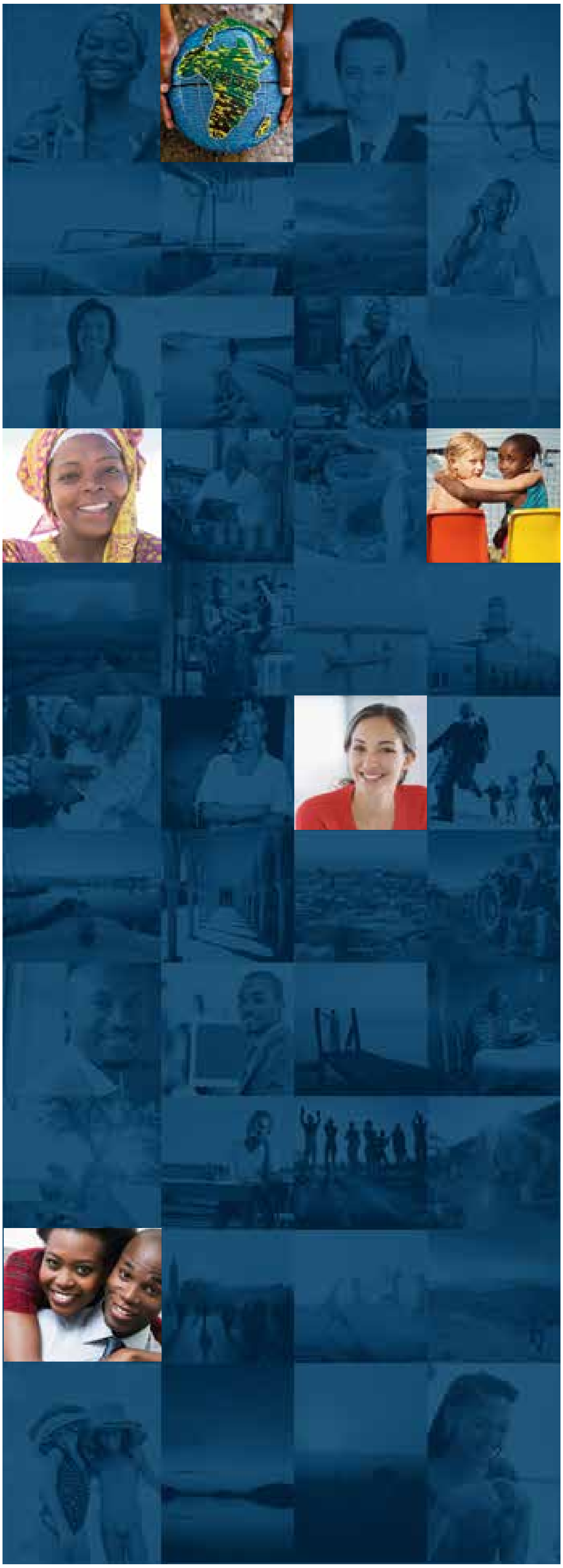
The directors are not aware of any events after the reporting date of 31 December 2017 and the date of authorisation of these financial statements (as defined per IAS 10).

2016

Barclays Africa Group Limited

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

BARCLAYS



Contents

Annual financial statements

Barclays Africa Group Limited
(1986/003934/06)

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

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

Directors' approval

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' responsibility statement set out on page 10, is made to distinguish, for the benefit of shareholders, the respective responsibilities of the directors and of the auditors in relation to the financial statements of Barclays Africa Group Limited and its subsidiaries (the Group).

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

To enable the directors to meet these responsibilities:

- All directors and senior management develop an environment whereby all directors and employees endeavour to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that, in all reasonable circumstances, is above reproach.
- The Board sets standards and management implements systems of internal control and accounting as well as information systems aimed at providing reasonable assurance that both on- and off-statements of financial position are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The Board and management identify all key areas of risk across the Group and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems, and discipline are applied and managed within predetermined procedures and constraints.
- The Group's internal audit and compliance functions, which operate unimpeded and independently from operational management and have unrestricted access to the Group Audit and Compliance Committee (GACC), appraise, evaluate and, when necessary, recommend improvements to the systems of internal control, accounting and compliance practices, based on plans that, combined with the efforts of the Group's risk functions, take cognisance of the relative degrees of risk of each function or aspect of the business.
- The GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC is satisfied that the external auditors are independent.
- The Board approves the Enterprise Risk Management Framework (ERMF) through recommendation by the Capital Management Committee (GRCMC).
- The Board, through the GACC which is assisted by the GRCMC in respect of risk matters, reviewed the compliance practices and procedures to enable the Board to discharge their regulatory responsibilities, by overseeing the plan and progress management makes in improving compliance in respect of Know Your Customer, Anti-Money Laundering and Sanctions (KAMLS) requirements; and by considering that the Group's systems and processes appropriately reflect the current legal and regulatory environment, refer to note 54.
- The Group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

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

The financial statements of the Group and the Company have been prepared in accordance with the provisions of the Companies Act and the Banks Act, Johannesburg Stock Exchange (JSE) listings requirements and the SAICA financial reporting guides, and comply with the requirements of IFRS, and all applicable legislation.

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

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

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

W E Lucas-Bull
Group Chairman

M Ramos
Chief Executive Officer (CEO)

Johannesburg
22 February 2017

Group Audit and Compliance Committee report

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

The GACC serves as the audit committee for the Group. Although certain material subsidiaries have separate audit committees, these fall under the ambit of oversight of the GACC, to which all major issues are escalated. The GACC may review from time to time, together with the Chairman of the audit committees of the material subsidiaries, the control environment of these subsidiaries.

Information on the membership and composition of the GACC, its terms of reference and its procedures, is set out in the corporate governance statement available on the Group's website[1].

Activities of the GACC

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

In respect of the external auditors and the external audit:

- Nominated PricewaterhouseCoopers Inc. (PwC) and Ernst & Young Inc. (EY) as joint external auditors for the current reporting period;
- Recommended to the Board, for approval at the annual general meeting in terms of section 61 of the Companies Act, the appointment of KPMG Inc. (KPMG) and EY as joint external auditors for the 2017 reporting period;
- Ensured the appointment of the external auditors complied with the Companies Act and all other applicable legal and regulatory requirements;
- Reviewed, together with management, the external audit plan to address significant focus areas,which similarly receive focus by the GACC and which will be reported on in the new format audit report to be disclosed in the current financial statements, and specifically considered the external auditors' findings in this regard;
- Reviewed and approved the external audit plan, the budgeted fee for the current reporting period and the terms of engagement of the external auditors;
- Reviewed and assessed the quality of the external audit process, including receiving confirmation that there was no restriction on scope or access, and concluded that the process had been satisfactory;
- Reviewed the external auditors' reports and obtained assurances from the external auditors that adequate accounting records were maintained at all times;
- Ensured that adequate time was set aside for private discussions with the external auditors;
- Confirmed that the external auditors would attend and address queries at any general shareholders' meeting;
- Reviewed and approved the Group's policy on non-audit services to be provided by the external auditors during the current reporting period;
- Approved proposed contracts with the external auditors for the provision of non-audit services falling within the scope of the policy concerning non-audit services. During the reporting period these engagements were evaluated by either the Committee Chairman or the Committee as a whole who, before confirming any approval, assured themselves that there was justifiable reason for engaging the auditor and that its independence and objectivity would not be threatened ;
- Reviewed and approved the fees charged by the external auditors relating to the provision of non-audit services;
- Considered whether any reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act, No. 26 of 2005, and determined that there were no such reportable irregularities;
- Reviewed the findings and recommendations of the external auditors and confirmed that no unresolved issues of concern exist between the Group and the external auditors in relation to the Group or any of its business units and subsidiaries;
- Following the appointment of KPMG as one of the Group's joint auditors for the reporting period ended 31 December 2017, the Committee ensured that KPMG obtained independence from the Group by 30 June 2016, enabling it to familiarise itself with the Group and receive a structured, formal handover from PwC. To ensure KPMG's independence, and to allow the Committee to assess whether any non-audit work could be conducted by KPMG during the reporting period, both in terms of type and scale, the Group exited all relationships or assignments that might have prevented KPMG obtaining independent status and has implemented procedures to manage the types of relationships and assignments that KPMG provides going forward.

In respect of the financial statements and accounting practices:

- Confirmed the use of the going-concern basis as appropriate for the preparation of the interim financial results and annual financial statements;
- Reviewed and recommended the interim financial results and annual financial statements, prior to submission to and approval by the Board and satisfied itself that they fairly present the consolidated financial position and comply, in all material respects, with the relevant provisions of the Companies Act, International Financial Reporting Standards (IFRS) and Interpretations of IFRS, and the South African Institute of Chartered Accountants' (SAICA) Reporting Guides;
- Reviewed and recommended for approval by the Board the reporting changes contained in the announcements released on the Stock Exchange News Services (SENS) on 1 March 2016 and 29 July 2016. The GACC satisfied itself that the changes disclosed in the annual financial statements and SENS result in fair presentation of the consolidated financial position as presented in the annual financial statements and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and interpretations of IFRS, and SAICA's Reporting Guides;

Note

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

Activities of the GACC *(continued)*

- Reviewed and recommended the interim and final dividend proposals for approval by the Board;
- Reviewed the solvency and liquidity tests undertaken for specific transactions, dividend declarations and financial assistance;
- Reviewed significant accounting and reporting issues, including complex or unusual transactions, sustainability of the control environment; significant judgemental areas, and recent professional and regulatory pronouncements, and ascertained their impact on the financial statements;
- Considered the accounting policies and practices and the controls of the Group to ensure the aforementioned are adhered to. The GACC is satisfied that they are appropriate and comply in all material respects with the relevant provisions of the Companies Act, IFRS and the interpretations of IFRS;
- Reviewed the high-level project plan and progress updates on the implementation of IFRS 9;
- Reviewed the tax governance philosophy and assessed status;
- Reviewed significant matters which are not a normal part of the Group's business, but which are referred to the Committee by the Board or management;
- Noted the new requirements of the revised auditor reporting standards issued by the Internal Auditing and Assurance Board; and
- Considered the valuation of investments of the Group and Absa Bank Limited and recommended it to the Board for approval.

In respect of internal control and internal audit:

- Reviewed and approved the updated Barclays Internal Audit (BIA) charter, noting the changes to the purpose, authority and responsibility of Internal Audit;
- Reviewed the current reporting period's internal audit plan, including the adequacy of BIA's skills, resources and budget;
- Reviewed the scope, nature and effectiveness of the work of BIA and the performance of BIA against its objectives and the internal audit charter, including receiving confirmation that there was no restriction on scope or access, and noted the completion of the current reporting period's internal audit plan;
- Reviewed reports from BIA on trends in audit assessments, issues identified and emerging risks in the control environment;
- Regularly reviewed management's actions in remedying control deficiencies reported by BIA;
- Considered a review by the external auditors, which concluded that there are adequate bases for external audit to place reliance on the work of BIA as appropriate;
- Noted internal quality reviews by BIA staff and Barclays Bank PLC's BIA performed during the reporting period, which proved satisfactory BIA performance;
- Considered a special report on the fraud risk management capability across the Group; and
- BIA continues to review the Group's systems of internal control and risk management on an ongoing basis. Based on the work performed as part of the approved audit plan for the current reporting period, BIA confirmed that sound risk management and a robust framework of internal control is in place over financial, operational and compliance issues which supports the validity, accuracy and completeness of the financial information. Where areas of improvement were identified by BIA, management has completed corrective actions, or is in the process of implementing corrections. Progress is tracked to completion by BIA. BIA actively encourages completion of ongoing remediation initiatives and embedment of controls, and of the principles of the ERMF, to ensure that the improved control environment rating is not only maintained, but also strengthened.

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

- Reviewed and approved the Group's compliance monitoring plan, compliance methodology and structure, the Group's compliance coverage plan and the Group's compliance charter;
- Reviewed compliance practices and procedures for enabling the directors of the Group to discharge their regulatory responsibilities;
- Recommended the Banks Act, No. 94 of 1990 (the Banks Act) section 64B(2)(e) statement as to the Directors Affairs Committee for review, and to the Board for approval;
- Considered compliance with Regulation 40(4) of the Banks Act, including the annual review of material malfunction, and recommended this to the Board for approval;
- Reviewed and approved the regulatory compliance risk control framework and applicable compliance policies, which include the requirements for the Group to comply with applicable laws, rules, codes and standards;
- Satisfied itself that the functioning of Group Compliance is in line with relevant regulatory requirements, including without limitation, section 60A and regulation 49 of the Banks Act; Financial Advisory and Intermediary Services Act, No. 37 of 2002 (FAIS), section 17 and regulation 4, regulation 5 and Board Notice 126 and 127, Financial Intelligence Centre Act, No. 38 of 2001 (FICA), section 42 and King III, Principle 6;
- Assessed the adequacy and effectiveness of Group Compliance's performance, including receiving confirmation that there was no restriction on scope or access;
- Considered and reviewed the adequacy of the resources and budget available to Group Compliance;
- Ensured that procedures are in place for receiving and treating complaints in terms of the Companies Act and other applicable acts regarding accounting practices, the internal audit of the Group, the content or auditing of the Group's financial statements, the internal financial controls of the Group or any related matters (including internal, anonymous complaints from employees or any other person);

Group Audit and Compliance Committee report

Activities of the GACC *(continued)*

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

In respect of risk management:

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

In respect of integrated reporting:

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

Regulatory and corporate governance requirements

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

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

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

Independence of the external auditors

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

- Representations from PwC and EY confirming their independence and that nothing had taken place which would impair this at any time, including obtaining confirmation that no restrictions had been placed upon PwC or EY that limited their scope or access;
- The auditors did not, except as external auditors or in providing permitted non-audit services, receive any other remuneration or benefit from the Group; the criteria for independence set by the Independent Regulatory Board for Auditors and international regulatory bodies were satisfied;
- The auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditors;
- The auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- The GACC received a letter of confirmation from each of the joint external auditors to confirm that they meet all the requirements for independence and that the auditors' report thereon is included in the annual consolidated financial statements.

Conclusion

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

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

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

On behalf of the GACC

C Beggs
Chairman of the GACC

Johannesburg
22 February 2017

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

In accordance with the provisions of the Companies Act, I certify that, in respect of the year ended 31 December 2016, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

N R Drutman

Company Secretary

Johannesburg

22 February 2017

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

Report on the Audit of Consolidated and Separate Financial Statements

Opinion

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

In our opinion, the consolidated and separate financial statements present fairly, in all material respects the consolidated and separate financial position of the Group as at 31 December 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

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

Key Audit Matters

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

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

Level	Key audit matter	How our audit addressed the matter
Consolidated entity only	**Assessing impairment of loans and advances** The disclosure associated with Retail Credit Risk and Wholesale Credit Risk is set out in the financial statements in the following notes: › Note 1.2.1 – Approach to credit risk and impairment of loans and advances (page 26) › Note 9 – Impairment losses on loans and advances to customers (page 57) › Note 63.2 – Credit risk (page 138)	
	Impairment provisions represent management's best estimate of the losses incurred within the loan portfolios at balance sheet date. Due to the magnitude of the loans and advances balances and the extent of management judgement inherent in the impairment calculations, this has been identified as an area of most significance in the current year audit of the financial statements. **Retail** A significant portion of the retail impairment is calculated on a portfolio basis. In calculating the impairment provision on a portfolio basis, statistical models are used. The following inputs to these models require significant management judgement: › The probability of default (PD); › The loss given default (LGD); › The emergence periods (EP) between the impairment event occurring and an individual or collective impairment being recognised; and › Treatment of cured and renegotiated loans.	We considered the appropriateness of accounting policies and assessed the loan impairment methodologies applied, and compared these to the requirements of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). We obtained an understanding and tested the relevant controls over the credit origination processes, the credit monitoring processes and credit remediation processes. **Retail** Where impairment provisions were calculated on a modelled basis, we used our valuation expertise to: › Assess the design and implementation of the models, including significant assumptions and the quality of the observable data used to derive model parameters in relation to our understanding of industry norms; › Assess the reasonableness of the impairment model methodology applied by management to determine the Probabilities of Default and Loss Given Default used to compute portfolio provisions; › Evaluate the robustness of the modelling methodology by including management's data in our independent models. Based on our testing performed over modelling methodologies and assumptions applied, we found management's estimates to be within reasonable ranges. › Assess the appropriateness of management's overlays in light of recent economic events and circumstances, and other factors that might not yet be fully reflected in the modelled results. Where impairment provisions were individually calculated we challenged the assumptions used by management, with reference to current economic performance, assumptions most commonly used in the industry, and comparison with external evidence or historical trends.

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

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

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

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

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

Other Information

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

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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

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

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers Inc.

Director: Keith Ackerman CA(SA)
Registered Auditor

2 Eglin Road, Sunninghill

Johannesburg

22 February 2017

Ernst & Young Inc.

Director: E van Rooyen CA(SA)
Registered Auditor

102 Rivonia Road, Sandton

Johannesburg

Director's report

General information and nature of activities

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

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

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

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

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

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

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

Group Audit and Compliance Committee report

Refer to pages 2 to 5.

Group results

Main business and operations

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

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

Headline earnings were derived from the following activities:

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

Note

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

Re-election of retiring directors

In line with international best practice, the Group has a requirement in terms of which all directors on the Board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting (AGM). Yolanda Cuba and Trevor Munday will be required to retire in terms of the above arrangement.

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

Details of the members of the Board:

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

Shareholder information

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

Note

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

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

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

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

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

Directors' interests in Absa Bank Limited preference shares

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

Directors' and officers' personal financial interests in contracts

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

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

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

Directors' and prescribed officers' emoluments

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

Subsidiaries, associates and joint ventures

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

Acquisitions and disposals

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

Acquisitions during the current reporting period

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

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

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

Disposals during the current reporting period

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

Dividends

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

Special resolutions

The following special resolutions were passed by the company's ordinary shareholders at the AGM held on 17 May 2016, in accordance with the Companies Act:

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

  Resolved to approve the proposed remuneration to be payable to non-executive directors from 1 May 2016 to and including the last day of the month preceding the date of the next AGM thereafter.

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

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

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

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

Company Secretary

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

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

Telephone: (+27 11) 350 5347

Email: groupsec@barclaysafrica.com

Auditors

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

Authorised and issued share capital

Authorised

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

Issued

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

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

No preference shares are currently in issue by the Company.

Consolidated statement of financial position

as at 31 December

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

Consolidated statement of comprehensive income

for the reporting period ended 31 December

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

Consolidated statement of comprehensive income

for the reporting period ended 31 December

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

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Consolidated statement of changes in equity

for the reporting period ended 31 December

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

Notes

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

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

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2016

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

Consolidated statement of changes in equity

for the reporting period ended 31 December

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

Notes

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

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

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

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2015

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

Consolidated statement of cash flows

for the reporting period ended 31 December

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

1. Summary of significant accounting policies

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

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

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

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

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

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

The amendments have the following impact on the Group:

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

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

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

The amendments require an acquirer of an interest in a joint operation in which the activity constitutes a business, to apply the accounting principles and disclosures provided by IFRS 3 when accounting for the acquisition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Annual improvements (2012 – 2014 Cycle)

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

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

The clarifications and amendments did not have a significant impact on the financial statements of the Group as these are already accounted for in terms of these requirements.

1.1 Basis of presentation

The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out as follows. These policies have been consistently applied. The consolidated and separate financial statements have been prepared under the historical cost convention modified to include the fair valuation of investment property and particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies. They are stated in millions of rand (Rm), the presentation currency of the Group.

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

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

1.2.1 Approach to credit risk and impairment of loans and advances

The Group has an established governance process with respect to its approach to credit risk management and any resultant impairment of loans and advances. The governance process includes the existence of the BAGL Models Committee (MC) (a Board committee), Retail and Business Bank Models Forum (RBBMF) and the Corporate and Investment Bank Models Committee (CIBMC) whose remit includes:

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

The aforementioned committees also approve post-model adjustments applied to models. Retail impairment allowances are subject to quarterly impairment adequacy reviews and approval by the Retail Impairment Adequacy Forum. Wholesale impairment allowances are subject to monthly impairment adequacy reviews and approval by the Wholesale Impairment Governance Forum.

The consideration of credit risk is a fundamental process for the Group as it ultimately determines impairment losses. This section describes the process and assumptions used in estimating impairment allowances.

Approach to credit modelling/internal ratings

The principal objective of credit measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Group is exposed from the level of individual facilities up to the total portfolio level. Integral to this is the calculation of internal credit parameters that are used for credit risk management purposes and in the calculation of regulatory capital (RC), economic capital (EC) and impairment requirements. The key credit parameters used in this process are:

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

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

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

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

Internal and vendor-supplied credit models are used to estimate the key credit parameters of PD, LGD and EAD. The Bank uses different modelling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers. PD, LGD and EAD estimates can be calculated to represent different views of the credit cycle, which are used in different applications. For example, PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months. EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under normal conditions.

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

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

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

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

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

Retail portfolio

Ratings assigned across each retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter. The rating is used in decisions concerning underwriting and account management, and is used to calculate Regulatory Capital, Economic Capital and impairments. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- Internal risk estimates of PD, EAD and LGD are grounded in historical experience and are reliant on historical data.
- PDs are assigned at account level. Through the cycle as well as point in time PD estimates are calculated and used for different purposes. Point in time PD estimates are used for impairment purposes, while through the cycle estimates are used for capital calculations.
- EADs are assigned at account level and is based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.
- LGD is assigned at account level and is based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default, recovery strategies, cure and write-off rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

Wholesale portfolio

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

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

Validation of models

Models undergo independent validation when new models have been developed (initial validation) and on an annual basis (ongoing validation). Retail models are approved by the Retail and Business Bank Chief Risk Officer (RBB CRO) supported by the RBB Models forum (RBBMF). Wholesale models are approved by the Chief Credit Risk Officer (CCO) supported by the CIB Models Committee (CIBMC). The most material models require approval by the BAGL Models Committee (MC). In addition, a process is in place to perform post-model adjustments as needed or when management applies its discretion.

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

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

Default grades

The Group uses two types of PDs, namely:

- TTC PD, which reflects the Group's assessment of the borrower's long-run average propensity to default in the next year; and
- PIT PD, which reflects current economic, industry and borrower circumstances.

Both types of PDs are used extensively in the Group's decision-making processes. For communication and comparison purposes, the Group's 21 default grades (DGs), were mapped to external agency rating equivalents as well as the South African Reserve Bank's (SARB) 26 grade PD scale used for regulatory reporting purposes.

DG grading represents a TTC view of the distribution of the book at a specific point in time. The indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

- DG 1 – 9: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BBB- rating and better.
- DG 10 – 19: financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies. When converted to a rating agency equivalent, these ratings correspond to a BB+ to B- rating.
- DG 20 – 21: the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well-defined weaknesses that exacerbate the PD. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.

Approach to impairment of loans and advances

- The Group's accounting policy for losses arising from the impairment of loans and advances is described in note 1.7.6. Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the reporting date.

For the purpose of a collective evaluation of impairment, financial assets are allocated to groups, based on similar risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for such groups of assets, being indicative of the counterparty's ability to pay amounts due under the contractual terms of the assets.

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

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

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

An emergence period concept is applied to ensure that only impairments that exist at the reporting date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event (unidentified impairment) and the impairment being identified at an individual account level (identified impairment). The emergence periods, based on actual experience, vary across businesses and are reviewed annually. The PD for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This PD is then applied to all exposures in respect of which no identified impairments have been recognised.

The impairment allowance also takes into account the expected severity of loss at default, or the LGD, which is the amount outstanding that is written off and is therefore not recoverable. Recovery varies by product and depends, for example, on the level of security held in relation to each loan as well as the Group's position relative to other claimants. Two key aspects in the cash flow calculation are the valuation of all security and the timing of all asset realisations, after allowing for all collection and recovery costs. These characteristics are relevant to the estimation of future cash flows for such groups of assets, being indicative of the counterparty's ability to pay amounts due under the contractual terms of the assets. LGD estimates are based on historical loss experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the reporting date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected in the statistical models. Historical loss experience data is then adjusted to add current economic conditions into the data set, which conditions did not exist at the time of loss experience and/or to remove the effects of conditions in the historical period that do not currently exist.

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

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

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

The replacement of IAS 39 with IFRS 9 Financial Instruments (IFRS 9) will have a significant impact on the Group's financial results, the biggest impact being the calculation of impairments. IFRS 9 will replace the current incurred loss model with the requirement to calculate expected losses under a range of future macroeconomic conditions. Refer to note 1.22.

Identified impairments on financial assets

A retail identified impairment is triggered when a contractual payment is missed. This is not the same as the non-performing definition which applies to loans in a legal process or the regulatory default definition. The impairment calculation is based on a roll-rate approach where the percentage of assets moving from the initial delinquency state to default is derived from statistical probabilities, based on experience.

The PD is calculated within a certain outcome period. The outcome period is defined as the timeframe within which assets default.

Recovery amounts and contractual interest rates are calculated using a weighted average for the relevant portfolio.

In the retail portfolio, the identified impairment is calculated on a collective basis. For accounting purposes, these accounts are considered to be identified collective impairments.

In the wholesale portfolio (including Business Bank and Wealth), the identified impairment is calculated on accounts reflected on management's early watch lists triggered by a specific event, such as the conclusion of insolvency proceedings or other formal recovery actions, making it possible to quantify the extent of the advance that is beyond a realistic prospect of recovery. Nonetheless, non-performing loans and advances are reviewed at least quarterly, ensuring that irrecoverable loans and advances are written off in a timely and systematic way and in compliance with local regulations.

Assets are only written off once all necessary procedures have been completed and the amount of loss has been determined. Recoveries of amounts previously written off are reversed and accordingly decrease the amount of the reported impairment charge in the statement of comprehensive income. Refer to notes 9 and 63.2.

1.2.2 Goodwill impairment

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

The recoverable amount in the aforementioned calculation is based on the value in use for the CGU.

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

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

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

- The discount rate used to discount the future expected cash flows is based on the the Group's weighted average cost of capital. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions outside of management's control and are therefore established on the basis of significant management judgement and are subject to uncertainty.

The range of discount rates used in the impairment calculations is 13,56% – 13,93% (2015: 12,74% – 13,00%).

Note 15 includes details of the amount recognised by the Group as goodwill.

1.2.3 Fair value measurements

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

Valuation inputs

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

Quoted market prices – Level 1

Fair values are classified as Level 1 if they have been determined using observable prices in an active market. Such fair values are determined with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

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

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

Valuation technique using observable inputs – Level 2

Fair values classified as Level 2 have been determined using models for which inputs are observable in an active market.

A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

Valuation technique using significant unobservable inputs – Level 3

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

Financial assets and financial liabilities

The Group has an established control framework with respect to the measurement of fair values. The framework includes a Valuation Committee and an Independent Valuation Control team (IVC), which is independent from the front office. The Valuation Committee, which comprises representatives from senior management, will formally approve valuation policies and any changes to valuation methodologies. Significant valuation issues are reported to the GACC. The Valuation Committee is responsible for overseeing the valuation control process and will therefore consider the appropriateness of valuation techniques and inputs for fair value measurement.

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

Investment properties

The fair value of investment properties is determined based on the most appropriate methodology applicable to the specific property. Methodologies include the market comparable approach that reflects recent transaction prices for similar properties, discounted cash flows and income capitalisation methodologies. In estimating the fair value of the properties, the highest and best use of the properties is taken into account. Where possible, the fair value of the Group's investment properties is determined through valuations performed by external independent valuators. When the Group's internal valuations are different to that of the external independent valuers, detailed procedures are performed to substantiate the differences, whereby the IVC verifies the procedures performed by front office and considers the appropriateness of any differences to external independent valuations.

Judgemental inputs on valuation of principal instruments

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Debt securities and treasury and other eligible bills

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

Equity instruments

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

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

Derivatives

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

Loans and advances

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

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

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

Deposits, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives.

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

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

Fair value adjustments

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

Bid-offer valuation adjustments

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

Uncollateralised derivative adjustments

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

Model valuation adjustments

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

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

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

Measurement of assets and liabilities at Level 2

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

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

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

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

Measurement of assets and liabilities at Level 3

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

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	2016 Range of estimates utilised for the unobservable inputs	2015
Loans and advances to customers	Discounted cash flow and/or dividend yield models	Credit spreads	**0,5% to 5%**	0,96% to 3,99%
Investment securities and investments linked to investment contracts	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Risk adjusted yield curves, future earnings, marketability discounts and/or comparator multiples	**Discount rate of 13%, comparator multiples between 5 and 10,5**	Discount rates between 8% and 11,5%, comparator multiples between 5 and 10,5
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	**1,2% to 11,16%**	0,9% to 3,5%
Derivative assets				
Credit derivatives	Discounted cash flow and/or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	**0% to 40%**	0,0% to 23,64%
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Volatility and/or dividend streams (greater than 3 years)	**17,82% to 67,71%**	17,82% to 67,71%
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	African basis curves (greater than 1 year)	**(16,6)% to 13,1%**	(10,00%) to 10,50%
Interest rate derivatives	Discounted cash flow and/or option pricing models	Real yield curves (greater than 1 year), repurchase agreement curves (greater than 1 year), funding spreads	**0,31% to 3,38%**	0,58% to 4,24%
Deposits due to customers	Discounted cash flow models	Barclays Africa Group Limited's funding spreads (greater than 5 years)	**(0,27)% to 2,13%**	1,52% to 2,15%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	**(0,27)% to 2,13%**	(0,20%) to 3,35%
Investment properties	Discounted cash flow models	Estimates of periods in which rental units will be disposed of	**1 to 10 years**	1 to 7 years
		Annual selling price escalations	**1% to 7%**	0% to 6%
		Annual rental escalations	**1% to 7%**	0% to 10%
		Expense ratios	**25% to 50%**	26% to 51%
		Vacancy ratio	**1% to 7%**	1% to 18%
		Income capitalisation rates	**10% to 11%**	8% to 12%
		Risk adjusted discount rates	**14%**	13% to 14%

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

For debt securities in issue held at amortised cost, a further significant input would be the underlying price of the market traded instrument, refer to note 61.

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

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

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

1.2.4 Impairment of available-for-sale financial assets

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

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

Refer to note 39.

1.2.5 Consolidation of structured or sponsored entities

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

Structured entities

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

Assessment of agent versus principal

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

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

Assessment of sponsored entities

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

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

Refer to notes 49 and 50.

1.2.6 Post-retirement benefits

The valuations of and contributions towards defined benefit pension plans are determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. The year-end balances of subsidiaries' post-retirement benefit obligations are affected by the closing foreign currency exchange rates.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Exposure to actuarial risks

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

This risk can be categorised into a number of actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk

The actuarial funding valuations make assumptions about the returns that may be available on invested assets. If the return on pension plan assets is below this rate, it may lead to a strain on the fund, which over time, may result in a pension plan deficit. Typically the funds have a relatively balanced investment in equity securities, debt securities, cash and real estate to mitigate any concentration risk. Due to the long-term nature of the pension plan liabilities, the boards of the pension funds consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to improve the return generated by the fund. This may in turn result in improved discretionary benefits to members or reduced costs for the sponsoring entity.

1. Summary of significant accounting policies *(continued)*

1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

Inflation/pension increase risk

Benefits in these plans are to some extent tied to inflation, so increased inflation levels represent a risk that could increase the costs of paying the funds' promised benefits. However, the risk is mitigated by ceilings on mandatory benefit increases in most cases and subject to affordability in cases where the mandatory ceiling does not apply.

Longevity risk

If pensioners live longer than expected then that will, all else equal, increase the funds' liabilities as benefits are paid for a longer term.

Salary risk

An increase in the salary of the plan participants will increase the plan's liability. This risk has been limited with the closure of a number of the defined benefit plans and the introduction of defined contribution plans. There are now a limited number of active defined benefit members.

Although the Absa Pension Fund has in its entirety been disclosed as a defined benefit plan, the defined contribution portion thereof does not retain salary risk.

Measurement risk

The IAS 19 Employee Benefits (IAS 19) liabilities are determined using various assumptions about future experience.

One of the most important assumptions is the discount rate derived from prevailing bond yields where these are available (where these are not available, the inflation rate plus a reasonable risk free real return is used as a proxy). A decrease in the discount rate will, with all else equal, increase the plan liability; this may be partially offset by an increase in the value of assets, to the extent that the funds' investments are matched against its liabilities.

Other important assumptions are the inflation assumption, pension increase assumption and the longevity assumption and changes in those could affect the measured value of liabilities significantly. Changes in other assumptions used could also affect the measured liabilities.

Regulatory risk

The funds' benefits are governed by the rules of those funds, operating within the regulatory framework within each country. To the extent that governments can change that regulatory framework, the subsidiaries are exposed to a risk. In particular, regulations introducing issues like minimum benefits or minimum pension increases may result in higher benefits to members and a higher associated cost.

Refer to note 44 for the specific assumptions used and carrying amounts of post-retirement benefits.

1.2.7 Provisions

Various assumptions are applied in arriving at the carrying value of provisions that are recognised in terms of the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

Management further relies on input from the Group's legal counsel in assessing the probability of matters of a significant nature. Refer to note 20 for details of provisions recognised and refer to note 54 for details of contingencies recognised.

1.2.8 Income taxes

The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and worldwide provisions for income taxes necessarily involves a degree of estimation and judgement. There are many transactions and calculations for which the ultimate tax treatment is uncertain or in respect of which the relevant tax authorities may have indicated disagreement with the Group's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made. These risks are managed in accordance with the Group's Tax Risk Framework.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and ongoing developments will determine the recognition of deferred tax. The most significant management assumption in determining the deferred tax asset to be recognised is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the Group in order to utilise the deferred tax assets.

Further information is included in notes 16, 41 and 54 around estimated tax positions where a high degree of judgement has been applied.

1. Summary of significant accounting policies *(continued)*

1.2 Process of determination, and use of estimates, assumptions and judgements *(continued)*

1.2.9 Share-based payments

The initial fair value of the Group's share-based payment arrangement awards is based on the share price at grant date.

Where the fair value of share awards relating to share-based payments is not based on the Group's share price with a zero strike price, it is determined using option pricing models. The inputs to the option pricing models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values.

Equity-settled share-based payment arrangements

The initial fair value of the awards are determined at grant date. The fair value of the awards granted to participants is measured after taking into account all terms and conditions of the arrangement upon which such awards were granted.

Cash-settled share-based payment arrangements

The Group considers adjustments to reflect expectations of phantom awards that might be forfeited before the awards vest. At each reporting date, the Group adjusts the liability to reflect:

- differences between the share price at grant date and the market price at valuation date;
- differences between actual and expected forfeited awards; and
- dividends accrued to date.

Note 56 includes details of the Group's share awards. Refer to note 19 for the carrying amount of liabilities arising from cash-settled arrangements.

1.2.10 Liabilities arising from claims made under short-term insurance contracts

The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

- uncertainty as to whether an event has occurred and has been reported which would give rise to an insured loss;
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of an event occurring; and
- uncertainty as to the extent of policy coverage and limits applicable.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder, taking into account whether a reinsurance contract has been entered into by the Group.

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Group makes estimates and assumptions to provide appropriate levels of claims provision and provision for unexpired risks. Estimates and judgements are regularly adjusted as changes in facts and experience are identified. For more details on the liability arising from claims made under short-term insurance contracts, refer to note 24.

1.2.11 Liabilities arising from claims made under life insurance contracts

Insurance risk for any one life insurance contract is the possibility that the insured event occurs. For a portfolio of insurance contracts probability is applied to pricing and provisioning and the principal risk that the Group faces is that the actual exposure to mortality, disability and medical payments in respect of policyholder benefits will exceed prudent expectation of the exposure (i.e. the carrying amount of the insurance liabilities). Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The value of the insurance liability is determined using assumptions regarding future mortality, morbidity, discontinuance rates, policyholders' reasonable benefit expectations, guaranteed benefits and expenses which all equal the best estimate assumptions used in determining the liabilities. These assumptions are based on recent experience investigations. The discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. For more details on the life insurance contract liability, refer to note 24.

1.2.12 Offsetting financial assets and financial liabilities

The Group offsets certain financial assets and liabilities, when it has a legal right to offset such financial instruments and there is an intention to settle these financial instruments on a net basis. When determining whether it is appropriate to offset financial assets and liabilities, the following judgement is applied:

- In the absence of a contractual agreement that provides for offsetting, the Group applies the common law principles in South Africa when determining whether there is a legally enforceable right to offset. The application of these common law principles is sometimes subject to a significant degree of interpretation. In these instances, legal advice is obtained to ensure that the application of the common law principles is correctly applied within the ambit of the law. Using the legal advice obtained, management assesses whether there is a legal right to offset accounts.
- When determining whether there is an intention to settle a financial asset and a financial liability, management evaluates the underlying terms of the contract to identify whether there is a legal right to offset which could also indicate the Group's intention to settle on a net basis. In addition, management considers whether there is past practice which indicates that amounts have been offset, for example, customer accounts could be offset before the customer enters into a process of liquidation or customer accounts could be offset when the customer exceeds the limit of the facility granted. Management also evaluates whether the customer's accounts are managed on a net basis which would support the view that there is an intention to settle on a net basis. Through this process, management is able to substantiate the view that there is an intention to settle on a net basis.

The above are considered to ensure the Group's financial assets and liabilities are presented accurately in accordance with the characteristics of the items in question as resources or obligations of the entity. Refer to note 48.

1. Summary of significant accounting policies *(continued)*

1.3 Consolidation

The consolidated financial statements include those of Barclays Africa Group Limited and all its subsidiaries and controlled SEs.

1.3.1 Subsidiaries

Subsidiaries are all entities (including SEs) over which the Group has control. The Group controls and hence consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group will only consider potential voting rights that are substantive when assessing whether it controls another entity.

In order for the right to be substantive, the holder must have the practical ability to exercise that right. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consolidation of SEs is considered at inception, based on the arrangements in place and the assessed risk exposures at that time. The assessment of control is based on the consideration of all facts and circumstances.

There are a number of subsidiaries in which the Group has less than half of the voting rights which are consolidated when the substance of the relationship between the Group and the entity indicates that the entity is controlled by the Group. Such entities are deemed to be controlled by the Group when relationships with such entities give rise to benefits that are in substance no different from those that would arise were the entity a subsidiary.

Intragroup transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purposes of the consolidation.

Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

Investments in subsidiaries are accounted for at cost less impairment in the separate financial statements of Barclays Africa Group Limited.

1.3.2 Investments in associates and joint ventures

Associates are entities in which the Group has significant influence, but not control, over its operating and financial policies. Generally the Group holds more than 20%, but less than 50%, of their voting shares. A joint arrangement is a contractual agreement between two or more parties to undertake an economic activity that is under joint control. Joint ventures are joint arrangements whereby the joint venturers that have joint control of the arrangement have rights to the net assets of the entity.

The Group's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each reporting period by the Group's share of the post-acquisition profit (or loss). In some cases, investments in these entities may be held at fair value through profit or loss, for example, those held by private equity businesses.

Investments in associates and joint ventures are accounted for at cost less impairment in the separate financial statements of Barclays the Company.

1.3.3 Structured entities (SE)

An interest in a SE is any form of investment or arrangement which creates variability in returns arising from the performance of the SE for the Group. Such interests include but are not limited to holdings of debt or equity securities, derivatives that transfer financial risks to the Group, and in some cases financial guarantees and investment management fee agreements. At market, plain-vanilla interest rate swaps and derivatives that are determined to introduce risk to a structured entity are not considered to be an interest in an entity. Depending on the Group's power over the activities of the entity and its exposure to and ability to influence its returns from it, it may consolidate the entity. These SEs are therefore consolidated on the same basis as subsidiaries as set out in 1.3.1.

1.3.4 Common control

Common control transactions are business combinations in which the combining entities are ultimately controlled by the Group. The Group applies the predecessor accounting method when accounting for common control transactions.

The assets and liabilities of the combining entities are not adjusted to fair value but reflected at their carrying amounts at the date of the transaction. Any difference between the consideration paid/transferred and the net asset value acquired is reflected within equity. No new goodwill will be recognised as a result of the common control transaction.

The comparative statement of financial position and statement of comprehensive income are restated as if the entities had always been combined, regardless of the date of the transaction.

1.4 Segment reporting

The Group's segmental reporting is in accordance with IFRS 8 Operating Segments (IFRS 8). Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Chief Operation Decision Maker (CODM). All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office and inter-segment eliminations. Income and expenses directly associated with each segment are included in determining business segment performance.

1. Summary of significant accounting policies *(continued)*

1.5 Foreign currencies

1.5.1 Foreign currency translations

The Group's foreign operations (including subsidiaries, SEs, joint ventures, associates and branches) based mainly outside South Africa may have different functional currencies. The functional currency of an operation is the currency of the main economy to which it is exposed. Prior to consolidation (or equity accounting) the assets and liabilities of non-rand operations are translated at the closing rate and items of income, expense and OCI are translated into rand at the rate on the date of the transactions. Exchange differences arising on the translation of foreign operations are included in currency translation reserves within equity through OCI. These are transferred to profit or loss when the Group loses control, joint control or significant influence over the foreign operation or on partial disposal of the operation.

1.5.2 Foreign currency transactions

Transactions and balances in foreign currencies are translated into rand at the rate ruling on the date of the transaction. Foreign currency balances are translated into rand at the reporting period end exchange rates. Exchange gains and losses on such balances are taken to profit or loss.

1.6 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent and the number of basic weighted average number of ordinary shares excluding treasury shares held in employee benefit trusts or held for trading. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

1.7 Financial instruments

The Group applies IAS 39 for the recognition, classification and measurement and derecognition of financial assets and financial liabilities, for the impairment of financial assets and for hedge accounting. The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date. All financial instruments are measured initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

1.7.1 Financial instruments at fair value through profit or loss

Financial instruments classified as held for trading

In accordance with IAS 39, all assets and liabilities held for trading purposes are held at fair value with gains and losses from changes in fair value taken to gains and losses from banking and trading activities in profit or loss.

Financial instruments designated at fair value through profit or loss

In accordance with IAS 39, financial assets and financial liabilities may be designated at fair value, with gains and losses taken to profit or loss in 'gains and losses from banking and trading activities' and 'gains and losses from investment activities' depending on the nature of the instrument.The Group has the ability to make the fair value designation when this reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by the Group on the basis of its fair value, or includes terms that have substantive derivative characteristics.

Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group's net interest income, net trading income, net fee and commission income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the statement of financial position. Changes in the fair value of derivatives used to economically hedge the Group's interest rate risk are recognised in 'net interest income' in profit or loss.

1.7.2 Available-for-sale financial assets

Subsequent to initial recognition, the fair value adjustments which represent gains and losses, net of applicable taxes, are reported in OCI until such investments are sold or otherwise disposed of, or until such investments are determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. However, interest on available-for-sale financial instruments calculated using the effective interest rate method is recognised directly in profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

1.7.3 Loans and receivables

Loans and receivables are held at amortised cost. That is, the initial fair value (which is normally the amount advanced) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the asset.

1.7.4 Embedded derivatives

Terms in contracts or other financial assets or liabilities (the host) which had it been a standalone contract would have met the definition of a derivative are either separated from the host and accounted for the same way as a derivative, or the entire contract is designated at fair value through profit or loss.

1. Summary of significant accounting policies *(continued)*

1.7 Financial instruments (continued)

1.7.5 Financial liabilities

Most financial liabilities are held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability.

1.7.6 Impairment of financial assets

Financial assets held at amortised cost

In accordance with IAS 39, the Group assesses at each reporting date whether there is objective evidence that financial assets at amortised cost will not be recovered in full and, wherever necessary, recognises an impairment loss in profit or loss.

An impairment loss is recognised if there is objective evidence of impairment as a result of events that have occurred and these have adversely impacted the estimated future cash flows from the assets. These events include:

- becoming aware of significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants a concession that it would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- observable data at a portfolio level indicating that there is a measurable decrease in the estimated future cash flows, although the decrease cannot yet be ascribed to individual financial assets in the portfolio – such as adverse changes in the payment status of borrowers in the portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment assessments are conducted individually for significant assets, which comprise all wholesale customer loans and larger retail business loans, and collectively for smaller loans and for portfolio level risks, such as country or sectoral risks. For the purposes of the assessment, loans with similar credit risk characteristics are grouped together, generally on the basis of their product type, industry, geographical location, collateral type, past due status and other factors relevant to the evaluation of expected future cash flows.

The impairment assessment includes estimating the expected future cash flows from the asset, or the group of assets, which are then discounted using the original effective interest rate calculated for the asset. If this is lower than the carrying value of the asset or the portfolio, an impairment allowance is raised.

If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Following impairment, interest income is recognised at the original effective interest rate on the reduced carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans. The impairment allowance contains a net present value adjustment that represents the time value of money of expected cash flows. Such time value of money reduces as the point of cash flow is approached. The time-based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets. Uncollectable loans are written off against the related allowance for loan impairment on completion of the Group's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to impairment losses on loans and advances in profit or loss.

Identified impairment

Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows of that instrument being assessed are taken into account, for example, the business prospects for the customer, the fair value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements are made in this process by management. Refer to note 1.2.1 in this regard.

Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in revisions to the impairment allowance as individual decisions are taken case by case.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

Unidentified impairment

An impairment allowance is recognised when observable data indicates there is a measurable decrease in the estimated future cash flows from a group of financial assets since the original recognition of those assets, even though the decrease cannot yet be identified for the individual assets in the group. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition that has already occurred, but will only be identifiable at a borrower level at a future date. The purpose of collective assessment of impairment is to test for latent losses on a portfolio of loans that have not been individually evidenced.

In cases where the collective impairment of a portfolio cannot be individually evidenced, the Group sets out to prove that a risk condition has taken place that will result in an impairment of assets (based on historic experience), but the losses will only be identifiable at an individual borrower level at a future date.

To the extent that the unidentified impairments created by the banking operations of the Group are insufficient to meet the minimum regulatory general provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to non- distributable reserves.

1. Summary of significant accounting policies *(continued)*

1.7 *Financial instruments (continued)*

Available-for-sale debt instruments

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in equity (through OCI) is removed from equity (through OCI) and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Available-for-sale equity instruments

Where there has been a prolonged or significant decline in the fair value of an equity instrument below its acquisition cost, it is deemed to be impaired. The cumulative net loss that has been previously recognised directly in equity (through OCI) is removed from equity (through OCI) and recognised in profit or loss. Further declines in the fair value of equity instruments after impairment are recognised in profit or loss. Reversals of impairment of equity instruments are not recognised in profit or loss. Increases in the fair value of equity instruments after impairment are recognised directly in OCI.

1.7.7 Subordinated debt

The majority of subordinated debt is measured at amortised cost using the effective interest rate method under IAS 39.

1.7.8 Offsetting of financial assets and financial liabilities

In accordance with IAS 32, the Group reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.7.9 Derecognition of financial assets

In the course of its normal banking activities, the Group makes transfers of financial assets, either legally (where legal rights to the cash flows from the asset are passed to the counterparty) or beneficial (where the Group retains the rights to the cash flows but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer.

Full derecognition only occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Group transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Group may retain an interest in it (continuing involvement) requiring the Group to repurchase it in certain circumstances for other than its fair value on that date.

1.7.10 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

1.7.11 Day One profits or losses

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data.

For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price (Day One profit) is recognised in profit or loss either on a straight-line basis over the term of the transaction, or over the reporting period until all model inputs will become observable where appropriate, or released in full when previously unobservable inputs become observable.

1. Summary of significant accounting policies *(continued)*

1.7 Financial instruments (continued)

1.7.12 Hedge accounting

The Group applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its interest and currency risk management strategies. Derivatives are used to hedge interest rate, exchange rate, commodity, and equity exposures and exposures to certain indices such as house price indices and retail price indices related to non-trading positions.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the Group applies fair value hedge accounting, cash flow hedge accounting, or hedge accounting of a net investment in a foreign operation as appropriate to the risks being hedged.

The Group assesses on an ongoing basis whether the hedge has been highly effective. A hedge is regarded as highly effective only when offsetting changes in fair value or cash flows attributable to the hedged risk during the period are within a range of between 80% and 125%.

Hedge accounting is discontinued when a derivative is not highly effective as a hedge, is sold, terminated, exercised or where the forecast transaction is no longer highly probable to occur. The same applies if the hedged item is sold or repaid. Instruments that have been designated as hedging instruments are reported in a separate line on the statements of financial position at each reporting date.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. Prospective testing is based on the estimation of certain parameters to assess whether the hedging relationship will be effective or not. The estimation of these parameters is performed using best practice statistical forecasting and simulation methodologies based on current and historical market data. Resultant simulated hedging relationships are assessed by calculating a statistically based hedge effectiveness test criterion.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The fair value changes adjust the carrying value of the hedged asset or liability held at amortised cost.

If hedge relationships no longer meet the criteria for hedge accounting, hedge accounting is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to profit or loss over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in profit or loss.

Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss on the hedging instrument associated with the effective portion of the cash flow hedge is recognised initially in OCI, and then recycled to profit or loss in the reporting periods when the hedged item will affect profit or loss.

Any ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to profit or loss.

Hedges of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI. Any ineffective portion of the gain or loss is recognised immediately in profit or loss. Gains or losses on the hedging instrument relating to the effective portion of the hedge are reclassified to profit or loss, on disposal of the foreign operation.

1.7.13 Repurchase and reverse repurchase agreements

Reverse repurchase agreements (and stock borrowing or similar transactions) are a form of secured lending whereby the Group provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are where the Group obtains such loans or cash collateral, in exchange for the transfer of collateral.

The Group purchases (a reverse repurchase agreement) or borrows securities subject to a commitment to resell or return them. The securities are not included on the statement of financial position as the Group does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan asset at fair value or at amortised cost. The Group may also sell (a repurchase agreement) or lend securities subject to a commitment to repurchase or redeem them. The securities are retained on the statement of financial position either at fair value or amortised cost as the Group retains substantially all the risks and rewards of ownership. Consideration received (or cash collateral provided) is accounted for as a financial liability at either fair value or amortised cost.

1. Summary of significant accounting policies *(continued)*

1.7 Financial instruments (continued)

1.7.14 Compound financial instruments

The Group applies IAS 32 to determine whether funding is either a financial liability (debt) or equity.

Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument, if this is not the case, the instrument is generally an equity instrument.

Where issued financial instruments contain both liability and equity components, these are accounted for separately. The fair value of the debt is estimated first and the balance of the proceeds is included within equity.

1.7.15 Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Group subject to notice conditions. Provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities, if it is probable that the facility will be drawn and result in recognition of an asset at an amount less than the amount advanced.

1.7.16 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. Other than where the fair value option is applied subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in profit or loss any fee income earned over the reporting period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the reporting date.

Any increase in the liability relating to guarantees is recognised in profit or loss. Any liability remaining is credited to profit or loss when the guarantee is discharged, cancelled or expires.

1.8 Share capital

1.8.1 Ordinary share capital

Proceeds are included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when paid or declared by the members at the annual general meeting and are treated as a deduction from equity.

1.8.2 Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific future date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as an interest expense in profit or loss.

1.9 Revenue recognition

1.9.1 Net interest income

Interest income on loans and advances at amortised cost, available-for-sale debt investments, and interest expense on financial liabilities held at amortised cost, are calculated using the effective interest method which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest method requires the Group to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), there are no individual estimates that are material to the results or financial position.

1.9.2 Net trading income

In accordance with IAS 39, trading positions are held at fair value and the resulting gains and losses are included in profit or loss, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables.

Own credit gains/losses arise from the fair valuation of financial liabilities designated at fair value through profit or loss.

Gains or losses on assets or liabilities reported in the trading portfolio are included in profit or loss under 'gains and losses from banking and trading activities' together with interest and dividends arising from long and short positions and funding costs relating to trading activities. Gains and losses on derivatives linked to investment contracts are recognised in 'gains and losses from investment activities'.

1. Summary of significant accounting policies *(continued)*

1.9 Revenue recognition (continued)

1.9.3 Net fee and commission income

Fees and commissions charged for services provided or received by the Group are recognised as the services are provided, for example on completion of an underlying transaction.

1.9.4 Net investment income

Dividends are recognised when the right to receive the dividend has been established. Dividends received are disclosed in 'gains and losses from investment activities'.

1.9.5 Instalment credit agreements

Leases, instalment credit and rental agreements are regarded as leases. Rentals and instalment receivables, less unearned finance charges, are included under loans and advances. Finance charges are recognised as 'interest and similar income' in profit or loss over the terms of the lease using the effective interest rate method (before tax) which reflects a constant periodic rate of return.

1.10 Classification of insurance and investment contracts

The Group issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines significant insurance risk as the possibility of having to pay significant benefits on the occurrence of an insured event compared to those benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

1.10.1 Insurance contracts

Short-term insurance contracts

Revenue recognition and measurement

The Group is involved in short-term underwriting of personal and commercial contracts. For the majority of insurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the risk period. The portion of premiums received on in-force contracts that relate to the unexpired risks at the reporting date is reported as the unearned premium liability. The unearned premium liability for the majority of the business is calculated using the 365ths method. This method is appropriate when the risk is spread evenly over the period of insurance. Under this method, the unearned premiums liability is calculated by multiplying the total premiums received by the ratio of the number of days for which the contract will still be active after the reporting date to the total number of days for which the contract was initially written. Premiums are shown before deduction of commission. The change in the liability is taken to profit or loss in order that revenue is recognised over the period of the risk.

Claims and loss adjustment

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties affected by the contract holders. They include direct claims settlement costs and arise from events that have occurred up to the reporting date, even if they have been incurred but not reported (IBNR) to the Group. The Group does not discount its liabilities for unpaid claims. Claims and loss adjustment liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses including basic chain ladder and boot strapping actuarial techniques for IBNR.

Liability adequacy test

At each reporting date, the Group reviews its unexpired risks and undertakes a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums. This is done using the current estimates of future cash flows under its contracts after taking into account the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related acquisition costs) exceeds the estimated future cash flows, the deficiency is recognised in profit or loss by setting up a provision in the statement of financial position. Refer to note 63.

Deferred policy acquisition costs

Acquisition costs comprise commissions and other variable costs directly connected with the acquisition or renewal of short-term insurance contracts. The deferred acquisition costs represent the portion of acquisition costs incurred and revenue received which corresponds to the unearned premium reserve.

Deferred acquisition costs are amortised in line with expected future premiums. The amortisation is recognised in profit or loss.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Changes in the expected patterns of consumption of future benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in profit or loss. Deferred acquisition costs are also considered in the liability adequacy test for each reporting period.

1. Summary of significant accounting policies *(continued)*

1.10 Classification of insurance and investment contracts *(continued)*

Deferred reinsurance acquisition revenue

Acquisition revenues comprise commission directly connected with the acquisition or renewal of short-term reinsurance contracts. The deferred reinsurance acquisitions revenue represent the portion of reinsurance acquisition revenue earned which corresponds to the reinsurance unearned premium reserve.

Deferred reinsurance acquisition revenues are earned in line with expected future reinsurance premiums.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The Group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

The Group does not allow for salvage recoveries or subrogation reimbursements in the measurement of insurance liabilities for claims. Salvage and subrogation reimbursements are recognised when the money is due.

Life insurance contracts

Revenue recognition and measurement

These contracts insure events associated with human life (i.e. death, disability or survival) over a long-term duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before the deduction of commission. Individual life policies, life annuities and single premiums are accounted for in terms of the policy contract.

Claims and loss adjustment

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liabilities are valued at each reporting date using the financial soundness valuation (FSV) basis described in Standard of Actuarial Practice (SAP) 104 issued by the Actuarial Society of South Africa (ASSA) and the liability is reflected as policyholder liabilities under insurance contracts.

Under the FSV basis, a liability is determined as the sum of the current estimate of the expected discounted value of all the benefit payments and the future administration expenses that are directly related to the contract, less the current estimate of the expected discounted value of the contractual premiums.

In respect of outstanding claims, provision is made for the costs of intimated and unintimated claims.

Intimated claims represent claims where the incident giving rise to a claim has occurred and has been reported to the insurer for settlement but has not yet been finalised and paid by the insurer. The liability is measured at the value assessed for the claim. Unintimated claims represent claims incurred but not yet reported or paid. The liability is estimated by assuming that future trends in reporting of claims will be similar to the past. The profile of claims run-off (over time) is modelled by using historic data of the Group and chain-ladder techniques. The profile is then applied to actual claims data of recent periods for which the run-off is believed not to be complete.

Benefits are recorded as an expense when they are incurred.

Valuation methodology

Assumptions used for valuing policy liabilities are based on best estimates of future experience, guided by recent past experience and increased by margins prescribed by the ASSA for prudence and further discretionary margins to ensure that profits are released appropriately over the term of each policy.

Policyholders' reasonable expectations are allowed for by valuing all guaranteed benefits. Maturity guarantee liabilities have been valued in accordance with the requirements of Advisory Practice Note (APN) 110 issued by the ASSA. In terms of this guidance, an internationally recognised market-consistent stochastic model is used to perform a range of asset projections from which the maturity guarantee liability is derived. In terms of APN 110 the projections allow for at least a certain minimum level of market volatility. The liability is equal to the discounted shortfall (of stimulated maturity values against minimum guarantees values) across all projections for the policies concerned.

Liability adequacy test

Liabilities are calculated in terms of the FSV basis as described in SAP 104. Since the FSV basis meets the minimum requirement of the liability adequacy test, it is not necessary to perform additional adequacy test on the liability component. For the liability relating to potential future claims which have already been incurred on the reporting date, but of which the Group has not yet been informed, tests are performed to ensure that the liability is sufficient to cover historical run-off profiles and growth in the volume of business.

Reinsurance contracts held

Reinsurance contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group and which meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

For contracts which do not meet the requirements to be classified as reinsurance, the total asset is recognised under financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-terms receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance agreement. The Group's reinsurance assets are assessed for impairment at each reporting date. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in profit or loss. For historic amounts, the impairment is calculated as the total amount due from reinsurers for which there is a significant probability that the amounts due would not be recoverable less any offsetting amounts. Liabilities are revalued assuming that no reinsurance is ceded.

1. Summary of significant accounting policies *(continued)*

1.10 Classification of insurance and investment contracts *(continued)*

1.10.1 Insurance contracts *(continued)*

Receivables and payables related to insurance and investment contracts

Receivables and payables are only recognised when they meet the definitions and recognition criteria of financial assets and/or liabilities. These include amounts due to and from intermediaries and insurance contract holders.

Philosophy on release of profits on the valuation basis

The Standard of Actuarial Practice (SAP 104) allows for additional margins if the statutory actuary believes that the compulsory margins are insufficient for prudent reserving and/or to defer the release of profits in line with policy design.

It is the Group's policy that profit margins contained in the premium basis should only be released and added to profits once premiums have been received and the risk cover has been provided.

The following additional (discretionary) margins are incorporated in the liability calculations:

- Minimum liability equal to the surrender value of a policy and elimination of all negative liabilities to ensure that solvency is maintained if policy cancellations increase. It is not the philosophy of the Group to recognise an asset by (prematurely) recognising the expected future profits of a policy.
- Additional margin on mortality, disability and dreaded disease (equal to compulsory margins for most product lines) to take account of the size of the book, uncertainty surrounding future mortality trends (especially the AIDS pandemic), lack of catastrophe reinsurance, and the fact that certain classes of business are not underwritten.
- Reduced lapse assumptions on certain product lines due to the fact that lapses are inherently volatile and as it is not deemed prudent to take credit in advance for future lapses that might not arise.
- No recognition of future investment charges on linked businesses as the Group's profit recognition policy determines that asset-based fees are more appropriately accounted for as and when they are invoiced.
- A percentage of premiums for certain regular premium businesses is not taken into account when liabilities are valued. The effect is to increase liabilities. This allows for uncertainty as to whether the premiums will actually be received and is in line with the profit recognition policy whereby profit is not recognised in advance.

Value of business acquired

On acquisition of a portfolio of insurance contracts, either directly from another insurer or through the acquisition of a subsidiary company, the Group recognises an intangible asset representing the value of businesses acquired (VOBA).

The VOBA represents the present value of future profits embedded in acquired insurance contracts. The Group amortises the VOBA over the effective life of the acquired contracts. This amortisation is recognised in profit or loss.

1.10.2 Investment contracts

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and are valued at fair value. Acquisition costs directly attributable to investment management contracts are capitalised to a deferred acquisition cost asset and amortised to profit or loss over the term of the contract.

The Group issues investment contracts with fixed and guaranteed terms. Investment contracts with fixed and guaranteed terms are financial liabilities of which the fair value is dependent on the fair value of the financial assets backing the liabilities. These contracts and the corresponding policyholder liabilities are designated to be held at fair value through profit or loss at inception. Subsequent changes to the fair value are taken to profit or loss.

Valuation techniques are used to establish the fair value at inception and at each reporting date. The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a linked investment contract is determined using the current unit values that reflect that fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the reporting date. The fair value of fixed interest rate products is determined by discounting the maturity value at market rates of interest.

If the investment contract is subject to a put or surrender option held by the customer, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

Withdrawals from, and deposits in investment contracts are excluded from profit or loss.

1.11 Commodities

Commodities where the Group has a shorter-term trading intention are carried at fair value less costs to sell in accordance with the broker-trader exception in IAS 2 Inventories (IAS 2).

The fair value for commodities is determined primarily using data derived from markets on which the underlying commodities are traded.

1. Summary of significant accounting policies *(continued)*

1.12 Intangible assets

1.12.1 Goodwill

The carrying value of goodwill is determined in accordance with IFRS 3 Business Combinations (IFRS 3) and IAS 36.

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures, and represents the excess of the fair value of the purchase consideration over the fair value of the Group's share of the assets acquired, and the liabilities and contingent liabilities assumed on the date of the acquisition.

Goodwill is tested annually for impairment, or more frequently when there are indications that impairment may have occurred. The test involves comparing the carrying value of goodwill with the present value of the pre-tax cash flows, discounted at a rate of interest that reflects the inherent risks, of the CGU to which the goodwill relates, or the CGU's fair value less costs to sell if this is higher.

Any goodwill resulting from the acquisition of an associate or joint venture is included in the carrying value of the associate or joint venture.

1.12.2 Intangible assets other than goodwill

The accounting standard that the Group applies in accounting for intangible assets other than goodwill, is IAS 38 Intangible Assets (IAS 38). Intangible assets include brands, customer lists, internally generated software, licences and other contracts and core deposit intangibles. They are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use.

Development expenditure is capitalised only if development costs can be measured reliably, completion of the development of the software is technically and commercially feasible, the Group can demonstrate that the intangible asset will be used to generate future economic benefits, the Group intends to and has sufficient resources to complete development and to use the asset, and the Group can demonstrate the ability to use or sell the intangible asset. The expenditure capitalised includes the cost of materials, staff costs and overhead costs that are directly attributable to preparing the software for intended use. Other development expenditure which does not meet the above requirements is recognised in profit or loss when the Group has right of access to the goods or as the services are received.

Intangible assets are stated at cost (which is, in the case of assets acquired in a business combination, the fair value at acquisition date) less amortisation and provision for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, as set out in the following table.

Intangible assets are reviewed for impairment when there are indicators that impairment may have occurred.

	Customer lists and relationships	**Computer software development costs**	**Other**
Useful lives	Finite	Finite	Finite
Amortisation method used.	Amortised over the period of the expected use on a straight-line basis.	Amortised over the period of the expected use from the related project on a straight-line basis.	Amortised over the period of the expected use on a straight-line basis.
Internally generated or acquired	Acquired	Internally generated	Acquired
Annual amortisation rate (%)	8 – 20	20 – 33	10

1.13 Property and equipment

1.13.1 Property and equipment not subject to lease agreements

Property and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset. Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line basis over their estimated useful economic lives. Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property and equipment are kept under review to take account of any change in circumstances.The Group uses the following annual rates in calculating depreciation:

Item	**Annual depreciation rate (%)**
Computer equipment	16 – 25
Freehold property	2
Furniture and other equipment	10 – 15
Motor vehicles	25
Leasehold improvements	10 – 15

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss within 'other operating expenses' in the reporting period that the asset is derecognised.

1. Summary of significant accounting policies *(continued)*

1.13 Property and equipment (continued)

1.13.2 Property and equipment subject to lease agreements

Finance leases

A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. Where the Group is the lessor, the leased asset is not held on the statement of financial position; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Where the Group is the lessee, the leased asset is recognised in property and equipment and a finance lease liability is recognised, representing the minimum lease payments payable under the lease, discounted at the rate of interest implicit in the lease.

Interest income or expense is recognised in interest receivable or payable, allocated to accounting periods to reflect a constant periodic rate of return. Leased assets are depreciated over the shorter of the term of the lease and the useful life of the asset.

Operating leases

An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor. Where the Group is the lessor, lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Group recognises leased assets on the statement of financial position within property and equipment.

Where the Group is the lessee, rentals payable are recognised as an expense in profit or loss on a straight-line basis over the lease term unless another systematic basis is more appropriate.

1.13.3 Investment properties

The Group initially recognises investment properties at cost, and subsequently at fair value at each reporting date reflecting market conditions at the reporting date. Gains and losses on measurement are included in profit or loss.

1.14 Repossessed properties

Repossessed properties acquired in exchange for loans as part of an orderly realisation are reported in 'other assets' as inventory as it is held for sale in the ordinary course of business. The repossessed properties are recognised when the risks and rewards of the properties have been transferred to the Group. The corresponding loans are derecognised when the Group becomes the holder of the title deed.

The properties acquired are initially recorded at cost, which is the lower of their fair value (less costs to sell) and the carrying amount of the loan (net of impairment allowance) at the date of exchange. They are subsequently measured at the lower of the carrying amount or net realisable value. No depreciation is charged in respect of these properties. Any subsequent write-down of the acquired properties to net realisable value is recognised in the statement of comprehensive income, in 'other impairments'. Any subsequent increase in net realisable value, to the extent that it does not exceed the cumulative write-down, is also recognised in 'other impairments'.

Gains or losses on disposal of repossessed properties are reported in 'other operating income' or 'operating expenses'.

1.15 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount or fair value, less cost to sell. Any impairment loss on a disposal group is first allocated to reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, investment properties, insurance assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss until finally sold.

Property, equipment and intangible assets, once classified as held for sale, are not depreciated or amortised.

1.16 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. Repurchase and reverse repurchase agreements are not considered to be part of cash equivalents.

1.17 Provisions, contingent liabilities and commitments

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated. Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists; for example, when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by announcing its main features or starting to implement the plan.

1. Summary of significant accounting policies *(continued)*

1.17 Provisions, contingent liabilities and commitments (continued)

Provision is made for undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

1.18 Employee benefits

1.18.1 Post-retirement benefits

The Group operates a number of pension schemes including defined contribution and defined benefit schemes as well as post-retirement medical aid plans.

Defined contribution schemes

The Group recognises contributions due in respect of the reporting period in profit or loss. Any contributions unpaid at the reporting date are included as a liability.

Defined benefit schemes

The Group recognises its obligation (determined using the projected unit credit method) to members of the scheme at the reporting date, less the fair value of the scheme assets. Scheme assets are stated at fair value as at the reporting date.

Costs arising from regular pension cost, interest on net defined benefit liability or asset, past service cost settlements or contributions to the plan are recognised in profit or loss.

All actuarial gains and losses are recognised immediately through OCI in order for the net defined benefit scheme asset or liability recognised in the statement of financial position to reflect the full value of the plan surplus or deficit, taking into account the asset ceiling.

Remeasurements comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

Interest is calculated by applying the discount rate to the opening net defined liability or asset, taking into account any changes in the net defined liability or asset during the period as a result of contribution and benefit payments.

Gains and losses on curtailments are recognised when the curtailment occurs, which may be when a demonstrable commitment to a reduction in benefits, or reduction in eligible employees, occurs. The gain or loss comprises any change in the present value of the obligation and the fair value of the assets. Where a scheme's assets exceed its obligation, an asset is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

Post-employment medical aid plans

The cost of providing healthcare benefits to retired employees is accrued as a liability in the financial statements over the reporting period that the employees provide services to the Group, using a methodology similar to that for defined benefit pension schemes.

1.18.2 Staff costs

Short-term employee benefits, including salaries, accrued performance costs, salary deductions and taxes are recognised over the reporting period in which the employees provide the services to which the payments relate. Performance costs are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised on an undiscounted basis over the period of service that employees are required to work to qualify for the services.

1.18.3 Share-based payments

The Group operates equity-settled and cash-settled share-based payment plans.

Employee services settled in equity instruments

The cost of the employee services received in respect of the shares or share options granted is recognised in profit or loss over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet the non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the employee services.

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions.

Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in profit or loss. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

1. Summary of significant accounting policies *(continued)*

1.19 Tax

1.19.1 Current tax

Income tax payable on taxable profits (current tax) is recognised as an expense in the reporting period in which the profits arise. Withholding taxes are also treated as income taxes. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

1.19.2 Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the reporting date which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

1.19.3 Dividends withholding tax

Dividends are taxed at 15% in the hands of certain of the recipients of the dividends, rather than in the hands of the declarer of the dividend. As such, for dividends declared and paid by the Group, the Group does not recognise tax on dividends declared.

1.19.4 Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the asset or expense; and
- receivables and payables that are stated with the amount of VAT included.

Non-recoverable VAT on operating expenditure is disclosed separately in 'other expenses' in profit or loss.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

1.20 Treasury shares

Treasury shares are deducted from shareholders' equity within other reserves and treasury shares. A transfer is made to retained earnings in line with the vesting of treasury shares held for the purposes of share-based payments.

1.21 Reporting changes overview

The financial reporting changes that have had an impact on the Group's results for the comparative reporting periods ended 31 December 2015 include changes in reportable segments.

1.21.1 Changes in reportable segments

Refer to note 58 for changes affected to reportable segments, in line with the requirements of IFRS 8.

1.22 New standards and interpretations not yet adopted

A number of new standards and amendments to existing standards have been issued but are not yet effective for the reporting period and have not been applied in preparing these annual financial statements:

IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement is effective for periods beginning on or after 1 January 2018. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments. The Group will not restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7 Financial Instruments: Disclosures. Any change in carrying amounts from the initial application of IFRS 9 will be recognised in equity.

Impairment

IFRS 9 introduces a revised impairment model which will require entities to recognise expected credit losses based on unbiased forward looking information. This replaces the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred and would measure the loss at the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. This contrasts to the IAS 39 impairment model which is not applicable to loan commitments and financial guarantee contracts (these were covered by IAS 37: Provisions, Contingent Liabilities and Contingent Assets).

The measurement of expected loss will involve increased complexity and judgement including estimation of probabilities of defaults, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk.

1. Summary of significant accounting policies *(continued)*

1.22 New standards and interpretations not yet adopted (continued)

The introduction of the revised impairment model is expected to have a material financial impact and impairment charges will tend to be more volatile. Impairment will also be recognised earlier and the amounts recognised as impairment losses will be higher. It will not be practical to disclose reliable financial impact estimates until the implementation programme and validation and testing are further advanced, which will be no later than the Group's 2017 Annual Consolidated and Separate Financial Statements.

Based on the current requirements of Basel III, the expected increase in the accounting impairment provision would reduce Common Equity Tier 1 (CET1) capital but this impact would be partially mitigated by the 'excess of expected losses over impairment' included in the CET1 calculation. However, the Basel Committee on Banking Supervision (BCBS) is currently considering amending the capital rules as a result of IFRS 9 and is considering transitional rules which may mitigate or spread capital impacts from 1 January 2018, as well as permanent changes to the capital requirements. IFRS 9 is considered in the Group capital planning.

Key concepts and management judgements

The impairment requirements are complex and require management judgements, estimates and assumptions. Key concepts and management judgements will continue to be refined during the 2017 parallel run and as any further authoritative guidance is issued, and include:

Determining a significant increase in credit risk since initial recognition

IFRS 9 requires the recognition of 12 month expected credit losses (the expected credit losses from default events that are expected within 12 months of reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition or which are credit impaired.

The group expects to estimate when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. Quantitative assessments will be based on changes in weighted average cumulative lifetime probabilities of default, determined for each portfolio. Qualitative drivers of a significant increase in credit risk are expected to include exposures determined to be higher risk (by credit risk) and subject to closer credit risk monitoring. Exposures which are more than 30 days past due will be used as a backstop rather than a primary driver. Exposures will move back to stage 1 once they no longer meet the criteria for a significant increase in credit risk and when any cure criteria used for credit risk management are met. The group does not expect to primarily rely on the low credit risk exemption which would assume facilities of investment grade are not significantly deteriorated. Determining the probability of default at initial recognition is expected to require management estimates, in particular for exposures issued before the effective date of IFRS 9. Exposures modified due to financial difficulty do not generally result in a substantial modification or derecognition and therefore the probability of default at initial recognition is not reset for these exposures.

Forward looking information

Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate. Expected credit losses are the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward looking economic scenarios and their associated credit losses, a range of forward looking economic scenarios will be considered to ensure a sufficient unbiased representative sample of the complete distribution is included in determining the expected loss.

Definition of default and credit impaired assets

The definition of default for the purpose of determining expected credit losses is expected to be aligned to the Regulatory Capital CRR Article 178 definition of default, which considers indicators that the debtor is unlikely to pay, includes exposures in forbearance and is no later than when the exposure is more than 90 days past due. When exposures are identified as credit impaired or purchased or originated as such, IFRS 9 requires separate disclosure and interest income to be recognised on the net carrying amount rather than the gross carrying amount.

Expected life

Lifetime expected credit losses must be measured over the expected life of a financial asset. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options, except or certain revolver financial instruments where the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period (for example credit cards and overdrafts). Potential future modifications of contracts are not taken into account when determining the expected life or exposure at default until the modifications occur.

Modelling techniques

Expected credit losses (ECL) are calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD). The Basel ECL calculations will be leveraged for IFRS 9 modelling but adjusted for key differences which include:

- BCBS requires 12 month through the economic cycle losses whereas IFRS 9 requires 12 month or lifetime point in time losses based on conditions at the reporting date and multiple forecasts of the future economic conditions over the expected lives; and
- IFRS 9 models do not include some of the conservative BCBS model floors and downturn assessments and require discounting to the reporting date at the original effective interest rate rather than using the cost of capital to the date of default.

1. Summary of significant accounting policies *(continued)*

1.22 New standards and interpretations not yet adopted (continued)

Management adjustments will be made to modeled output to account for situations where known or expected risk factors and information have not been considered in the modelling process, for example forecast economic scenarios for uncertain political events.

Project governance and credit risk management

The group has a jointly accountable risk and finance implementation and governance programme with representation from all impacted departments. During 2016, work continued on the design and builds of impairment models, systems, processes, governance, controls and data collection and will continue to be refined during 2017. During 2017, there is a planned parallel run which includes continued model, process and output validation, testing, calibration and analysis.

There will be three different appropriate levels of impairment committees. In addition to the existing Group and Business level committees, Legal Entity committees are in place. The CROs and Chief Finance Officers (CFOs) will have joint accountability for signing off the results. Reported results and key messages will be communicated to the Group Audit and Compliance Committee and Risk Executive Committee.

Classification and measurement

IFRS 9 will require financial assets to be classified on the basis of two criteria:

1) The business model within which financial assets are managed; and

2) Their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest').

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest.

Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election for non traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in profit or loss.

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at fair value through profit and loss. Gains and losses on such financial liabilities arising from changes in the Group's own credit risk will be presented in other comprehensive income rather than in profit and loss. There is no subsequent reclassification of realised gains or losses on own credit to profit or loss.

The group's Classification and Measurement implementation programme is in progress. An assessment of potential changes to financial assets has been conducted, including an assessment of business models across various portfolios, and a review of contractual cash flow features for complex financial assets.

There are some classification changes expected but they are not expected to be significant from a Group perspective. Business models are determined on initial application and this may differ from the model at the initial assessment date for certain portfolios, and contractual cash flow characteristics assessed as at this date may not be representative of the population on transition.

The focus of the project during 2017 will be on finalising processes, governance and controls in preparation for initial application in 2018. IFRS 9 is applied retrospectively, although comparatives are not restated, with adjustments arising from classification and measurement changes recognised in opening retained earnings.

Hedge accounting

IFRS 9 contains revised requirements on hedge accounting, which are more closely aligned with an entity's risk management strategies and risk management objectives. The new rules would replace the current quantitative effectiveness test with a simpler version, and requires that an economic relationship exists between the hedged item and the hedging instrument. Under the new rules, voluntary hedge de-designations would not be allowed.

Until the IASB completes its accounting for dynamic risk management project, adoption of the IFRS 9 hedge accounting requirements is optional, and certain aspects of IAS 39, being the portfolio fair value hedge for interest rate risk, would continue to be available for entities (while applying IFRS 9 to the remainder of the entity's hedge accounting relationships).

Based on analysis performed, upon the Group's adoption of IFRS 9, the group expects to continue applying IAS 39 hedge accounting, although it will implement the amended IFRS 7 hedge accounting disclosure requirements.

IFRS 4 Insurance Contracts – Applying IFRS 9 Financial instruments (amendments) allow an entity that issues insurance contracts the opportunity to utilise two options, where IFRS 9 is applied prior to the forthcoming insurance contracts standard.

These are:

(a) the overlay approach – which permits an insurer to reclassify certain income/expenditure, arising from designated financial instruments, from profit or loss to OCI; and

(b) the deferral approach – temporary exemption from IFRS 9 for insurers whose predominant activity is issuing insurance contracts.

The amendments will not have an impact on the Group, as the Group will not elect to apply the overlay approach, and does not qualify for the deferral approach.

1. Summary of significant accounting policies *(continued)*

1.22 New standards and interpretations not yet adopted *(continued)*

IFRS 15 Revenue from Contracts with Customers (IFRS 15) provides a single, principles-based five-step model to be applied to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligation in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Enhanced guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration and multiple element arrangements, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenues are also introduced.

IFRS 15 is applicable to reporting periods beginning on or after 1 January 2018. An adjusted retrospective application is required. The Group is in the process of assessing the impact.

IFRS 16 Leases (IFRS 16) sets out the principles for the recognition, measurement, presentation and disclosure of leases. One of the key changes brought by IFRS 16 is the elimination of the classification of leases as either operating leases or finance leases for a lessee, and the introduction a single lessee accounting model.

Applying that model, a lessee is required to recognise:

(a) a right of use asset together with a lease liability representing the future lease payments for all leases (unless the lease term is shorter than 12 months or the underlying asset is of low value and the related exemptions are elected); and

(b) depreciation of lease assets separately from interest on lease liabilities in the statement of comprehensive income.

The standard provides revised guidance in defining what constitutes a lease and how the lease term is determined as well as enhanced disclosure requirements for both lessees and lessors about its leasing activities and how exposures are managed.

The effective date of IFRS 16 is 1 January 2019, with an allowance for early adoption, provided the entity applies IFRS 15 at the same time.

The implementation of IFRS 16 is expected to give rise to an increase in property, plant and equipment (right of use assets) and lease liabilities as lessee operating leases are currently not capitalised. This is not expected to have a significant impact on the Group's statement of financial position.

IAS Statement of Cash Flow Statement (IAS 7) (amendments) introduce additional disclosures with respect to the entity's management of liabilities arising from financing activities. The amendments are required to be applied retrospectively and will be applicable to reporting periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact on 2017 disclosures.

IAS 12 Income Taxes (IAS 12) (amendments) clarify the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value. The amendments are effective for reporting periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact.

IAS 40 Investment Property (IAS 40) (amendments) clarify when an entity should transfer property into, or out of, investment property. The amendments are generally required to be applied prospectively and will be applicable to reporting periods beginning on or after 1 January 2018. The Group is in the process of assessing the impact.

IFRIC 22 Foreign Currency Transactions and Advance Considerations clarify the exchange rates to be used in foreign currency transactions depending on whether they are considered monetary or non-monetary in nature. There is a choice as to whether an entity applies the interpretation retrospectively or prospectively; it is applicable to reporting periods beginning on or after 1 January 2018. The Group is in the process of assessing the impact.

	Group 2016 Rm	Group 2015 Rm
2. Cash, cash balances and balances with central banks		
Balances with other central banks	**13 395**	12 141
Balances with the SARB	**18 552**	17 459
Coins and bank notes	**13 141**	12 899
Money market assets	**4 918**	3 405
	50 006	45 904

Included above are money market assets of **R1 578m** (2015: R732m) which are linked to investment contracts (refer to note 23.1).

The minimum reserve balance to be held in cash with the South African Reserve Bank is calculated under the provision of Regulation 27. The balance is 2,5% of the adjusted liabilities as set out in regulation 27. The required average daily minimum reserve balance must be held with the Reserve Bank as from the fifteenth business day of the month following the month to which the BA310 return relates and cannot be utilised in the normal course of business.

	Group 2016 Rm	Group 2015 Rm
3. Investment securities		
Government bonds	**46 781**	45 578
Listed equity instruments	**3 144**	3 034
Money market assets	**26**	39
Other debt securities	**29 062**	20 094
Treasury bills	**32 365**	30 649
Unlisted equity and hybrid instruments	**2 937**	1 571
	114 315	100 965

Government bonds valued at **R10 374m** (2015: R9 725m) have been pledged with the SARB and other Central Banks.

R10 006m (2015: R9 725m) of this amount relates to repurchase agreements.

	Group 2016 Rm	Group 2015 Rm
4. Loans and advances to banks		
Loans and advances to banks	**49 789**	85 951

Included above are reverse repurchase agreements of **R18 768m** (2015: R21 324m) and other collateralised loans of **R635m** (2015: R2 252m) relating to securities borrowed.

5. Trading and hedging portfolio assets

	Group 2016 Rm	Group 2015 Rm
Commodities	**1 485**	2 005
Debt instruments	**23 753**	29 219
Derivative assets (refer to note 59.4)	**45 153**	78 277
Commodity derivatives	**797**	212
Credit derivatives	**184**	912
Equity derivatives	**1 607**	2 184
Foreign exchange derivatives	**15 210**	27 727
Interest rate derivatives	**27 355**	47 242
Equity instruments	**17 883**	17 321
Money market assets	**7 962**	10 341
Total trading portfolio assets	**96 236**	137 163
Hedging portfolio assets (refer to note 59.6)	**1 745**	2 232
	97 981	139 395

Trading portfolio assets with carrying values of **R13 820m** (2015: R18 111m) and **R2 649m** (2015: R2 001m) were pledged as security for repurchase and scrip lending agreements respectively. These assets are pledged for the duration of the respective agreements.

Included within debt instruments are financial assets traded in the debt capital market with an original maturity of more than one year such as government and corporate bonds.

Included within money market assets are highly liquid financial assets with an original maturity of one year or less, such as floating rate notes, negotiable certificates of deposit, treasury bills, promissory notes, commercial paper and bankers' acceptance notes.

6. Other assets

	Group 2016 Rm	Group 2015 Rm
Accounts receivable and prepayments	**17 488**	16 121
Deferred costs	**553**	436
Deferred acquisition costs (refer to note 6.1)	**430**	238
Other deferred costs	**123**	198
Inventories	**431**	452
Cost	**433**	484
Write-down	**(2)**	(32)
Retirement benefit fund surplus (refer to note 44)	**553**	631
Settlement accounts	**6 517**	8 206
	25 542	25 846

6.1 Deferred acquisition costs

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**238**	149
Additions	**623**	329
Amortisation charge	**(427)**	(240)
Foreign exchange movement	**(4)**	—
Balance at the end of the reporting period	**430**	238

Deferred acquisition costs relate to the Group's insurance and investment businesses.

	Group 2016 Rm	Group 2015 Rm
7. Non-current assets and non-current liabilities held for sale		
Non-current assets held for sale		
Balance at the beginning of the reporting period	1 700	972
Disposals	(173)	(383)
Transfer to cash, cash balances and balances with central banks	(33)	—
Transfer to loans and advances to banks	(48)	—
Transfer to other assets	(20)	—
Transfer to reinsurance assets	(140)	—
Transfer to investment securities	(1 140)	—
Transfer from cash, cash balances and balances with central banks	2	—
Transfer from other assets	73	—
Transfer from investment securities	—	1 282
Transfer from investment properties (refer to note 13)	748	—
Fair value adjustments on investment securities	(201)	(15)
Adjustments to underlying assets of subsidiaries held for sale	—	(156)
Increase in other assets	55	—
Balance at the end of the reporting period	823	1 700
Non-current liabilities held for sale		
Balance at the beginning of the reporting period	233	372
Transfer to other liabilities	(93)	—
Transfer to policyholder liabilities under insurance contracts	(140)	—
Transfer from other liabilities	9	—
Adjustments to underlying liabilities of subsidiaries held for sale	—	(139)
Balance at the end of the reporting period	9	233

The following movements in non-current assets and non-current liabilities held for sale were effected during the current financial reporting period:

- RBB transferred investment properties with a total carrying value of R456m and a subsidiary with total assets of R367m and total liabilities of R9m to non-current assets and non-current liabilities held for sale. The Commercial Property Finance (CPF) Equity division disposed of an investment security and investment property with a carrying value of R15m and R64m respectively.
- Head Office disposed of property and equipment with a carrying value of R94m.
- WIMI transferred a consolidated structured entity with total assets of R245m and total liabilities of R233m out of non-current assets and non-current liabilities held for sale. This was done following a reassessment by management of the time expected to be taken to effect disposal.
- CIB transferred investment securities with a carrying value of R1 136m out of non-current assets held for sale. This was done following a change in management intention with regard to disposal.

The following movements in non-current assets and non-current liabilities held for sale were effected during the previous financial reporting period:

- CIB transferred investment securities with a carrying value of R1 282m to non-current assets held for sale.
- Disposals of non-current assets held for sale occurred in RBB (including CPF) and Head Office.

	Group 2016 Rm	Group 2015 Rm
8. Loans and advances to customers		
Corporate overdrafts and specialised finance loans	**8 285**	8 784
Credit cards	**41 000**	42 257
Foreign currency loans	**29 478**	22 964
Instalment credit agreements, (refer to note 8.1)	**76 219**	74 845
Gross advances	**94 488**	91 931
Unearned finance charges	**(18 269)**	(17 086)
Loans to associates and joint ventures (refer to note 49.5)	**20 183**	17 079
Microloans	**4 636**	3 941
Mortgages	**270 876**	273 078
Other advances	**25 636**	31 204
Overdrafts	**39 920**	37 007
Overnight finance	**15 574**	15 249
Personal and term loans	**86 206**	88 262
Preference shares	**17 443**	16 127
Reverse repurchase agreements (Carries)	**16 116**	20 310
Wholesale overdrafts	**88 453**	69 352
Gross loans and advances to customers	**740 025**	720 459
Impairment losses on loans and advances (refer to note 9)	**(19 716)**	(17 100)
	720 309	703 359

The Group has securitised certain loans and advances to customers, the total value of these securitised assets is **R5 851m** (2015: R12 038m). Included above are collateralised loans of **R191m** (2015: R1 086m) relating to securities borrowed.

The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Other advances include working capital solutions, collateralised loans and specialised products in Rest of Africa.

	Group					
	2016			2015		
	Gross advances Rm	**Unearned finance charges Rm**	**Net advances Rm**	Gross advances Rm	Unearned finance charges Rm	Net advances Rm
8.1 Instalment credit agreements						
Maturity analysis						
Less than one year	**28 895**	**(7 124)**	**21 771**	29 363	(6 810)	22 553
Between one and five years	**62 859**	**(10 986)**	**51 873**	60 109	(10 155)	49 954
More than five years	**2 734**	**(159)**	**2 575**	2 459	(121)	2 338
	94 488	**(18 269)**	**76 219**	91 931	(17 086)	74 845

The Group enters into instalment credit agreements in respect of motor vehicles, equipment and medical equipment.

The majority of the leases are denominated in South African Rand. The average term of the finance leases entered into is five years.

Under the terms of the lease agreements, no contingent rentals are payable.

Unguaranteed residual values of instalment credit agreements at the reporting date are **R7 010m** (2015: R5 530m).

The accumulated allowance for uncollectible lease payments receivable included in the allowance for impairments at the reporting date is **R1 660m** (2015: R890m).

	Group 2016 Rm	Group 2015 Rm
9. Impairment losses on loans and advances to customers		
Comprising:		
Identified impairments	**16 806**	14 277
Unidentified impairments	**2 910**	2 823
	19 716	17 100
Note	8	8

Reconciliation of allowance for impairment losses on loans and advances to customers (Group 2016)	Retail Banking South Africa Rm	Business Banking South Africa Rm	RBB Rest of Africa Rm	CIB Rm	WIMI Rm	Head Office and other operations Rm	Total Rm
Balance at the beginning of the reporting period	**10 676**	**1 813**	**2 789**	**1 717**	**65**	**40**	**17 100**
Net present value unwind on non-performing book	**(601)**	**(98)**	**—**	**—**	**—**	**—**	**(699)**
Exchange differences	**—**	**—**	**(382)**	**(139)**	**—**	**—**	**(521)**
Transfer between segments	**(4)**	**(16)**	**—**	**20**	**—**	**—**	**—**
Amounts written-off	**(4 294)**	**(442)**	**(941)**	**(248)**	**(7)**	**—**	**(5 932)**
Impairment raised/(reversed) – identified	**6 010**	**591**	**1 395**	**1 019**	**38**	**—**	**9 053**
Impairment raised/(reversed) – unidentified	**158**	**107**	**98**	**413**	**(25)**	**(36)**	**715**
	11 945	**1 955**	**2 959**	**2 782**	**71**	**4**	**19 716**

Reconciliation of allowance for impairment losses on loans and advances to customers (2015)	Retail Banking South Africa Rm	Business Banking South Africa Rm	RBB Rest of Africa Rm	CIB Rm	WIMI Rm	Head Office and other operations Rm	Total Rm
Balance at the beginning of the reporting period	10 912	2 028	2 354	754	82	—	16 130
Net present value unwind on non-performing book	(594)	(130)	—	—	—	—	(724)
Exchange differences	—	—	300	136	—	—	436
Transfer between segments	—	—	(86)	86	—	—	—
Amounts written-off	(5 063)	(784)	(719)	(57)	(15)	—	(6 638)
Impairment raised/(reversed) – identified	5 464	572	870	545	(1)	2	7 452
Impairment raised/(reversed) – unidentified	(43)	127	70	253	(1)	38	444
	10 676	1 813	2 789	1 717	65	40	17 100

	Group 2016 Rm	Group 2015 Rm
9.1 Statement of comprehensive income charge		
Impairments raised during the reporting period	**9 768**	7 896
Identified impairments	**9 053**	7 452
Unidentified impairments	**715**	444
Recoveries of loans and advances previously written-off	**(1 017)**	(976)
	8 751	6 920

	Group 2016 Rm	Group 2015 Rm
10. Reinsurance assets		
Insurance contracts (refer to note 24)	**985**	581
Life insurance contracts	**93**	24
Short-term insurance contracts	**892**	557
	985	581

Included in 'other assets – accounts receivables and prepayments' is **R531m** (2015: R325m) relating to amounts receivable from reinsurers for claims made against them.

	Group 2016 Rm	Group 2015 Rm
11. Investments linked to investment contracts		
Debt instruments	**506**	694
Derivative instruments (refer to note 59.3)	**39**	19
Listed equity instruments	**15 117**	16 104
Money market instruments	**2 085**	1 105
Unlisted equity and hybrid instruments	**1 069**	1 595
	18 816	19 517

	Group 2016 Rm	Group 2015 Rm
12. Investments in associates and joint ventures		
Unlisted investments	**1 065**	1 000
12.1 Movement in carrying value of associates and joint ventures accounted for under the equity method		
Balance at the beginning of the reporting period	**1 000**	845
Share of current reporting period post-tax results	**115**	129
Share of current reporting period results before taxation	**152**	177
Taxation on reporting period results	**(37)**	(48)
Net movement resulting from acquisitions, disposals and transfers	**7**	40
Dividends received	**(15)**	(14)
Impairment (refer to note 39)	**(42)**	—
Balance at the end of the reporting period	**1 065**	1 000

12.2 Associates and joint ventures

The following information is presented in respect of associates and joint ventures accounted for under the equity method:

	Associates		Joint ventures	
Group share	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Post-tax (loss)/profit from continuing operations	**(32)**	2	**147**	127
Total comprehensive income	**(32)**	2	**147**	127

During the current reporting period the Group disposed of its entire 49% shareholding in Rainfin (Pty) Ltd with a carrying value of **Rnil** (2015: R37m).

12. Investments in associates and joint ventures (continued)

12.3 Analysis of carrying value of associates and joint ventures accounted for under the equity method

	Group 2016 Rm	Group 2015 Rm
Unlisted investments		
Shares at cost	**100**	150
Share of post-acquisition reserves	**965**	850
	1 065	1 000

12.4 Carrying value of associates and joint ventures

	Group 2016 Associates Rm	Group 2016 Joint ventures Rm	Group 2016 Total Rm	Group 2015 Associates Rm	Group 2015 Joint ventures Rm	Group 2015 Total Rm
Equity accounted	**201**	**864**	**1 065**	267	733	1 000
Designated at fair value through profit or loss	**21**	**437**	**458**	22	555	577
	222	**1 301**	**1 523**	289	1 288	1 577

The investment in associates and joint ventures designated at fair value through profit or loss are presented within Investment Securities (note 3).

Refer to note 49.5 for additional disclosure of the Group's investments in associates and joint ventures.

In the prior reporting period the Group acquired additional shares in a non-core joint venture, previously designated at fair value through profit and loss for R14m, resulting in the Group obtaining control of the entity.

13. Investment properties

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**1 264**	727
Additions	**28**	17
Additions through business combinations (refer to note 57.1)	**—**	462
Change in fair value (refer to notes 37 and 38)	**84**	(47)
Disposals[1]	**(83)**	(1)
Foreign exchange movements	**(67)**	106
Transfer to non-current assets held for sale (refer to note 7)	**(748)**	—
Balance at the end of the reporting period	**478**	1 264

Investment properties comprise a number of properties leased to third parties for either commercial or residential use. Each of the leases contains an initial rental period ranging from six months to ten years, depending on the use of the building being leased. Subsequent renewals are negotiated with the lessee. No contingent rentals are charged.

Note

[1] Investment property of R18m was transferred to Property, Plant and Equipment due to a change in the use of the assets during the year.

	Group					
	2016			2015		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
14. Property and equipment						
Computer equipment	7 546	(3 988)	3 558	6 547	(3 499)	3 048
Freehold property	6 848	(477)	6 371	6 618	(431)	6 187
Furniture and other equipment	8 553	(4 534)	4 019	8 080	(4 983)	3 097
Leasehold property	1 550	(923)	627	1 948	(1 067)	881
Motor vehicles	149	(81)	68	140	(101)	39
	24 646	(10 003)	14 643	23 333	(10 081)	13 252

Group 2016								
Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfer from investment properties Rm	Foreign exchange movements Rm	Depre-ciation Rm	Impairments charge Rm	Closing balance Rm
Computer equipment	3 048	1 309	(14)	—	(21)	(764)	—	3 558
Freehold property	6 187	474	(301)	18	31	(38)	—	6 371
Furniture and other equipment	3 097	2 089	(255)	—	(129)	(783)	—	4 019
Leasehold property	881	167	(153)	—	(210)	(58)	—	627
Motor vehicles	39	66	(6)	—	(4)	(27)	—	68
	13 252	4 105	(729)	18	(333)	(1 670)	—	14 643
Note				13		38	39	

2015								
Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfer from investment properties Rm	Foreign exchange movements Rm	Depre-ciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	2 162	1 600	(18)	—	(2)	(694)	—	3 048
Freehold property	5 298	908	(24)	—	33	(28)	—	6 187
Furniture and other equipment	2 896	1 018	(121)	—	37	(733)	—	3 097
Leasehold property	793	108	(8)	—	56	(67)	(1)	881
Motor vehicles	28	43	(10)	—	4	(26)	—	39
	11 177	3 677	(181)	—	128	(1 548)	(1)	13 252
Note				13		38	39	

Included in the above additions is **R2 111m** (2015: R286m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction. During the year under review, an amount of **R989m** (2015: R236m) was transferred from assets under construction and brought into use.

Investment property was transferred to Property and Equipment due to a change in the use of the assets during the year.

	Group					
	2016			2015		
	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
15. Goodwill and intangible assets						
Computer software development costs	**6 700**	**(3 805)**	**2 895**	5 342	(2 987)	2 355
Customer lists and relationships	**674**	**(611)**	**63**	745	(307)	438
Goodwill	**1 081**	**(165)**	**916**	1 080	(132)	948
Other	**269**	**(94)**	**175**	90	(59)	31
	8 724	**(4 675)**	**4 049**	7 257	(3 485)	3 772

Reconciliation of goodwill and intangible assets	Group 2016								
	Opening balance Rm	**Additions Rm**	**Additions through business combinations**	**Disposals Rm**	**Foreign exchange movements Rm**	**Amortisation Rm**	**Impairment charge Rm**	**Transfers Rm**	**Closing balance Rm**
Computer software development costs	**2 355**	**1 507**	**23**	**(9)**	**(64)**	**(582)**	**(335)**	**—**	**2 895**
Customer lists and relationships	**438**	**—**	**—**	**—**	**—**	**(31)**	**(283)**	**(61)**	**63**
Goodwill	**948**	**—**	**20**	**—**	**(18)**	**—**	**(34)**	**—**	**916**
Other	**31**	**14**	**102**	**—**	**(5)**	**(28)**	**—**	**61**	**175**
	3 772	**1 521**	**145**	**(9)**	**(87)**	**(641)**	**(652)**	**—**	**4 049**
Note			57.1			38	39		

Reconciliation of goodwill and intangible assets	2015								
	Opening balance Rm	Additions Rm	Additions through business combinations	Disposals Rm	Foreign exchange movements Rm	Amortisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	1 945	871	—	(19)	46	(416)	(72)	—	2 355
Customer lists and relationships	480	1	—	—	2	(45)	—	—	438
Goodwill	762	—	164	—	23	—	(1)	—	948
Other	32	13	—	—	—	(14)	—	—	31
	3 219	885	164	(19)	71	(475)	(73)	—	3 772
Note			57.1			38	39		

The majority of computer software development costs were internally generated with the remainder externally acquired. Included in computer software development costs is **R1 581m** (2015: R857m) relating to assets under construction.

During the current year, two of the Group's intangible assets were impaired. An acquired customer list was fully impaired following an adjustment to the interest rate outlook for the related business. The second impairment relates to the costs previously spent by the Group on the Virtual Bank initiative. In calculating the impairment to be recognised, the Group determined the value in use based on a discounted cash flow methodology.

	Group 2016 Rm	Group 2015 Rm
15. Goodwill and intangible assets (continued)		
Composition of goodwill		
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
Absa Asset Management Proprietary Limited	**30**	30
Barclays Bank of Mauritius Limited	**40**	46
Barclays Bank of Ghana Limited	**65**	65
Glenrand MIB employee benefits and healthcare	**21**	21
Global Alliance Seguros S.A.	**24**	24
Nile Bank Limited	**100**	122
First Assurance Company Limited	**140**	164
Woolworths Financial Services Proprietary Limited	**364**	364
Absa Instant Life Proprietary Limited	**20**	—
	916	948

In considering reasonably possible changes to key assumptions, even if the estimated discount rate and/or growth rate was changed by **2%** (2015: 2%), no additional impairment loss would be recognised (2015: no impairment loss).

	Group 2016 Rm	Group 2015 Rm
16. Deferred tax		
16.1 Reconciliation of net deferred tax liability/(asset)		
Balance at the beginning of the reporting period	**(721)**	422
Deferred tax on amounts charged directly to other comprehensive income and equity	**(532)**	(986)
Charge to profit or loss (refer to note 41)	**(81)**	(18)
Tax effect of translation and other differences	**1 191**	(139)
Balance at the end of the reporting period	**(143)**	(721)
16.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Deferred tax liability	**1 185**	544
Prepayments, accruals and other provisions[1]	**812**	763
Capital Allowances[1]	**1 045**	724
Cash flow hedge and available for sale reserve[1]	**72**	(578)
Fair value adjustments on financial instruments	**(82)**	92
Impairment of loans and advances	**(411)**	(303)
Lease and rental debtor allowances	**(209)**	(179)
Property allowances	**153**	139
Retirement benefit asset and liabilities	**97**	151
Share-based payments	**(292)**	(265)
Deferred tax asset	**(1 328)**	(1 265)
Assessed losses	**(396)**	(293)
Fair value adjustments on financial instruments	**(43)**	(84)
Impairment of loans and advances	**(704)**	(637)
Lease and rental debtor allowances	**(8)**	(8)
Other differences	**(171)**	(169)
Retirement benefit assets	**7**	(60)
Share-based payments	**(13)**	(14)
Net deferred tax liability/(asset)	**(143)**	(721)

16.3 Future tax relief

The Group has estimated tax losses of **R2 444m** (2015: R2 262m) which are available for set-off against future taxable income. Deferred tax assets of **R396m** (2015: R293m) relating to tax losses carried forward were recognised.

The assessed losses in Barclays Bank of Mozambique expire after five years of origination. The Group has unrecognised losses of **R1 024m** (2015: R1 215m).

Note

[1] 'Capital allowances' have been disaggregated out of 'Prepayments, accruals and other provisions' in both the current (R1 045m) and prior year (R745m) as well as 'Cash flow hedge and available for sale reserve' have been restated out of 'Prepayments, accruals and other provisions' in both the current (R72m) and prior year (-R572m). These restatements to comparatives were done to provide more relevant detail to users of the annual financial statements.

17. Deposits from banks

	Group 2016 Rm	Group 2015 Rm
Call deposits	**4 874**	8 160
Fixed deposits	**9 895**	8 986
Foreign currency deposits	**15 772**	11 337
Notice deposits	**625**	522
Other	**2 916**	12 180
Repurchase agreements	**19 110**	21 795
	53 192	62 980

18. Trading and hedging portfolio liabilities

	Group 2016 Rm	Group 2015 Rm
Derivative liabilities (refer to note 59.4)	**40 920**	86 695
Commodity derivatives	**819**	107
Credit derivatives	**238**	893
Equity derivatives	**1 366**	3 826
Foreign exchange derivatives	**14 173**	28 563
Interest rate derivatives	**24 324**	53 306
Short positions	**6 509**	3 712
Total trading portfolio liabilities	**47 429**	90 407
Hedging portfolio liabilities (refer to note 59.6)	**2 064**	4 531
	49 493	94 938

19. Other liabilities

	Group 2016 Rm	Group 2015 Rm
Accruals	**2 558**	2 020
Audit fee accrual	**106**	79
Creditors	**12 315**	10 243
Deferred income	**555**	551
Retirement benefit funds and post-retirement medical plan obligations (refer to note 44)	**442**	612
Settlement balances	**11 332**	11 168
Share-based payment liability (refer to note 56)	**388**	309
	27 696	24 982

	Group 2016 Staff bonuses and incentive provisions Rm	Group 2016 Sundry provisions Rm	Group 2016 Total Rm
20. Provisions			
Balance at the beginning of the reporting period	1 884	1 352	3 236
Additions	1 116	340	1 456
Amounts used	(1 107)	(447)	(1 554)
Reversals	(6)	(127)	(133)
Balance at the end of the reporting period	1 887	1 118	3 005

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R2 341m** (2015: R2 937m).

Sundry provisions include amounts with respect to fraud cases, litigation and insurance claims.

21. Deposits due to customers

	Group 2016 Rm	Group 2015 Rm
Call deposits	**62 426**	72 172
Cheque account deposits	**200 541**	200 725
Credit card deposits	**1 906**	2 002
Fixed deposits	**166 148**	170 549
Foreign currency deposits	**24 825**	27 865
Notice deposits	**59 358**	48 954
Other	**3 313**	13 971
Repurchase agreements	**3 970**	4 620
Savings and transmission deposits	**152 378**	147 561
	674 865	688 419

Other deposits due to customers include deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.

22. Debt securities in issue

	Group 2016 Rm	Group 2015 Rm
Commercial paper	**1 166**	2 096
Credit linked notes	**10 295**	11 597
Floating rate notes	**60 441**	54 801
Negotiable certificates of deposit	**43 094**	32 767
Other	**706**	549
Promissory notes	**1 171**	1 232
Senior notes	**22 507**	24 916
Structured notes and bonds	**334**	725
	139 714	128 683

	Group 2016 Rm	Group 2015 Rm
23. Liabilities under investment contracts		
Balance at the beginning of the reporting period	**24 209**	23 299
Change in investments contracts (refer to note 34)	**359**	284
Inflows on investment contracts	**7 796**	5 085
Policyholder benefits on investment contracts	**(2 997)**	(4 362)
Linked investment policies	**(169)**	(97)
Balance at the end of the reporting period	**29 198**	24 209

	Group 2016 Total assets linked to investment contracts Rm	Intercompany eliminations[1] Rm	Net assets attributable to external policyholders Rm
23.1 Assets linked to investment contracts			
Deferred taxation	**198**	**—**	**198**
Money market assets (refer to note 2)	**1 578**	**—**	**1 578**
Investments linked to investment contracts (refer to note 11)	**27 504**	**(8 688)**	**18 816**
Other assets	**4**	**—**	**4**
Other liabilities	**(31)**	**—**	**(31)**
	29 253	**(8 688)**	**20 565**

	2015 Total assets linked to investment contracts Rm	Intercompany eliminations[1] Rm	Net assets attributable to external policyholders Rm
Assets linked to investment contracts			
Deferred taxation	—	—	—
Money market assets (refer to note 2)	732	—	732
Investments linked to investment contracts (refer to note 11)	23 483	(3 966)	19 517
Other assets	4	—	4
Other liabilities	(10)	—	(10)
	24 209	(3 966)	20 243

Note

[1] Intercompany eliminations relate to investments held in products of the Group.

	Group 2016 Gross Rm	Group 2016 Reinsurance Rm	Group 2016 Net Rm
24. Policyholder liabilities under insurance contracts			
Short-term insurance contracts:			
Claims outstanding (refer to note 24.1)	1 077	(679)	398
Claims reported and loss adjustment expense	920	(660)	260
Claims incurred but not reported	157	(19)	138
Unearned premiums at the end of the reporting period	986	(213)	773
Balance at the beginning of the reporting period	1 181	(179)	1 002
Foreign exchange movement	(59)	2	(57)
Increase during the reporting period	1 394	(92)	1 302
Release during the reporting period	(1 530)	56	(1 474)
	2 063	(892)	1 171
Long-term insurance contracts (refer to note 24.2)	2 406	(93)	2 313
	4 469	(985)	3 484

	2015 Gross Rm	2015 Reinsurance Rm	2015 Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 24.1)	915	(378)	537
Claims reported and loss adjustment expense	759	(324)	435
Claims incurred but not reported	156	(54)	102
Unearned premiums at the end of the reporting period	1 181	(179)	1 002
Balance at the beginning of the reporting period	1 072	(306)	766
Increase during the reporting period	2 368	(384)	1 984
Release during the reporting period	(2 259)	511	(1 748)
	2 096	(557)	1 539
Long-term insurance contracts (refer to note 24.2)	2 244	(24)	2 220
	4 340	(581)	3 759

	Group 2016 Rm	Group 2015 Rm
Comprising:		
Unit-linked insurance contracts		
Gross	1 427	1 469
Non unit-linked insurance contracts	2 057	2 290
Gross	3 042	2 871
Reinsurance (refer to note 10)	(985)	(581)
	3 484	3 759

24. Policyholder liabilities under insurance contracts (continued)

24.1 Reconciliation of claims outstanding, including claims incurred but not reported

	Group 2016 Gross Rm	Group 2016 Reinsurance Rm	Group 2016 Net Rm
Balance at the beginning of the reporting period	**915**	**(378)**	**537**
Foreign exchange movements	**(44)**	**7**	**(37)**
Cash paid for claims settled during the reporting period	**(2 395)**	**888**	**(1 507)**
Increase in claims arising from the current reporting period's claims outstanding	**1 880**	**(1 088)**	**792**
Increase in claims arising from the previous reporting period's claims outstanding	**721**	**(108)**	**613**
Balance at the end of the reporting period (refer to note 24)	**1 077**	**(679)**	**398**

	2015 Gross Rm	2015 Reinsurance Rm	2015 Net Rm
Balance at the beginning of the reporting period	535	(272)	263
Acquisition of subsidiary	357	(45)	312
Cash paid for claims settled during the reporting period	(2 087)	367	(1 720)
Increase in claims arising from the current reporting period's claims outstanding	1 725	(332)	1 393
Increase in claims arising from the previous reporting period's claims outstanding	385	(96)	289
Balance at the end of the reporting period (refer to note 24)	915	(378)	537

24.2 Reconciliation of gross long-term insurance contracts

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**2 244**	2 264
Change in reinsurance assets	**(69)**	5
Foreign exchange movements	**(8)**	5
Acquisition of subsidiary	**—**	11
Movement on expected claims experience	**105**	13
Transfer adjustment	**—**	16
Change in insurance contract liabilities (refer to note 34)	**134**	(70)
Change in economic assumptions	**(21)**	(57)
Change in methodology	**36**	(33)
Changes in non-economic assumptions	**47**	12
Expected cash flow	**1 109**	896
Expected release of margins	**(1 219)**	(904)
Experience variances	**2**	(18)
Change in liabilities valued on a retrospective basis	**(84)**	(111)
New business	**198**	91
Transfer of policies	**—**	2
Unwind of discount rate	**66**	52
Balance at the end of the reporting period (refer to note 24)	**2 406**	2 244
Recoverable from reinsurers (refer to note 10)	**93**	24
Net liabilities	**2 313**	2 220
Unit-linked liabilities	**1 427**	1 469
Non-linked liabilities	**886**	751
	2 406	2 244

25. Borrowed funds

			Group 2016 Rm	Group 2015 Rm
Subordinated callable notes issued by Absa Bank Limited				
The following subordinated debt instruments qualify as Tier 2 capital in terms of Basel III.				
Interest rate	**Final maturity date**	**Note**		
8,295%	21 November 2023	i	**1 188**	1 188
10,28%	3 May 2022	ii	**600**	600
Three-month Johannesburg Interbank Agreed Rate (JIBAR) +2,10%	3 May 2022	iii	**400**	400
Three-month JIBAR + 1,95%	21 November 2022	iv	**1 805**	1 805
Three-month JIBAR + 2,05%	21 November 2023	v	**2 007**	2 007
Consumer Price Index (CPI) linked notes, fixed at the following coupon rates: 5,50%	7 December 2028	vi	**1 500**	1 500
Subordinated callable notes issued by Barclays Africa Group Limited				
10,05%	5 February 2025	vii	**807**	807
10,835%	19 November 2024	viii	**130**	130
11,365%	4 September 2025	ix	**508**	508
11,40%	29 September 2025	x	**288**	288
11,74%	20 August 2026	xi	**140**	—
11,81%	3 September 2027	xii	**737**	737
12,43%	5 May 2026	xiii	**200**	—
Three-month Johannesburg Interbank Agreed Rate (JIBAR)				
Three-month JIBAR + 3,30%	19 November 2024	xiv	**370**	370
Three-month JIBAR + 3,50%	5 February 2025	xv	**1 693**	1 693
Three-month JIBAR + 3,50%	4 September 2025	xvi	**437**	437
Three-month JIBAR + 3,60%	3 September 2027	xvii	**30**	30
Three-month JIBAR + 4,00%	5 May 2026	xviii	**31**	—
Three-month JIBAR + 4,00%	20 August 2026	xix	**1 510**	—
Three-month JIBAR + 4,00%	3 November 2026	xx	**500**	—
Subordinated callable notes issued by other subsidiaries				
One-hundred and eighty-two day Zambian Government Treasury Bill rate + 2,50% (capped at 13,00%)	18 May 2016	xxi	**—**	71
United States dollar three-month London Interbank Offered Rate (LIBOR) + 1,00% (non-qualifying)	31 March 2018	xxii	**—**	102
National Bank of Commerce 16,44% fixed rate note	29 January 2024	xxiii	**31**	36
Accrued interest			**805**	684
Fair value adjustments on total subordinated debt instruments			**(44)**	(242)
			15 673	13 151

i The 8,295% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 21 November 2018. Interest is paid semi-annually in arrears on 21 May and 21 November of each year. Absa Bank Limited has an option to exercise the redemption on any interest payment date after 21 November 2018. There is no step-up in the coupon rate if Absa Bank Limited does not exercise the redemption option.

ii. The 10,28% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 3 May 2017. Interest is paid semi-annually in arrears on 3 May and 3 November of each year, provided that the last date for payment shall be 3 May 2022. If Absa Bank Limited does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 4,10% quarterly in arrears on 3 August, 3 November, 3 February and 3 May.

iii. The three-month JIBAR plus 2,10% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 3 May 2017. Interest is paid quarterly on 3 August, 3 November, 3 February and 3 May of each year, provided that the last date for payment shall be 3 May 2022. If Absa Bank Limited does not exercise the redemption option, then the coupon rate payable after 3 May 2017 reprices from three-month JIBAR plus 2,10% to three-month JIBAR plus 4,10%.

25. Borrowed funds (continued)

iv. The three-month JIBAR plus 1,95% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 21 November 2017. Interest is paid quarterly in arrears on 21 February, 21 May, 21 August and 21 November of each year. Absa Bank Limited has an option to exercise the redemption on any interest payment date after 21 November 2017. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.

v. The three-month JIBAR plus 2,05% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 21 November 2018. Interest is paid quarterly on 21 February, 21 May, 21 August and 21 November of each year. Absa Bank Limited has an option to exercise the redemption on any interest payment date after 21 November 2018. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.

vi. The 5,50% CPI linked notes may be redeemed in full at the option of Absa Bank Limited on 7 December 2023. Interest is paid semi-annually in arrears on 7 June and 7 December of each year, provided that the last day of payment shall be 7 December 2028. If Absa Bank Limited does not exercise the redemption option, a coupon step up of 150 basis points (bps) shall apply.

vii. The 10,05% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 February 2020. Interest is paid semi-annually in arrears on 5 February and 5 August. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 5 February 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

viii. The 10,835% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 19 November 2019. Interest is paid semi-annually in arrears on 19 May and 19 November. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 19 November 2019. There is no step-up in the coupon rate if Barclays Africa Group Limited does not exercise the redemption option.

ix. The 11,365% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 4 September 2020. Interest is paid semi-annually in arrears on 4 March and 4 September. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

x. The 11,40% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 29 September 2020. Interest is paid semi-annually in arrears on 29 March and 29 September. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 29 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xi. The 11,74% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 20 August 2021. Interest is paid semi-annually in arrears on 20 August and 20 February. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 20 August 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xii. The 11,81% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 September 2022. Interest is paid semi-annually in arrears on 3 March and 3 September. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xiii. The 12,43% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xiv. The three-month JIBAR plus 3,30% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 19 November 2019. Interest is paid quarterly in arrears on 19 February, 19 May, 19 August and 19 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 19 November 2019. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xv. The three-month JIBAR plus 3,50% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 February 2020. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 February 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xvi. The three-month JIBAR plus 3,50% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 4 September 2020. Interest is paid quarterly in arrears on 4 March, 4 June, 4 September and 4 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xvii. The three-month JIBAR plus 3,60% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xviii. The three-month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

25. Borrowed funds (continued)

xix. The three-month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 20 August 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xx. The three-month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 November 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xxi. The floating rate notes issued by Barclays Zambia, were redeemed in full on 18 May 2016. Interest was paid semi-annually in arrears on 18 May and 18 November.

xxii. The floating rate notes issued by Barclays Bank of Uganda Limited to Barclays Bank PLC were redeemed in full on 31 March 2016. The note bore interest at the USD three-month LIBOR plus 1,00%. Interest was paid quarterly in arrears on 31 March, 30 June, 30 September and 31 December. The group decided to exercise their option to early redeem the note before the redemption date of 31 March 2018.

xxiii. The 16,44% fixed rate notes issued by National Bank of Commerce, may be redeemed in full on 29 January 2019. The notes bear fixed interest at a rate of 16,44%. Interest is paid semi-annually in arrears on 29 July and 29 January.

Notes i to xx are listed on the Bond Exchange of South Africa (BESA).

In accordance with the MOI, the borrowing powers of Absa Bank Limited and Barclays Africa Group Limited are unlimited.

26. Share capital and premium

26.1 *Ordinary share capital*

	Group	
	2016 Rm	2015 Rm
Authorised		
880 467 500 (2015: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
847 750 679 (2015: 847 750 679) ordinary shares of R2,00 each	**1 696**	1 696
1 075 595 (2015: 2 025 369) treasury shares held by Group entities	**(3)**	(5)
	1 693	1 691
Total issued capital		
Share capital	**1 693**	1 691
Share premium	**4 467**	4 250
	6 160	5 941

Authorised shares

There were no changes to the authorised share capital during the current reporting period.

Unissued shares

The unissued shares are under the control of the directors, subject to a limit of 5% of issued ordinary share capital as at the reporting date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming AGM of the Company.

The Group has a share incentive trust in terms of which shares are issued and share awards are granted. As required by IFRS, Absa Group Limited Share Incentive Trust has been consolidated into the Group's annual financial statements.

Shares issued during the year under review

There were no shares issued during the current reporting period.

Shares issued during the prior year

There were no shares issued during the previous reporting period.

27. Other reserves

27.1 General credit risk reserve

The general credit risk reserve consists of the following:

Total impairments, calculated in terms of IAS 39 should exceed the provisions calculated for regulatory purposes. For some African subsidiaries, the IAS 39 impairment provision is less than the regulatory provision which results in a shortfall. An additional general credit risk reserve has been created and maintained through a transfer of distributable reserves to non-distributable reserves, which eliminates the shortfall.

27.2 Available-for-sale reserve

The available-for-sale reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the instrument is derecognised or impaired, in which case the cumulative amount recognised in other comprehensive income is released to the profit or loss component of the statement of comprehensive income.

27.3 Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

27.4 Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

27.5 Insurance contingency reserve

A contingency reserve was maintained at 10% of net written premiums as stipulated by the Short-term Insurance Act, 1988. The utilisation of this reserve, in case of catastrophe, was subject to the approval of the FSB. This reserve is no longer required due to a change in the FSB regulations.

27.6 Foreign insurance subsidiary regulatory reserve

The foreign insurance subsidiary regulatory reserve is calculated on the basis of the following minimum percentages of profits recorded in each reporting period for that subsidiary:

- 20% until the value of the reserves represents half of the minimum capital required under the foreign insurance subsidiary's legislation.
- 10% from the time the amount specified in the preceding paragraph, has been attained.

27.7 Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. The standard requires that the expense be charged to the profit and loss component of the statement of comprehensive income, while a credit needs to be raised against equity over the vesting period (i.e. the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised, the reserve related to the specific options is transferred to share capital and/or share premium. If the options lapse after vesting, the related reserve is transferred to retained earnings. If the options lapse before vesting, the related reserve is reversed through the profit and loss component of the statement of comprehensive income.

27.8 Associates' and joint ventures' reserve

The associates' and joint ventures' reserve comprises the Group's share of its associates' and/or joint ventures' reserves.

27.9 Retained earnings

The retained earnings comprises of the cumulative total comprehensive income recognised from inception (reduced by any amounts transferred to as separate reserve), and reduced by dividends paid to date and any total comprehensive income relating to disposed subsidiaries.

	Group 2016 Rm	Group 2015 Rm
28. Non-controlling interest – preference shares		
Authorised		
30 000 000 (2015: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2015: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

The only subsidiary that gives rise to a significant non-controlling interest is Absa Bank Limited. While Barclays Africa Group Limited holds 100% of the voting rights in Absa Bank Limited, Absa Bank Limited has preference shares in issue that are disclosed as non-controlling interests.

The preference shares have a dividend rate of 70% of the prime overdraft lending rate. The holders of the preference shares shall not be entitled to voting rights unless a declared preference dividend remains in arrears and unpaid after six months from the due date thereof, or if a resolution is proposed by Absa Bank Limited which directly affects the rights attached to the preference shares or the interest of the shareholders. Payment of dividends and principal is at the discretion of the Group. The shareholders only have rights to the share capital and share premium linked to the shares, in the event of insolvency, and to any dividend that is declared, but unpaid.

As at the reporting date, there were no preference dividends that have been declared but remain unpaid. Refer to the consolidated financial statements of Absa Bank Limited for detailed information regarding the financial position and financial performance of Absa Bank Limited.

	Group	
	2016 Rm	2015 Rm
29. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	13	22
Fair value adjustments on hedging instruments	(1 936)	2 365
Investment securities	10 172	5 842
Loans and advances to banks	1 794	1 257
Loans and advances to customers	73 708	63 125
Corporate overdrafts and specialised finance loans	801	442
Credit cards	6 721	6 566
Foreign currency loans	930	720
Instalment credit agreements	8 053	7 365
Interest on impaired financial assets (refer to note 9)	699	724
Loans to associates and joint ventures	1 481	1 135
Microloans	1 020	759
Mortgages	25 443	21 959
Other advances	1 397	1 142
Overdrafts	4 347	3 521
Overnight finance	1 350	1 095
Personal and term loans	13 330	11 921
Preference shares	1 271	952
Wholesale overdrafts	6 865	4 824
Other interest	1 363	992
	85 114	73 603
Classification of interest and similar income		
Fair value adjustments on amortised cost and available-for-sale financial assets held in a fair value hedging relationship (refer to note 59.9)	1 340	(1 591)
Investment securities	1 736	(1 523)
Loans and advances to customers	(396)	(68)
Fair value adjustments on hedging instruments	(1 750)	2 630
Cash flow hedges (refer to note 59.7)	268	1 111
Economic hedges	153	75
Fair value hedges (refer to note 59.9)	(2 171)	1 444
Interest on financial assets held at amortised cost	83 250	68 190
Interest on financial assets held as available-for-sale financial assets	3 851	2 833
Interest on financial assets designated at fair value through profit or loss	(1 577)	1 541
Cash, cash balances and balances with central banks	8	17
Fair value hedging instruments (refer to note 59.9)	(186)	(265)
Investment securities	1 045	1 623
Loans and advances to customers	(2 444)	166
	85 114	73 603

Interest income on 'other advances' includes items such as interest on factored debtors' books.

Other interest includes items such as overnight interest on contracts as well as interest income on defined benefit plan assets.

30. Interest expense and similar charges

	Group 2016 Rm	Group 2015 Rm
Interest expense and similar charges are paid on:		
Borrowed funds[1]	**1 675**	955
Debt securities in issue	**10 763**	7 536
Deposits due to customers	**28 792**	25 704
Call deposits	**5 121**	3 778
Cheque account deposits	**4 108**	4 086
Credit card deposits	**7**	8
Fixed deposits	**7 838**	7 634
Foreign currency deposits	**19**	40
Notice deposits	**4 047**	3 205
Other deposits due to customers	**1 494**	1 717
Savings and transmission deposits	**6 158**	5 236
Deposits from banks	**2 154**	959
Call deposits	**376**	425
Fixed deposits	**1 823**	523
Foreign currency deposits	**—**	11
Other	**(45)**	—
Fair value adjustments on hedging instruments	**(890)**	573
Other[1]	**617**	(531)
	43 111	35 196
Classification of interest expense and similar charges		
Fair value adjustments on amortised cost items instruments in a fair value hedging relationship (refer to note 59.9)	**866**	(925)
Borrowed funds[1]	**171**	(190)
Debt securities in issue	**695**	(735)
Fair value adjustments on hedging instruments	**(856)**	717
Cash flow hedges (refer to note 59.7)	**8**	(135)
Economic hedges	**—**	10
Fair value hedges (refer to note 59.9)	**(864)**	842
Interest on financial liabilities designated at fair value through profit or loss	**8**	(144)
Borrowed funds[1]	**42**	—
Fair value hedging instruments (refer to note 59.9)	**(34)**	(144)
Interest on financial liabilities held at amortised cost[1]	**43 093**	35 548
	43 111	35 196

Other interest and similar charges includes items such as interest expense on the defined benefit obligation, overnight interest on contracts for difference as well as inter-segment eliminations between 'interest and similar income', 'interest expense and similar charges' and 'gains and losses from banking and trading activities'.

Note

[1] Interest expenses **R315m** (31 December 2015) in the prior year have been restated from 'Borrowed Funds' and placed within 'Other' to ensure more useful and accurate information.

	Group 2016 Rm	2015 Rm
31. Net fee and commission income		
Asset management and other related fees	**169**	108
Consulting and administration fees	**743**	779
Credit-related fees and commissions	**17 938**	17 279
Cheque accounts	**4 334**	4 159
Credit cards	**2 609**	2 172
Electronic banking	**5 012**	4 871
Other	**3 699**	3 786
Savings accounts	**2 284**	2 291
Insurance commission received	**1 128**	1 145
Asset management, markets execution and investment banking fees	**400**	333
Merchant income	**1 757**	1 731
Other	**393**	334
Trust and other fiduciary service fees	**1 444**	1 443
Portfolio and other management fees	**1 147**	1 151
Trust and estate income	**297**	292
Fee and commission income	**23 972**	23 152
Fee and commission expense	**(3 249)**	(2 997)
Brokerage fees[1]	**(142)**	(126)
Cheque processing fees	**(134)**	(127)
Clearing and settlement charges[1]	**(711)**	(560)
Notification fees[1]	**(202)**	(192)
Insurance commission paid	**(1 150)**	(1 039)
Other[2]	**(797)**	(829)
Valuation fees	**(113)**	(124)
	20 723	20 155

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Some of these services involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care.

	Group 2016 Rm	2015 Rm
31.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	**4 334**	4 159
Credit cards	**2 609**	2 172
Electronic banking	**5 012**	4 871
Other	**3 699**	3 786
Savings accounts	**2 284**	2 291
Fee and commission income	**17 938**	17 279
Fee and commission expense	**(1 709)**	(1 622)
	16 229	15 657

Credit cards include acquiring and issuing fees.

Other credit related fees and commission income include service and credit-related fees and commissions on mortgage loans and foreign exchange transactions.

Notes

[1] The Group has reassessed the presentation of the component net fee and commission expenditure. 'Brokerage fees', 'Clearing and settlement charges', and 'Notification fees' are separately presented in the current reporting period. In the previous reporting period, these amounts were included within 'Other fee and commission expense'.

[2] In the current reporting year, the Group presents 'Transaction-based legal fees' of **R1m** (2015: R1m) and 'Trust and other fiduciary service fees' of **R62m** (2015: R71m), within 'Other fee and commission expense'.

32. Net insurance premium income

	Group 2016 Rm	Group 2015 Rm
Gross insurance premiums	**8 102**	8 181
Life insurance contracts	**3 733**	3 346
Short-term insurance contracts	**4 369**	4 835
Premiums ceded to reinsurers	**(1 116)**	(1 878)
Reinsurance on life insurance contracts	**(321)**	(239)
Reinsurance on short-term insurance contracts	**(795)**	(1 639)
	6 986	6 303
Comprising (net of reinsurance)		
Life	**3 412**	3 107
Credit life	**1 550**	859
Funeral business	**670**	502
Home mortgage protection	**630**	601
Other	**562**	1 145
Short-term	**3 574**	3 196
Commercial business	**619**	271
Personal business	**2 955**	2 925
	6 986	6 303

33. Net claims and benefits incurred on insurance contracts

	Group 2016 Rm	Group 2015 Rm
Gross claims and benefits incurred on insurance contracts	**4 387**	4 178
Life insurance claims and benefits	**1 207**	1 110
Short-term insurance claims and benefits	**3 180**	3 068
Reinsurance recoveries	**(696)**	(1 033)
Reinsurance recoveries on life insurance contracts	**(129)**	(135)
Reinsurance recoveries on short-term insurance contracts	**(567)**	(898)
	3 691	3 145
Comprising (net of reinsurance)		
Life	**1 078**	975
Credit life	**321**	166
Funeral business	**178**	148
Home mortgage protection	**380**	373
Other	**199**	288
Short-term	**2 613**	2 170
Commercial business	**997**	358
Personal business	**1 616**	1 812
	3 691	3 145

	Group 2016 Rm	Group 2015 Rm
34. Changes in investment and insurance contract liabilities		
Change in insurance contract liabilities (refer to note 24.2)	**134**	(70)
Change in investment contract liabilities (refer to note 23)	**359**	284
	493	214

	Group 2016 Rm	Group 2015 Rm
35. Gains and losses from banking and trading activities		
Net gains/(losses) on investments	**237**	(225)
Debt instruments designated at fair value through profit or loss	**225**	18
Equity instruments designated at fair value through profit or loss	**9**	(33)
Available-for-sale unwind from reserves	**3**	(210)
Net trading result	**5 341**	4 103
Net trading income excluding the impact of hedge accounting	**5 431**	4 253
Ineffective portion of hedges	**(90)**	(150)
Cash flow hedges (refer to note 59.7)	**(53)**	(188)
Fair value hedges (refer to note 59.9)	**(37)**	38
Other gains	**113**	55
	5 691	3 933
Net trading result and other gains on financial instruments		
Net trading income excluding the impact of hedge accounting	**5 431**	4 242
(Losses)/gains on financial instruments designated at fair value through profit or loss	**(3 423)**	7 119
Net losses on financial assets designated at fair value through profit or loss	**(767)**	(1 036)
Net (losses)/gains on financial liabilities designated at fair value through profit or loss	**(2 656)**	8 155
Gains/(losses) on financial instruments held for trading	**8 854**	(2 877)
Other gains	**113**	55
Gains on financial instruments designated at fair value through profit or loss	**61**	41
Gains on financial instruments held for trading	**52**	14

36. Gains and losses from investment activities

	Group 2016 Rm	Group 2015 Rm
Net gains on investments activities	47	679
Policyholder insurance contracts	201	85
Policyholder investment contracts	(445)	337
Shareholder funds	291	257
Other gains	4	107
	51	786
Classification of gains from investment activities		
Gains on financial instruments designated at fair value through profit or loss	41	681
Other	6	(2)
	47	679

37. Other operating income

	Group 2016 Rm	Group 2015 Rm
Foreign exchange differences, including amounts recycled from other comprehensive income	360	327
Income from investment properties	242	144
Change in fair value (refer to note 13)	84	35
Rentals	158	109
Income from maintenance contracts	36	30
Profit on disposal of intangible assets	—	7
Profit on sale of property and equipment	9	14
Profit on disposal of developed properties	17	31
Gross sales	47	81
Cost of sales	(30)	(50)
(Loss)/profit on sale of repossessed properties	(25)	13
Gross sales	23	38
Cost of sales	(48)	(25)
Rental income	76	79
Sundry income	409	328
	1 124	973

'Sundry income' includes service fees levied on asset finance as well as profit on disposal of non-core assets.

	Group 2016 Rm	Group 2015 Rm
38. Operating expenses		
Administration fees	**722**	788
Amortisation of intangible assets (refer to note 15)	**641**	475
Auditors' remuneration	**319**	277
Audit fees – current reporting period	**222**	213
Audit fees – under provision	**15**	8
Audit-related fees	**44**	47
Other services	**38**	9
Cash transportation	**963**	884
Depreciation (refer to note 14)	**1 670**	1 548
Equipment costs	**461**	441
Rentals	**95**	83
Maintenance	**366**	358
Information technology	**3 131**	2 274
Investment properties charges – change in fair value (refer to note 13)	**—**	82
Marketing costs	**1 585**	1 740
Operating lease expenses on properties	**1 665**	1 657
Other	**1 737**	1 650
Printing and stationery	**405**	390
Professional fees	**1 742**	1 902
Property costs	**1 718**	1 563
Staff costs	**22 090**	20 902
Bonuses	**1 902**	1 875
Other	**1 179**	1 061
Salaries and current service costs on post-retirement benefit funds	**17 878**	16 984
Deferred cash and share-based payments (refer to note 56)	**755**	662
Training costs	**376**	320
Telephone and postage	**1 107**	1 088
	39 956	37 661

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies.

Information technology and professional fees include research and development costs totalling **R286m** (2015: R357m).

Other operating expenses include fraud losses as well as travel and entertainment costs.

Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

	Group 2016 Rm	Group 2015 Rm
39. Other impairments		
(Reversal)/impairment raised on financial instruments	(4)	10
Other	694	74
Goodwill (refer to note 15)	34	1
Intangible assets (refer to note 15)	618	72
Investments in associates and joint ventures (refer to note 12)	42	—
Property and equipment (refer to note 14)	—	1
	690	84

	Group 2016 Rm	Group 2015 Rm
40. Indirect taxation		
Training levy	193	180
VAT net of input credits	1 237	1 179
	1 430	1 359

	Group 2016 Rm	Group 2015 Rm
41. Taxation expense		
Current		
Foreign taxation	267	178
Current tax	5 623	5 673
Current tax – previous reporting period	26	66
	5 916	5 917
Deferred		
Deferred tax (refer to note 16.1)	(81)	(18)
Accelerated tax depreciation	188	109
Allowances for loan losses	(174)	(130)
Other provisions	(457)	(137)
Other temporary differences	(204)	208
Fair value adjustments on financial instruments	419	(69)
Retirement benefit fund and liabilities	147	1
	5 835	5 899
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	21 682	21 303
Share of post-tax results of associates and joint ventures (refer to note 12)	(115)	(129)
	21 567	21 174
Tax calculated at a tax rate of 28%	6 039	5 929
Effect of different tax rates in other countries	64	62
Expenses not deductible for tax purposes	505	510
Recognition of previously unrecognised deferred tax assets	(198)	
Income not subject to tax	(784)	(708)
Other	37	57
Non-taxable portion of capital gain	172	49
	5 835	5 899

	Group 2016 Rm	Group 2015 Rm
42. Earnings per share		
42.1 Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders, by the weighted average number of ordinary shares in issue during the reporting period		
Basic earnings attributable to ordinary equity holders	**14 708**	14 331
Weighted average number of ordinary shares in issue (millions)	**846,5**	846,8
Issued shares at the beginning and end of the reporting period	**847,8**	847,8
Treasury shares held by Group entities (weighted)	**(1,3)**	(1,0)
Basic earnings per share (cents)	**1 737,5**	1 692,4
42.2 Diluted earnings per share		
Diluted earnings are determined by adjusting profit or loss attributable to the ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares		
Diluted earnings attributable to ordinary equity holders	**14 708**	14 331
Diluted weighted average number of ordinary shares in issue (millions)	**846,6**	847,3
Weighted average number of ordinary shares in issue	**846,5**	846,8
Adjustments for share options issued at no value	**0,1**	0,5
Diluted earnings per share (cents)	**1 737,3**	1 691,4

The dilution represents the effective discount between the average option price and the average market price at which option holders can convert the options into ordinary shares. This includes options issued in respect of Barclays Africa Group Limited's Share Incentive Trust.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potential dilutive ordinary shares. The Group has one category of potential dilutive ordinary shares, namely share options. The number of shares that could have been acquired at fair value (determined as the average annual quoted market share price of the Company's shares) for the share options outstanding are calculated based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as per the above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference between the number of shares that could have been acquired at fair value and the number of shares that would have been issued assuming the exercise of the share options, are shares that would be obtained at no value.

Shares that are issued contingent on the happening of an event, are only included as potential dilutive ordinary shares when all of the conditions of the contingent event are deemed to have been met, based on the information available at the reporting date.

In calculating the diluted earnings per share in respect of share options to employees and other share-based payment arrangements, the Group adjusts the exercise price, which impacts the weighted average shares issued at no value, of potential ordinary shares to include the fair value of services that will be recognised as an expense in a future period.

	Group			
	2016		2015	
	Gross Rm	**Net Rm**	Gross Rm	Net Rm

43. Headline earnings

	2016 Gross Rm	**2016 Net Rm**	2015 Gross Rm	2015 Net Rm
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Group		**14 708**		14 331
Total headline earnings adjustment:		**272**		(44)
IAS 36 – Goodwill impairment (refer to note 39)	**34**	**34**	1	1
IFRS 5 – Gains on disposal of non-current assets held for sale	**(31)**	**(25)**	(1)	(1)
IAS 16 – Profit on disposal of property and equipment	**(29)**	**(21)**	(13)	(10)
IAS 21 – Recycled foreign currency translation reserve	**(320)**	**(297)**	(267)	(267)
IAS 28 – Impairment of investments in associates and joint ventures (refer to note 39)	**42**	**34**	—	—
IAS 36 – Impairment of property and equipment (refer to note 39)	**—**	**—**	1	1
IAS 36 – Impairment of intangible assets (refer to note 39)	**618**	**610**	72	51
IAS 38 – Gain on disposal of intangible assets (refer to note 37)	**—**	**—**	(7)	(5)
IAS 39 – Release of available-for-sale reserves (refer to note 35)	**(3)**	**(2)**	210	152
IAS 40 – Change in fair value of investment properties	**(70)**	**(61)**	47	34
		14 980		14 287
Headline earnings per ordinary share (cents)		**1 769,6**		1 687,2
Diluted headline earnings per ordinary share (cents)		**1 769,4**		1 686,2

The net amount is reflected after taxation and non-controlling interest.

44. Retirement benefit obligations

	Group **2016 Rm**	Group 2015 Rm
Surplus disclosed in 'Other assets'		
Absa Pension Fund defined benefit plan (refer to notes 6 and 44.1.1)	**466**	466
Other defined benefit plans of subsidiaries (refer to notes 6 and 44.2.1)	**87**	165
	553	631
Obligations disclosed in 'Other liabilities'		
Subsidiaries' post-retirement medical aid plans (refer to notes 19 and 44.3)	**198**	175
Other defined benefit plans of subsidiaries (refer to notes 19 and 44.2.1)	**244**	437
	442	612
Statement of comprehensive income charge included in staff costs and interest expense		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 44.1.6)	**(15)**	12
Other defined benefit plans of subsidiaries in a deficit position (refer to note 44.2.6)	**71**	41
Other defined benefit plans of subsidiaries in a surplus position (refer to note 44.2.6)	**(21)**	(65)
Subsidiaries' post-retirement medical aid plans	**(11)**	18
	24	6
Recognised in other comprehensive income		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 44.1.6)	**17**	(12)
Other defined benefit plans of subsidiaries in a deficit position (refer to note 44.2.6)	**70**	9
Other defined benefit plans of subsidiaries in a surplus position (refer to note 44.2.6)	**119**	54
Subsidiaries' post-retirement medical aid plans	**55**	63
	261	114

44. Retirement benefit fund obligations *(continued)*

The Group operates a number of pension fund schemes (defined benefit schemes and defined contribution schemes) and post-retirement medical aid plans. The most significant schemes operated by the Group are the Absa Pension Fund and the Barclays Bank Kenya Pension Fund. Apart from these, the Group operates a number of smaller pension and post-retirement medical aid plans. The benefits provided under these schemes, the approach to funding, and the legal basis of the plans reflect their local environments.

44.1 The Absa Pension Fund

The Absa Pension Fund (The Fund) is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of The Fund be carried out at least once every three years. The most recent statutory valuation of The Fund was effected on 31 March 2016 and confirmed that The Fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 (the PF Act).

The valuation has been performed using the projected unit credit method in respect of the defined benefit portion. The asset ceiling of The Fund is limited to the Employer Surplus Accounts (ESA). According to The Fund rules and the PF Act, the ESA can be used for a number of purposes including funding a deficit in The Fund, enhancing benefits of The Fund or enabling a contribution holiday.

In terms of Section 7 of the PF Act, notwithstanding the rules of a fund, every fund must have a board of trustees consisting of at least four board members, at least 50% of whom the members of The Fund have the right to elect. The objective of the Board is to direct, control and oversee the operations in accordance with the applicable laws and the rules of The Fund. In carrying out this objective, the Board must take all reasonable steps to ensure that the interests of members in terms of the rules of The Fund and the provisions of this Act are protected at all times, that they act with due care, diligence and good faith; and avoid conflicts of interest. The Board must act independently and with impartiality in respect of all members and beneficiaries. The members of the Board have a fiduciary duty to members and beneficiaries in respect of accrued benefits or any amount accrued to provide a benefit, as well as a fiduciary duty to The Fund, to ensure that The Fund is financially sound and is responsibly managed and governed in accordance with the rules and the PF Act.

The rules of The Fund were amended in July 2015 to allow a retiring member who had joined the Fund before 1 July 2015 the choice to receive either a conventional annuity or a living annuity from the Fund (as was previously the case) or to purchase a pension from a registered insurer (new option). Members joining the Fund on or after 1 July 2015 have the choice to receive a living annuity from the Fund or to purchase a pension from a registered insurer.

Should a retiree elect a conventional annuity, the Group is thereafter exposed to longevity and other actuarial risk. The conventional annuity is calculated based on the defined contribution plan assets at the retirement date. The Group is therefore not exposed to any asset return risk prior to the election of this option i.e. the retirement date. The classification rules within IAS 19 require that, where the employer is exposed to any actuarial risk, the entire fund be classified as a defined benefit plan. The valuation of the option is included in the defined benefit obligation. The assets and liabilities of the defined contribution active members are separately presented. Pensioners who have elected to receive a living annuity as well as members who joined the fund on/after 1 July 2015 have been excluded from the IAS 19 disclosures as the employer is not exposed to any longevity or other actuarial risk in respect of these members. Net defined benefit assets relating to these pensioners that have elected to receive a living annuity, amount to **R3 539,5m** (2015: R3 315,1m).

	Group Absa Pension Fund	
	2016	2015
Categories of The Fund		
Defined benefit active members	**20**	21
Defined benefit deferred pensioners	**3**	3
Defined benefit pensioners	**8 427**	8 533
Defined contribution active members	**28 896**	31 328
Defined contribution pensioners	**2 735**	2 561
Duration of the scheme – defined benefit (years)	**9,6**	10,0
Duration of the scheme – defined contribution (years)	**23,3**	23
Expected contributions to The Fund for the next 12 months (Rm)	**1 497,6**	1 625

The benefits provided by the defined benefit portion of The Fund are based on a formula, taking into account years of membership and remuneration levels. The benefits provided by the defined contribution portion of The Fund are determined by accumulated contributions and return on investments.

While The Fund as a whole has been classified as a defined benefit fund for IAS 19 purposes, the defined contribution portion provides its members with an asset-based return. The Group has measured the liability for the defined contribution portion of The Fund at the fair value of the assets upon which the benefits are based.

The Fund is financed by employer and employee contributions and investment income. Employer contributions in respect of the defined benefit portion are based on actuarial advice. The expense or income recorded in profit or loss includes the current service cost, interest income on plan assets as well as interest expense on the defined benefit obligation and the irrecoverable surplus. It is the Group's policy to ensure that The Fund is adequately funded to provide for the benefits due to members, and particularly to ensure that any shortfall with regard to the defined benefit portion will be met by way of additional contributions.

The Fund investments are managed on a Liability Driven Investment (LDI) mandate. This mandate has been introduced in the 2015 reporting period, previously, the Fund was managed on a target return basis. The primary objective of the portfolio managed for the defined benefit section of The Fund to achieve is a net real return of 4,5% per annum, measured over rolling 36-month periods.

44. Retirement benefit fund obligations *(continued)*

44.1 Absa Pension Fund (continued)

44.1.1 Reconciliation of the net defined benefit plan surplus

	Group 2016 Rm	Group 2015 Rm
Reconciliation of the net surplus		
Present value of funded obligations	**(25 037)**	(24 398)
Defined benefit portion	**(7 491)**	(7 390)
Defined contribution portion	**(17 546)**	(17 008)
Fair value of the plan assets	**27 102**	26 341
Defined benefit portion	**9 556**	9 333
Defined contribution portion	**17 546**	17 008
Funded status	**2 065**	1 943
Irrecoverable surplus (effect of asset ceiling)	**(1 599)**	(1 477)
Net surplus arising from the defined benefit obligation	**466**	466

44.1.2 Reconciliation of movement in the funded obligation

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**(24 398)**	(23 236)
Defined benefit portion	**(7 390)**	(7 372)
Defined contribution portion	**(17 008)**	(15 864)
Reconciling items – defined benefit portion	**(101)**	(18)
Actuarial gains – financial	**97**	378
Actuarial gains/(losses) – experience adjustments	**178**	(30)
Benefits paid	**648**	553
Current service costs	**(30)**	(48)
Interest expense	**(729)**	(588)
Defined contribution member transfers	**(265)**	(283)
Reconciling items – defined contribution portion	**(538)**	(1 144)
Increase in obligation linked to plan assets return	**(1 299)**	(1 251)
Employer contributions	**(866)**	(878)
Employee contributions	**(587)**	(617)
Disbursements and member transfers	**2 214**	1 602
Balance at the end of the reporting period	**(25 037)**	(24 398)

44.1.3 Reconciliation of movement in the plan assets

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**26 341**	24 762
Defined benefit portion	**9 333**	8 898
Defined contribution portion	**17 008**	15 864
Reconciling items – defined benefit portion	**223**	435
Benefits paid	**(648)**	(553)
Employer contributions	**2**	—
Interest income	**923**	710
Return on plan assets in excess of interest	**(319)**	(5)
Defined contribution member transfers	**265**	283
Reconciling items – defined contribution portion	**538**	1 144
Return on plan assets	**1 299**	1 251
Employer contributions	**866**	878
Employee contributions	**587**	617
Disbursements and member transfers	**(2 214)**	(1 602)
Balance at the end of the reporting period	**27 102**	26 341

44. Retirement benefit fund obligations *(continued)*
44.1 Absa Pension Fund (continued)
44.1.4 Reconciliation of movement in the irrecoverable surplus

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**(1 477)**	(1 060)
Interest on irrecoverable surplus	**(149)**	(86)
Changes in the irrecoverable surplus in excess of interest	**27**	(331)
Balance at the end of the reporting period	**(1 599)**	(1 477)

44.1.5 Nature of the pension fund assets
Plan assets relating to the defined benefit plan

	Group 2016 Fair value of plan assets			
	Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Defined benefit portion	**4 560**	**4 499**	**497**	**9 556**
Quoted fair value	**4 450**	**4 465**	**387**	**9 302**
Unquoted fair value	**3**	**—**	**16**	**19**
Own transferable financial instruments	**107**	**34**	**1**	**142**
Investments in listed property entities/funds	**—**	**—**	**93**	**93**
Defined contribution portion	**3 138**	**9 659**	**4 749**	**17 546**
Quoted fair value	**1 861**	**9 598**	**3 057**	**14 516**
Unquoted fair value	**828**	**—**	**909**	**1 737**
Own transferable financial instruments	**449**	**61**	**3**	**513**
Investments in listed property entities/funds	**—**	**—**	**780**	**780**
	7 698	**14 158**	**5 246**	**27 102**

	Group 2015 Fair value of plan assets			
	Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Defined benefit portion	4 391	4 341	601	9 333
Quoted fair value	3 734	4 301	373	8 408
Unquoted fair value	578	—	136	714
Own transferable financial instruments	79	40	—	119
Investments in listed property entities/funds	—	—	92	92
Defined contribution portion	2 985	9 400	4 623	17 008
Quoted fair value	1 526	9 340	3 229	14 095
Unquoted fair value	1 044	—	469	1 513
Own transferable financial instruments	415	60	161	636
Investments in listed property entities/funds	—	—	764	764
	7 376	13 741	5 224	26 341

	Group 2016 Rm	2015 Rm
44. Retirement benefit fund obligations *(continued)*		
44.1 Absa Pension Fund *(continued)*		
44.1.6 Movements in the defined benefit plan presented in the statement of comprehensive income		
Recognised in profit or loss:		
Net interest income	**(45)**	(36)
Current service cost	**30**	48
	(15)	12
Recognised in other comprehensive income:		
Actuarial (gains)/losses – financial	**(97)**	(378)
Actuarial adjustments (gains)/losses – experience	**(178)**	30
Return on plan assets in excess of interest	**319**	5
Changes in the irrecoverable surplus in excess of interest	**(27)**	331
	17	(12)
44.1.7 Actuarial assumptions used:		
Discount rate (%) p.a.	**9,1**	10,1
Inflation rate (%) p.a.	**6,6**	7,7
Expected rate on the plan assets (%) p.a.	**10,4**	11,5
Future salary increases (%) p.a.	**7,6**	8,7
Average life expectancy in years of pensioner retiring at 60 – Male	**21,3**	21,2
Average life expectancy in years of pensioner retiring at 60 – Female	**26,2**	26,1

	Group 2016 Reasonable possible change Rm	Group 2016 Increase/(decrease) on defined benefit obligation Rm
44.1.8 Sensitivity analysis of the significant actuarial assumptions		
Increase in discount rate (%)	**0,5**	**(452)**
Increase in inflation (%)	**0,5**	**486**
Increase in life expectancy (years)	**1**	**311**

	2015 Reasonable possible change Rm	2015 Increase/(decrease) on defined benefit obligation Rm
Increase in discount rate (%)	0,5	(451)
Increase in inflation (%)	0,5	493
Increase in life expectancy (years)	1	308

44.1.9 Sensitivity analysis of the significant assumptions

Sensitivity analysis

The aforementioned sensitivity analysis indicates how changes in significant actuarial assumptions would affect the defined benefit portion of **R7 491m** (2015: R7 390m).

The sensitivities may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another. For the purpose of the sensitivity analysis, it is assumed that any change in inflation impacts other inflation-dependent assumptions, i.e. certain pension increases and salary growth. In presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period. The defined contribution obligation of **R17 546m** (2015: R17 008m) does not give rise to any actuarial risks as the measurement is derived from the defined contribution plan assets. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans

Defined benefit structure

The benefits provided by the defined benefit structures are based on a formula, taking into account years of membership and remuneration levels. For funds where a minimum pension increase of the lower of CPI or a fixed percentage (which varies by fund) is guaranteed, additional discretionary pension increases may be granted at the discretion of the Group. For funds where a minimum increase is not guaranteed, the trustees may decide on increases in pensions subject to affordability.

The majority of the defined benefit liability relates to deferred pensioners and pensioners. There is not a significant number of active members accruing additional defined benefit liabilities.

Liabilities in respect of the defined benefit structures are calculated based on assumptions in respect of expected death, withdrawals, early retirement, family statistics, rate of increase in pensionable remuneration and medical allowances and administration costs based on past experience.

In the current reporting period, Barclays Bank Mauritius and Barclays Bank Mozambique paid a cash contribution into their Pension Funds to reduce the deficit reflected in the valuations as at 31 December 2015. The Group's contributions were: Barclays Bank Mauritius R192m and Barclays Bank Mozambique R19m.

Defined contribution structure

The benefits provided by the defined contribution structures are determined by accumulated retirement funding contributions and the return on investments.

The defined contribution information has not been included in the defined benefit disclosures; this presentation is different to that of the Absa Pension Fund due to the different plan rules of the Absa Pension Fund.

The nature of the plan rules governing the Rest of Africa pension funds is such that any optionality is not considered significant and is therefore not included in the valuation or disclosure of the defined benefit obligations. On 31 May 2015, Barclays Bank Botswana's deferred defined benefit members' benefits were converted to defined contribution benefits. A curtailment gain of R1m was recognised in the statement of comprehensive income.

The funds are governed by legislation applicable in the various countries in which the funds are based. The funds are operated on a pre-funded basis. That is, assets are accumulated on a monthly basis with the aim that sufficient funding exists to meet the benefits payable under all modes of exit. Actuarial funding valuations are performed every three years regardless whether or not these are required by legislation. The most recent actuarial valuations of the funds were carried out as at 31 December 2016. Contributions are generally determined by the Employer in consultation with the Actuary following the funding valuation to ensure the sustainability and financial soundness of the funds. The staff costs expense for the defined contribution plans is **R122m** (2015: R83m). Surpluses and deficits are dealt with in a manner which is consistent with the fund rules and applicable legislation. Minimum funding requirements are limited to the deficits of the fund.

The Pension Fund plans across Rest of Africa are administered by separate funds that are legally separated from the individual companies. The boards of trustees of the funds are responsible for the overall management of the funds.

Statutory valuations are carried out on the defined benefit funds every three years. Based on the results of the valuation, a contribution rate is recommended by the actuary. The power of deciding what the final applicable contribution rate should be rests with the employer on advice from the actuary, in some cases with the agreement of the Trustees. Where pension increases are granted in excess of that which can be afforded by the Fund, the employer must agree to such an increase and will make an additional contribution to fund this. In addition, should the valuation disclose a deficit and regulations require special additional contributions to be made to the Fund, the employer will need to make such contributions in line with a funding plan approved by the relevant country's Regulator.

Within the Rest of Africa funds, the asset allocation is determined taking into account legislative constraints, the available opportunity set of securities in the country across the different asset classes, fund manager offerings in the country, diversification across different asset classes and region (where applicable) and the nature and term of the liabilities. The asset investment strategy is set to target a return which is based on the actuarial assumptions used in the Fund valuation, over a 5 to 7 year term.

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans *(continued)*

The retirement liabilities shown relate to employees and pensioners who are members of various funds, details of which are shown in the following table:

	Group						
	2016						
	Barclays Bank of Botswana	Barclays Bank of Kenya	Kenya First Assurance	Barclays Bank of Zambia	Barclays Bank of Seychelles	Barclays Bank of Mauritius	Barclays Bank of Mozambique
Membership							
Defined benefit active members	—	6	76	—	8	310	—
Defined benefit deferred pensioners	—	936	25	479	8	51	660
Defined benefit pensioners	189	1 508	8	168	3	230	983
Defined contribution active members	1 177	2 489	2 489	1 134	257	577	897
Duration of the scheme (years)	11	7	13	3	16	18	10
Expected contributions to the plan for the next 12 months (Rm)	—	4,2	1,4	5,4	0,3	17,1	—

	2015						
	Barclays Bank of Botswana	Barclays Bank of Kenya	Kenya First Assurance	Barclays Bank of Zambia	Barclays Bank of Seychelles	Barclays Bank of Mauritius	Barclays Bank of Mozambique
Membership							
Defined benefit active members	—	9	76	—	12	310	—
Defined benefit deferred pensioners	—	976	25	502	9	51	537
Defined benefit pensioners	198	1 513	8	168	3	230	968
Defined contribution active members	1 233	—	—	1 111	241	577	839
Duration of the scheme (years)	11	7	12	8	17	18	11
Expected contributions to the plan for the next 12 months (Rm)	—	4,9	1,4	5,2	0,4	36,1	—

	Group	
	2016 Rm	2015 Rm
44.2.1 Defined benefit plan reconciliations		
Present value of funded defined benefit obligations	(2 202)	(2 678)
Fair value of the defined benefit plan assets	2 089	2 446
Funded defined benefit plan status	(113)	(232)
Irrecoverable surplus (effect of asset ceiling)	(44)	(40)
Net deficit arising from defined benefit obligation	(157)	(272)
44.2.2 Reconciliation of movement in the defined benefit obligation		
Balance at the beginning of the reporting period	(2 678)	(2 500)
Actuarial gains/(losses)	(71)	88
Actuarial gains/(losses) – changes in financial assumptions	(39)	100
Actuarial gains/(losses) – experience adjustments	(32)	(12)
Benefits paid	162	206
Current service costs	(31)	(30)
Interest expense	(222)	(227)
Past service costs including curtailments	—	52
Settlement gains/(losses)	—	9
Acquisition in a business combination	—	(14)
Foreign exchange differences	638	(262)
Balance at the end of the reporting period	(2 202)	(2 678)

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans *(continued)*

44.2.3 Reconciliation of movement in the plan assets

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**2 446**	1 401
Benefits paid	**(162)**	(206)
Employer contributions	**230**	917
Interest income on the plan assets	**208**	228
Remeasurement – return on plan assets in excess of interest	**(96)**	(121)
Settlement gains/(losses)	**—**	(8)
Acquisition in a business combination	**—**	(27)
Foreign exchange differences	**(537)**	262
Balance at the end of the reporting period	**2 089**	2 446

44.2.4 Reconciliation of movement in the irrecoverable surplus

	Group 2016 Rm	Group 2015 Rm
Balance at the beginning of the reporting period	**(40)**	—
Interest on irrecoverable surplus	**(5)**	—
Changes in the irrecoverable surplus in excess of interest	**(22)**	(30)
Acquisition in a business combination	**—**	(5)
Foreign exchange differences	**23**	(5)
Balance at the end of the reporting period	**(44)**	(40)

44.2.5 Nature of the defined benefit plan assets

Group 2016	Fair value of plan assets: Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Quoted fair value	**239**	**424**	**532**	**1 195**
Unquoted fair value	**276**	**46**	**454**	**776**
Own transferable financial instruments	**—**	**3**	**—**	**3**
Own occupied or used property	**—**	**—**	**115**	**115**
	515	**473**	**1 101**	**2 089**

2015	Fair value of plan assets: Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Quoted fair value	254	440	386	1 080
Unquoted fair value	364	53	807	1 224
Own transferable financial instruments	11	3	—	14
Own occupied or used property	—	—	128	128
	629	496	1 321	2 446

The 'Other instruments' category of plan assets for the Rest of Africa comprises both cash and property investments.

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans *(continued)*

44.2.6 Movements in the defined benefit plan presented in the statement of comprehensive income

	Group 2016 Rm	Group 2015 Rm
Recognised in profit or loss:		
Net interest expense/(income)	**19**	(1)
Current service cost	**31**	30
Past service cost including curtailments	**—**	(52)
Settlements gains/losses	**—**	(1)
	50	(24)
Recognised in other comprehensive income:		
Actuarial (gains)/losses – changes in financial assumptions	**39**	(100)
Actuarial (gains)/losses – experience adjustments	**32**	12
Remeasurement – return on the plan assets in excess of interest	**96**	121
Changes in the irrecoverable surplus in excess of interest	**22**	30
	189	63

44.2.7 The actuarial assumptions (weighted averages) include:

	Group 2016	Group 2015
Discount rate (%)	**11,4**	10,1
Inflation (%)	**7,1**	5,9
Future pension increases (%)	**5,4**	3,6
Future salary increases (%)	**6,4**	5,7
Average life expectancy in years of pensioner retiring at 60 – Male	**18**	17,7
Average life expectancy in years of pensioner retiring at 60 – Female	**21,9**	21,3

44.2.8 Sensitivity analysis of significant assumptions (weighted averages)

	Group 2016 Reasonable possible change	Group 2016 Increase/(decrease) on defined benefit obligation Rm
Significant actuarial assumption		
Increase in discount rate (%)	**0,5**	**(115)**
Increase in inflation (%)	**0,5**	**57**
Increase in life expectancy (years)	**1**	**52**

	2015 Reasonable possible change	2015 Increase/(decrease) on defined benefit obligation Rm
Significant actuarial assumption		
Increase in discount rate (%)	0,5	(135)
Increase in inflation (%)	0,5	64
Increase in life expectancy (years)	1	59

44. Retirement benefit fund obligations *(continued)*

44.2 Other subsidiaries plans (continued)

44.2.9 Sensitivity analysis

The sensitivity analysis presented in this note may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. For the purpose of the sensitivity analysis, it is assumed that any change in inflation impacts other inflation-dependent assumptions, i.e. certain pension increases and salary growth.

44.3 Post-retirement medical aid plans

Certain of the Group's subsidiaries subsidise either medical aid contributions or actual incurred medical costs after retirement. The accrued and future liabilities in respect of these post-retirement medical costs are valued either annually, or every three years, on the reporting date, and projected thereafter. These liabilities were actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions, as well as appropriate medical inflation and discount rates.

The present value of the post-retirement medical aid plan liabilities is **R198m** (2015: R175m) and the fair value of related plan assets is **R2m** (2015: 2m).

45. Dividends per share

	Group	
	2016 Rm	2015 Rm
Dividends declared to ordinary equity holders		
Interim dividend **(29 July 2016: 460 cents)** (29 July 2015: 450 cents)	**3 900**	3 815
Final dividend **(23 February 2017: 570 cents)** (1 March 2016: 550 cents)	**4 832**	4 663
	8 732	8 478
Dividends declared to ordinary equity holders (net of treasury shares)[1]		
Interim dividend **(29 July 2016: 460 cents)** (29 July 2015: 450 cents)	**3 888**	3 807
Final dividend **(23 February 2017: 570 cents)** (1 March 2016: 550 cents)	**4 820**	4 651
	8 708	8 458
Dividends declared to non-controlling preference equity holders		
Interim dividend **(29 July 2016: 3 696,57534 cents)** (29 July 2015: 3 282,8082 cents)	**183**	162
Final dividend **(23 February 2017: 3 644,79452 cents)** (1 March 2016: 3 395,47945 cents)	**180**	168
	363	330
Dividends paid to ordinary equity holders (net of treasury shares)[1]		
Final dividend net of treasury shares **(1 March 2016: 550 cents)** (3 March 2015: 525 cents)	**4 648**	4 442
Interim dividend net of treasury shares **(29 July 2016: 460 cents)** (29 July 2015: 450 cents)	**3 888**	3 806
	8 536	8 248
Dividends paid to non-controlling preference equity holders		
Final dividend **(1 March 2016: 3 395,47945 cents)** (3 March 2015: 3 210,8904 cents)	**168**	159
Interim dividend **(29 July 2016: 3 696,57534 cents)** (29 July 2015: 3 282,8082 cents)	**183**	162
	351	321

46. Securities borrowed/lent and repurchase/reverse repurchase agreements

46.1 Reverse repurchase agreements and securities borrowed

As part of the reverse repurchase agreements, the Group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **R35 711m** (2015: R44 972m) of which **Rnil** (2015: Rnil) have been sold or repledged.

Note

[1] The dividends paid on treasury shares are calculated on payment date.

46. Securities borrowed/lent and repurchase/reverse repurchase agreements *(continued)*

46.2 *Repurchase agreements and securities lent*

The following table shows the carrying amount of transferred assets that have not resulted in any derecognition, together with the associated liabilities.

	Group 2016				
	Carrying amount of transferred assets Rm	**Carrying amount of associated liabilities Rm**	**Fair value of transferred assets Rm**	**Fair value of associated liabilities Rm**	**Net fair value Rm**
Debt instruments	**23 826**	**(23 080)**	**23 826**	**(23 080)**	**746**
Equity instruments	**2 649**	**(173)**	**2 649**	**(173)**	**2 476**

	2015				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Debt instruments	27 837	(26 415)	27 837	(26 415)	1 422
Equity instruments	2 001	(1 231)	2 001	(1 231)	770

The transferred assets are presented in the 'Trading Portfolio assets and investment securities lines' on the statement of financial position.

47. Transfer of financial assets

Transfer of financial assets involving structured entities

In the ordinary course of its normal banking activities the Group transfers financial assets to SEs, either legally (where legal rights to the cash flows from the asset are transferred to the counterparty) or beneficially (where the Group retains the rights to the cash flows but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition of the assets or no derecognition of the assets.

47.1 *Transfer of financial assets that does not result in derecognition*

	Group 2016				
	Carrying amount of transferred assets Rm	**Carrying amount of associated liabilities Rm**	**Fair value of transferred assets Rm**	**Fair value of associated liabilities Rm**	**Net fair value Rm**
Loans and advances to customers	**124**	**(124)**	**124**	**(124)**	**—**

	2015				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Loans and advances to customers	181	(181)	181	(181)	—

Balances included within loans and advances to customers represent instances where substantially all the risks and rewards (credit risk and prepayment risk) of the financial asset have been retained by the Group.

The relationship between the transferred assets and the associated liabilities is that holders of the associated liabilities may only look to cash flows from the transferred assets for payments due to them, although the contractual terms may differ from those of the transferred assets.

47. Transfer of financial assets *(continued)*

47.2 Transfer of financial assets that results in partial derecognition

The Group invests in notes of certain SEs. The interest on these notes represents a continuing exposure to the prepayment risk and credit risk of the underlying assets (the transferred assets) which comprise of corporate loans. The assets are included in the statement of financial position under 'Loans and advances to customers'. The carrying amount of the loans before transfer was **R1 175m** (2015: R1 175m) and the current carrying amount as at the reporting date is **R749m** (2015: R978m). There are no liabilities associated with the assets transferred.

47.3 Continuing involvement in financial assets that have been derecognised in their entirety

The instance may arise where the Group transfers a financial asset to an SE in its entirety but may have continuing involvement in it. Continuing involvement largely arises from providing financing to the SE in the form of retained notes, which do not bear first losses as they are not considered equity instruments of the SE. As at 31 December 2016, the Group had no continuing involvement where financial assets have been derecognised in their entirety (31 December 2015: None).

48. Offsetting financial assets and financial liabilities

Where relevant the Group reports derivative financial instruments and reverse repurchase and repurchase agreements and other similar secured lending and borrowing agreements on a net basis.

The following table shows the impact of netting arrangements on the statement of financial position for recognised financial assets and financial liabilities that are reported net on the statement of financial position. Also presented are derivative financial instruments and reverse repurchase and repurchase agreements and other similar lending and borrowing agreements that are subject to enforceable master netting or similar agreements which did not qualify for presentation on a net basis. The table also shows potential netting not recognised on the statement of financial position that results from arrangements that do not meet all the IAS 32 netting criteria, because there is no intention to net settle or realise simultaneously, and related financial collateral that mitigates credit risk.

The net amounts presented are not intended to represent the Group's actual credit exposure as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

	Group 2016							
	Amounts subject to enforceable netting arrangements							
	Effects of netting on statement of financial position			Related amounts not set off				
	Gross amounts Rm	Amounts set off Rm	Net amounts reported on the statement of financial position[1] Rm	Offsetting financial instruments Rm	Financial collateral[2] Rm	Net amount Rm	Amounts not subject to enforce-able netting arrange-ments[3] Rm	Total per statement of financial position[4] Rm
Derivative financial assets	45 428	(2 130)	43 298	(35 340)	(2 810)	5 148	3 639	46 937
Reverse repurchase agreements and other similar secured lending	35 711	—	35 711	—	(35 711)	—	—	35 711
Total assets	81 139	(2 130)	79 009	(35 340)	(38 521)	5 148	3 639	82 648
Derivative financial liabilities	(42 697)	2 130	(40 567)	35 340	66	(5 161)	(2 417)	(42 984)
Repurchase agreements and other similar secured borrowings	(23 253)	—	(23 253)	—	23 222	(31)	—	(23 253)
Total liabilities	(65 950)	2 130	(63 820)	35 340	23 288	(5 192)	(2 417)	(66 237)

Notes

[1] Net amounts reported on the statement of financial position comprise exposures that have been netted on the statement of financial position in compliance with IAS 32 (net exposure) and exposures that are subject to legally enforceable netting arrangements but have not been netted on the statement of financial position.

[2] Financial collateral excludes over collateralisation and amounts, which are measured at fair value and are in excess of the net statement of financial position exposure.

[3] In certain jurisdictions a contractual right of set-off is subject to uncertainty under laws of the jurisdiction and therefore netting is not applied and the amounts are classed as not subject to legally enforceable netting arrangements.

[4] Total per statement of financial position is the sum of 'Net amounts reported on the statement of financial position' which are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.

48. Offsetting financial assets and financial liabilities *(continued)*

	Group 2015							
	Amounts subject to enforceable netting arrangements							
	Effects of netting on statement of financial position			Related amounts not set off				
	Gross amounts Rm	Amounts set off Rm	Net amounts reported on the statement of financial position[1] Rm	Offsetting financial instruments Rm	Financial collateral[2] Rm	Net amount Rm	Amounts not subject to enforce-able netting arrange-ments[3] Rm	Total per statement of financial position[4] Rm
Derivative financial assets	76 478	—	76 478	(62 857)	(6 330)	7 291	4 031	80 509
Reverse repurchase agreements and other similar secured lending	44 972	—	44 972	—	(44 972)	—	5 693	50 665
Total assets	121 450	—	121 450	(62 857)	(51 302)	7 291	9 724	131 174
Derivative financial liabilities	(84 253)	—	(84 253)	62 857	47	(21 349)	(6 973)	(91 226)
Repurchase agreements and other similar secured borrowing	(27 588)	—	(27 588)	—	27 588	—	(58)	(27 646)
Total liabilities	(111 841)	—	(111 841)	62 857	27 635	(21 439)	(7 031)	(118 872)

Offsetting and collateral arrangements

Derivative assets and liabilities

Credit risk is mitigated where possible through netting arrangements, such as the International Swaps and Derivative Association (ISDA) Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral (cash and non-cash) is also obtained, often daily, for the net exposure between counterparties where possible to further mitigate credit risk.

Repurchase and reverse repurchase agreements and other similar secured lending and borrowing

Credit risk is mitigated where possible through netting arrangements such as global master repurchase agreements and global master securities lending agreements whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral is obtained and typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

These offsetting and collateral arrangements and the credit risk mitigation strategies used by the Group are further explained in the Credit risk mitigation, collateral and other credit enhancements section of note 63.

Notes

[1] Net amounts reported on the statement of financial position comprise exposures that have been netted on the statement of financial position in compliance with IAS 32 (net exposure) and exposures that are subject to legally enforceable netting arrangements but have not been netted on the statement of financial position.
[2] Financial collateral excludes over collateralisation and amounts, which are measured at fair value and are in excess of the net statement of financial position exposure.
[3] In certain jurisdictions a contractual right of set-off is subject to uncertainty under laws of the jurisdiction and therefore netting is not applied and the amounts are classed as not subject to legally enforceable netting arrangements.
[4] Total per statement of financial position is the sum of 'Net amounts reported on the statement of financial position' which are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.

49. Related parties

Barclays Bank PLC owns **50,1%** (2015: 62,3%) of the ordinary shares in the Group. The remaining **49,9 %** (2015: 37,7%) of the shares are widely held on the JSE.

49.1 Transactions with key management personnel

IAS 24 Related Party Disclosures (IAS 24), requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Executive Committee (Exco). A number of banking and insurance transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions. The outstanding balances at the reporting date with related parties and related party transactions conducted during the reporting period are as follows:

	Group	
	2016 Rm	2015 Rm
Key management personnel compensation		
Directors		
Deferred cash payments	**6**	5
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**53**	40
Share-based payments	**33**	35
	93	81
Other key management personnel		
Deferred cash payments	**18**	17
Post-employment benefit contributions	**2**	3
Salaries and other short-term benefits	**58**	58
Share-based payments	**39**	58
	117	136

	Group			
	2016		2015	
	Transactions with key management Rm	**Transactions with entities controlled by key management Rm**	Transactions with key management Rm	Transactions with entities controlled by key management Rm
Loans				
Balance at the beginning of the reporting period	**41**	**24**	38	23
Inception/(discontinuance) of related party relationships[1]	**(1)**	**—**	0	—
Loans issued and interest earned	**72**	**7**	92	21
Loans repaid	**(63)**	**(22)**	(89)	(20)
Balance at the end of the reporting period	**49**	**9**	41	24
Interest income	**(4)**	**(2)**	(3)	(2)
Deposits				
Balance at the beginning of the reporting period	**31**	**6**	8	1
(Discontinuance)/inception of related party relationships[1]	**(0)**	**(0)**	(1)	6
Deposits received	**144**	**15**	242	3
Deposits repaid and interest paid	**(157)**	**(17)**	(218)	(4)
Balance at the end of the reporting period	**18**	**4**	31	6
Interest expense	**1**	**1**	1	0
Guarantees	**75**	**44**	74	42

Note

[1] Includes balances relating to key management personnel who were appointed/resigned during the reporting period.

49. Related parties *(continued)*

49.1 *Transactions with key management personnel (continued)*

	Group			
	2016		2015	
	Transactions with key management Rm	Transactions with entities controlled by key management Rm	Transactions with key management Rm	Transactions with entities controlled by key management Rm
Other investments				
Balance at the beginning of the reporting period	**27**	**34**	37	1
(Discontinuance)/inception of related party relationships[1]	**(10)**	**—**	(18)	—
Value of new investments/contributions	**91**	**5**	35	34
Value of withdrawals/disinvestments	**(5)**	**(2)**	(26)	(3)
Fees and charges	**(0)**	**(0)**	(0)	(0)
Investment returns	**2**	**2**	(1)	2
Balance at the end of the reporting period	**105**	**39**	27	34

Loans include mortgages, asset finance transactions, overdrafts and other credit facilities. Loans to key management personnel are provided on the same terms and conditions as loans to employees of the Group, including interest rates and collateral requirements.

No loans to key management personnel or entities controlled by key management personnel were written off as irrecoverable.

In addition to the specific guarantees, a number of key management personnel and entities controlled by key management personnel have unlimited surety with the Group.

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R0,67m** (2015: R0,16m) and received claims of **R0,16m** (2015: Rnil)

49.2 *Balances and transactions with the parent company, fellow subsidiaries, and associates and joint ventures of the parent company*

	Group[2]			
	2016		2015	
	Parent company Rm	Fellow subsidiaries and associates and joint ventures of the parent company Rm	Parent company Rm	Fellow subsidiaries and associates and joint ventures of the parent company Rm
Balances				
Loans and advances to banks	**15 732**	**773**	32 924	3 143
Derivative assets	**13 553**	**(44)**	30 385	41
Other assets	**18**	**216**	957	180
Investment securities	**(0)**	**—**	87	—
Deposits from banks	**(3 990)**	**(188)**	(8 930)	(2 599)
Debt securities in issue	**—**	**—**	(44)	—
Derivative liabilities	**(15 966)**	**(2)**	(32 706)	—
Other liabilities	**(1)**	**(108)**	(300)	(200)
Borrowed funds	**—**	**—**	(102)	—
Transactions				
Interest and similar income	**(91)**	**(2)**	(55)	(2)
Interest expense and similar charges	**(10)**	**4**	91	—
Net fee and commission (income)/expense	**(5)**	**(2)**	(21)	(3)
Gains and losses from banking and trading activities	**(145)**	**—**	342	—
Other operating income	**(3)**	**—**	(79)	—
Operating expenditure/(recovered expenses)	**48**	**(549)**	32	(560)
Dividends paid	**4 859**	**—**	5 151	—

Note

[1] During the prior reporting period this entity ceased to be a subsidiary of Barclays Africa Limited and rather became a direct subsidiary of Barclays Africa Group Limited.

[2] Debit amounts are shown as positive, credit amounts are shown as negative.

49. Related parties *(continued)*

49.2 *Balances and transactions with the parent company, fellow subsidiaries, and associates and joint ventures of the parent company (continued)*

Trade balances must be settled in accordance with market conventions applicable to the underlying transaction. Non-trade balances must be settled by the close of the month immediately following the month in which the transaction occurred. Settlement must be in the currency required by the related party. In exceptional cases, it may be impractical or inefficient to settle balances monthly. In such cases, the unsettled balances must be explicitly agreed to on a monthly basis in writing and full settlement must be made at least quarterly.

49.3 *Subsidiaries and consolidated structured entities*

The following information provided is in respect of the Group's main subsidiaries. The main subsidiaries are those entities whose results or financial position, in the opinion of the directors, had the most significant impact, relative to all the Group's subsidiaries, on the figures shown in the consolidated financial statements. The significance of this impact is judged from both a qualitative and a quantitative perspective and is assessed on a half-yearly basis.

			Group	
Name	Nature of business	Country of incorporation	**2016 % holding**	2015 % holding
Barclays Africa Group Limited and its subsidiaries				
Absa Capital Securities Proprietary Limited	Stockbrokers.	South Africa	**100**	100
Absa Development Company Holdings Proprietary Limited	Specialises in township development and sale of residential, commercial and industrial land.	South Africa	**100**	100
Absa Manx Insurance Company Limited	Captive insurance company for the Group and responsible for investment in insurances markets.	South Africa	**100**	100
Absa Stockbrokers Proprietary Limited	Enables customers to trade online or by telephone in shares, warrants and exchange-traded funds.	South Africa	**100**	100
Absa Trading and Investments Solutions Holdings Proprietary Limited	Holding company for ATIS Group.	South Africa	**100**	100
Barclays Bank of Ghana Limited	Provides retail and corporate banking.	Ghana	**100**	100
Barclays Bank of Kenya Limited	Provides retail and corporate banking.	Kenya	**69**	69
Barclays Bank Mozambique S.A. (BBM)	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.	Mozambique	**98**	98
Barclays Bank of Botswana Limited	Provides retail and corporate banking.	Botswana	**68**	68
Barclays Bank Mauritius Limited	Provides retail and corporate banking.	Mauritius	**100**	100
Barclays Bank Seychelles Limited	Provides retail and corporate banking.	Seychelles	**100**	100
Barclays Bank Tanzania Limited	Provides retail and corporate banking.	Tanzania	**100**	100
Barclays Bank Uganda Limited	Provides retail and corporate banking.	Uganda	**100**	100
Barclays Bank of Zambia PLC[1]	Provides retail and corporate banking.	Zambia	**100**	—
Diluculo Investments Proprietary Limited	Investment holding and management company, providing project and management services to property funds and trading projects.	South Africa	**100**	100
National Bank of Commerce Limited (NBC)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.	Tanzania	**55**	55
Woolworths Financial Services Proprietary Limited	Provides credit cards, in-store cards and personal loans.	South Africa	**50**	50

A full list of subsidiaries and consolidated SEs is available, on request, at the registered address of the Group.

Note

[1] During the prior reporting period this entity ceased to be a subsidiary of Barclays Africa Limited and rather became a direct subsidiary of Barclays Africa Group Limited.

49. Related parties *(continued)*

49.3 *Subsidiaries and consolidated structured entities* *(continued)*

Name	Nature of business	Country of incorporation	Group 2016 % holding	Group 2015 % holding
Absa Bank Limited and its subsidiaries	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers and clients.	South Africa	**100**	100
Absa Capital Representative Office Nigeria Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	**100**	100
Absa Technology Finance Solutions Proprietary Limited	Financial broker/executive finance company.	South Africa	**100**	100
Absa Vehicle and Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	**100**	100
Alberton Industrial Properties Proprietary Limited	Obtains loans from Absa Bank to finance Devco subsidiaries.	South Africa	**100**	100
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	**100**	100
Absa Financial Services and its subsidiaries	Holding company of financial service-related entities.	South Africa	**100**	100
Absa Financial Services Africa Holdings Proprietary Limited	Holding company of African financial service-related entities.	South Africa	**100**	100
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.	South Africa	**100**	100
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.	South Africa	**100**	100
Absa Insurance Risk Management Services Limited	Provides short-term insurance and other related insurance products.	South Africa	**100**	100
Barclays Life Botswana Proprietary Limited	Provides life assurance products focusing on risk and investment products that Absa's offering to various market segments in Botswana	Botswana	**100**	100
Absa Life Limited	Provides life assurance products, focusing on risk and investment products, that complement the Group's offerings to various market segments.	South Africa	**100**	100
Absa Trust Limited	Trust administrative services.	South Africa	**100**	100
Barclays Life Zambia Limited	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments in Zambia.	Zambia	**100**	100
Global Alliance Seguros S.A.	Provides non-life insurance in Mozambique.	Mozambique	**100**	100
First Assurance Holdings Limited	Provides short-term insurance and other related insurance products	Kenya	**100**	100
Instant Life (Pty) Ltd	Provides life assurance products through cell arrangements	South Africa	**75**	—

A full list of subsidiaries and consolidated SEs is available, on request, at the registered address of the Group.

Name	Nature of business	Country of incorporation	Group 2016 % holding	Group 2015 % holding
49. Related parties *(continued)*				
49.3 Subsidiaries and consolidated structured entities *(continued)*				
Barclays Africa Limited and its subsidiaries	Investment Holding Company.	United Kingdom	**100**	100
Barclays Bank of Zambia PLC	Provides retail and corporate banking.	Zambia	**—**	100
Share trusts				
Absa Group Limited Share Incentive Trust	Share purchase and option scheme available to senior staff.	South Africa	**n/a**	n/a
Structured entities				
Absa Bond Fund	Fund used to invest in unit trusts.	South Africa	**n/a**	n/a
Absa Foundation Trust	Provides funding for community upliftment. It receives a percentage of the Group's dividends which it distributes to identified community-related projects.	South Africa	**n/a**	n/a
Home Obligor Mortgages Enhanced Securities (RF) Limited	Securitisation vehicle for Absa Home Loans division.	South Africa	**n/a**	n/a
Maravedi Financial Services-Life Cell	Credit life insurance.	South Africa	**n/a**	n/a
Impumelelo CP Note Programme 1 (RF) Limited	Special purpose, bankruptcy-remote company incorporated for the purpose of issuing Absa Bank guaranteed Commercial Paper and medium-term notes.	South Africa	**n/a**	n/a

A full list of subsidiaries and consolidated SEs is available, on request, at the registered address of the Group.

	Group 2016 Rm	Group 2015 Rm
Subsidiaries' aggregate profits and losses after taxation	**9 671**	13 116

49.4 Nature and extent of significant restrictions relating to investments in subsidiaries

There are significant restrictions on the ability of the Group to require distributions of capital, access the assets, or repay the liabilities of members of its group arising from regulatory and contractual requirements and from the protective rights of non-controlling interests.

Regulatory requirements

The Group's banking and insurance subsidiaries are subject to the regulatory capital (RC) requirements of the countries in which they operate. These require, inter alia, that these entities maintain minimum capital ratios which restrict the ability of these entities to make distributions to the parent company. Distributions are also restricted by leverage constraints, large exposure limits and local legal licence requirements.

The requirements to maintain capital also affect certain equity and non-equity instruments in these subsidiaries such as Tier 1 and Tier 2 capital instruments and other subordinated liabilities which enable subsidiaries to meet their ratios. To the extent that these are retired, they must be replaced with instruments of similar terms.

The minimum amount of RC required to be maintained by the Group was **R73,0bn** (2015: R70,2bn).

Contractual requirements

Certain of the Group's securitisation and SEs hold assets or interests in assets that are only available to meet the liabilities of those entities and may have issued public debt securities. The Group has the ability to wind up these structures and repay the notes, but only on the occurrence of certain contingencies, such as changes in tax laws or regulatory requirements. The carrying amount of the assets and liabilities of the entities to which these restrictions apply as at 31 December 2016 was **R7bn** and **R6,9bn** respectively (2015: R8,4bn and R4,3bn respectively).

Protective rights of non-controlling interests

Absa Bank Limited has issued equity preference shares in issue, which are non-controlling interests of the Group. Under the terms of these instruments, the preference shareholders will not be entitled to vote at any meeting of Absa Bank Limited, unless the preference dividend is declared, but remains in arrear and unpaid after six months from the due date. Alternatively, voting rights will be granted if a resolution of Absa Bank Limited is proposed which directly affects the rights attached to the Absa Bank Limited preferences shares, which shall include any resolutions for the winding up of the Absa Bank Limited or for the reduction of its share capital or share premium accounts.

The particulars of these instruments are shown in note 28.

49. Related parties *(continued)*

49.5 Associates, joint ventures and retirement benefit fund

The Group provides certain banking and financial services to associates and joint ventures. The Group also provides a number of current and interest-bearing cash accounts to the Absa Pension Fund and the pension funds of other subsidiaries. These transactions are generally conducted on the same terms as third-party transactions and are not individually material.

In aggregate, the amounts included in the Group's consolidated financial statements are as follows:

	Group		
	2016		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Group	—	11 645	11 645
Value of Absa defined contribution pension fund investments managed by the Group	—	17 546	17 546
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	37	37
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	107	107
Statement of financial position			
Other assets	—	553	553
Loans and advances to customers (refer to note 8)	20 183	—	20 183
Other liabilities	—	442	442
Statement of comprehensive income			
Interest and similar income	1 481	1 131	2 612
Interest expense and similar charges	—	(1 105)	(1 105)
Fee and commission income	9 352	—	9 352
Fee and commission expense	123	—	123
Current service costs (refer to note 44)	—	(61)	(61)
Operating expenses	631	—	631

	2015		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Group	—	11 782	11 782
Value of Absa defined contribution pension fund investments managed by the Group	—	17 008	17 008
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	43	43
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	90	90
Statement of financial position			
Other assets	—	631	631
Loans and advances to customers (refer to note 8)	17 079	—	17 079
Other liabilities	—	(612)	(612)
Statement of comprehensive income			
Interest and similar income	(983)	(938)	(1 921)
Interest expense and similar charges	19	901	920
Fee and commission income	11	—	11
Current service costs (refer to note 44)	—	78	78
Staff Costs (Contributions to Absa Pension Fund)	—	—	—
Past service – curtailments	—	(53)	(53)
Operating expenses	1	—	1

49. Related parties *(continued)*

49.5 Associates, joint ventures and retirement benefit fund (continued)

The information provided below is in respect of the Group's main associates and joint ventures. The main associates and joint ventures are those arrangements whose results or financial position, in the opinion of the directors, had the most significant impact, relative to all the Group's associates and joint ventures, on the Group's consolidated financial statements. Despite these investments having the most significant impact relative to all the Group's associates and joint ventures, none of the Group's associates or joint ventures are considered to have an impact that is individually material. Materiality and the relative significance of the Group's associates and joint ventures are judged from a qualitative and quantitative perspective and is assessed half-yearly.

		Group	
Name	Nature of business	2016 Ownership %	2015 Ownership %
Equity-accounted associates			
SBV Services Proprietary Limited	Cash transportation services.	**25**	25
The Document Exchange Association	Facilitates the electronic exchange of documents between the banks.	**25**	33
The South African Bankers Services Company Proprietary Limited	Automatic clearing house.	**23**	23
Equity-accounted joint ventures			
FFS Finance South Africa Proprietary Limited	Provides financing solutions to Ford Motor Company customers.	**50**	50
Integrated Processing Solutions	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	**50**	50
MAN Financial Services (S.A.) Proprietary Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	**50**	50
Associates and joint ventures designated at fair value through profit or loss	Various.	**Various**	Various

All associates and joint ventures are incorporated in South Africa.

A full list of associates and joint ventures is available, on request, at the registered address of the Group.

SBV Services Proprietary Limited and The South Africa Bankers Services Company Proprietary Limited have a reporting date of 30 June 2016.

50. Structured entities

Exchange-traded funds

Exchange-traded funds (ETFs) are passively managed index funds that are listed and traded on a securities exchange. An ETF tracks the performance of and/or gains a broad exposure to a particular index, sector or commodity for individual and institutional investors. All ETFs have a marketmaker to ensure that liquidity is always maintained, and in many instances, the Group will act in this capacity. The Group may therefore hold a direct interest in the fund, but the magnitude of such interest will vary with sufficient regularity. Whether the Group consolidates any of the funds depends on the magnitude of the interest held therein, as well as on the Group's ability to direct the relevant activities of the fund, either directly or indirectly. The Group, through its contractual undertaking to act as marketmaker, ensures that liquidity is always maintained. The Group earns management fee income from its involvement in the funds. To the extent that the Group holds participatory units in the funds, the Group will receive distributions recognised as investment income, as well as unrealised gains and losses on the revaluations thereof. ETFs are regulated by the Financial Services Board and the Collective Investment Schemes Control Act, No. 45 of 2002.

Securitisation vehicles

The Group has used SEs in order to securitise loans that were originated by the Group. These entities have minimal equity and therefore rely on funding in the form of notes in order to acquire the underlying loans. The Group transfers the contractual right to receive cash flows on the underlying loans, but in many instances, does not relinquish exposure to substantially all the risks and rewards of ownership. Exposures to credit risk, prepayment risk and/or interest rate risk are retained when the Group purchases either senior notes or junior notes and sells derivatives to the entity. When the securitisation vehicles are established to run entirely on autopilot or when the only relevant activity of the entity constitutes recovery of the securitised loans in the event of default, then provided such activity is not directed by the Group, the Group will not have power over the relevant activities of the vehicle. The Group earns interest income on the notes issued by the vehicles, together with management fees from the Group's ongoing involvement. To the extent that the notes are fair valued, unrealised gains and losses are generated, which are recognised by the Group in profit or loss.

50. Structured entities *(continued)*

Fund management

The Group manages a number of unit trust funds, ranging from lower risk fixed income funds to higher risk specialist equity funds, which are either managed solely by the Group or form part of the Group's multi-management offering. Unit trusts are regulated by the Financial Services Board and the Collective Investment Schemes Control Act. The Group's interest is generally restricted to fund service and asset management fees, which are based on assets under management. The Group may hold direct interests in a number of the funds; however, the magnitude of such interest varies with sufficient regularity. Whether the Group consolidates any of these funds through its direct interest depends on the magnitude of the interest held therein, as well as on the Group's ability to direct the relevant activities of the fund, either directly or indirectly. The Group earns management fee income from its involvement in the funds, as well as unrealised gains and losses as a result of revaluations of the units held directly in the funds.

Structured investment vehicles

The Group holds investments in a number of vehicles which were established and are managed by third-party fund managers. These vehicles are generally not consolidated by the Group on the basis that the relevant activities of the vehicles are directed by the fund manager, and no substantive kick-out rights exist. The investments held in the vehicles are measured at fair value with changes therein being recognised in profit or loss. Distributions made by the vehicles will be recognised as investment income in profit or loss. The vehicles are funded through the commitment and provision of capital by investors.

Preference share funding vehicles

The Group provides financing to a number of SEs, established and managed by clients, in the form of a subscription for cumulative redeemable preference shares. These instruments typically have the economic characteristics of vanilla debt instruments, and as such the Group recognises interest income from its investments. Often the Group subscribes for preference shares in these vehicles together with other financial institutions on a syndicated basis. The Group does not have the ability to direct the relevant business activities in these vehicles and therefore in the absence of control, the vehicles are not consolidated. An entity which forms part of the same group of companies as the preference share funding vehicle, most commonly the parent company, writes the Group a financial guarantee or a put option, so as to provide security in the event of default.

Funding vehicles

The Group provides funding in the form of loans to bankruptcy remote SEs to enable them to purchase fixed assets, such as property. The loans are fully collateralised by the underlying asset, and the repayment of principal and interest is met through the receipt of lease income. The loans are subject to guarantees received from the parent company, or from other trading entities within the same group of companies. The Group earns interest on the loans. The loans are either measured at amortised cost, or are designated as at fair value through profit or loss.

50.1 Consolidated structured entities

During the reporting period the Group provided financial or other support to the following consolidated SEs despite not being contractually obliged to do so:

			Group	
Name	Nature of support	Reason for providing support	**2016 Rm**	2015 Rm
The Absa Foundation Trust	Donation	The Trust was constituted to fund community upliftment and social welfare programmes.	**75**	71

The Group has consolidated The Absa Foundation Trust since 2006.

The Group intends to provide financial support to the Absa Foundation Trust in 2017.

50. Structured entities *(continued)*

50.2 Unconsolidated structured entities

The level of risk that the Group is exposed to is determined by the nature and purpose of it holding an interest in the entity.

Owing to the large number of SEs in which the Group holds an interest, information about such entities has been aggregated according to the purpose for which the entity was established.

	Group						
	2016						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
Assets							
Trading portfolio assets	—	—	—	—	—	—	—
Investment securities	—	3	492	31	797	—	1 323
Debt securities	—	—	421	31	—	—	452
Equity securities	—	3	71	—	797	—	871
Loans and advances to customers	9 632	—	—	2 169	—	520	12 321
Derivatives held for trading	—	—	—	1	—	—	1
Interest rate derivatives (carrying value)	—	—	—	1	—	—	1
Interest rate derivatives (notional value)	—	—	—	971	—	—	971
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	—	508	—	—	508
Other assets	—	57	—	—	—	—	57
	9 632	60	492	2 709	797	520	14 210
Liabilities							
Derivatives held for trading	—	—	—	1	—	—	1
Interest rate derivatives (carrying value)	—	—	—	1	—	—	1
Interest rate derivatives (notional value)	—	—	—	404	—	—	404
Deposits due to customers	—	—	—	1 187	—	—	1 187
	—	—	—	1 188	—	—	1 188
Maximum exposure to loss[2]	9 632	60	492	2 709	797	520	14 210
Total size of entities[3]	54 403	103 331	565	4 811	29 241	520	192 871

Notes

[1] There are no liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interest in unconsolidated structured assets.

[2] The Group's maximum exposure to loss has been calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance. The actual loss, due to the collateral held by the entities, the availability of netting and credit protection held is likely to be less in most cases.

[3] Total size of entities is measured relative to total assets.

50. Structured entities *(continued)*

50.2 Unconsolidated structured entities (continued)

	Group 2015						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
Assets							
Trading portfolio assets	—	—	—	920	—	—	920
Investment securities	—	40	136	559	1 184	—	1 919
Debt securities	—	—	—	559	1 184	—	1 743
Equity securities	—	40	136	—	—	—	176
Loans and advances to customers	9 566	—	—	1 860	—	546	11 972
Derivatives held for trading	—	—	—	13	—	—	13
Interest rate derivatives (carrying value)	—	—	—	13	—	—	13
Interest rate derivatives (notional value)	—	—	—	340	—	—	340
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	—	400	—	—	400
Other assets	—	63	—	—	—	—	63
	9 566	103	136	3 752	1 184	546	15 287
Liabilities							
Derivatives held for trading	—	—	—	49	—	—	49
Interest rate derivatives (carrying value)	—	—	—	49	—	—	49
Interest rate derivatives (notional value)[1]	—	—	—	1 359	—	—	1 359
Deposits due to customers	—	44	—	1 606	—	—	1 650
	—	44	—	1 655	—	—	1 699
Maximum exposure to loss[2]	9 566	103	136	3 752	1 184	546	15 287
Total size of entities[3]	61 603	92 637	1 410	5 953	32 098	546	194 247

Notes

[1] There are no liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interest in unconsolidated structured assets.

[2] The Group's maximum exposure to loss has been calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance. The actual loss, due to the collateral held by the entities, the availability of netting and credit protection held is likely to be less in most cases.

[3] Total size of entities is measured relative to total assets.

50. Structured entities *(continued)*

50.2 Unconsolidated structured entities (continued)

The following presents the Group's losses recognised in profit or loss from the Group's interests in unconsolidated structured entities.

	Group			
	2016 Losses recognised in profit or loss		2015 Losses recognised in profit or loss	
	Derivatives Rm	**Impairment losses Rm**	Derivatives Rm	Impairment losses Rm
Preference funding vehicle	**—**	**15**	—	—

Financial support provided or to be provided to unconsolidated structured entities

The Group did not provide any financial support during the current reporting period (2015: Rnil) to unconsolidated structured entities.

50.3 Sponsored entities

The Group did not earn material income from its involvement in the unconsolidated SEs which it sponsors.

Assets transferred to unconsolidated sponsored structured entities

Particulars of assets transferred to these entities, at their carrying amount on the date of transfer, were as follows. The amounts presented represent the total assets transferred to the entities by all parties, not those transferred solely by the Group:

	Group	
	2016 Rm	2015 Rm
Loans and advances	**—**	1 500

	Group	
	(Unaudited) 2016 Rm	(Unaudited) 2015 Rm
51. Assets under management and administration		
Alternative asset management and exchange-traded funds	**75 492**	89 284
Deceased estates	**2 662**	2 148
Other	**24 818**	13 232
Portfolio management	**31 596**	39 048
Trusts	**4 201**	3 023
Unit trusts	**149 229**	127 434
	287 998	274 169

	Group	
	2016 Rm	2015 Rm
52. Financial guarantee contracts		
Financial guarantee contracts	**10**	24

Financial guarantee contracts represent contracts where the Group undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument. This amount represents the maximum off-statement of financial position exposure.

	Group 2016 Rm	Group 2015 Rm
53. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**521**	901

The Group has capital commitments in respect of computer equipment and property development.

Management is confident that future net revenues and funding will be sufficient to cover these commitments.

	Group 2016 Rm	Group 2015 Rm
Operating lease payments due		
No later than one year	**1 309**	758
Later than one year and no later than five years	**2 946**	1 742
Later than five years	**1 228**	956
	5 483	3 456

The operating lease commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Group.

Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

	Group 2016 Rm	Group 2015 Rm
Sponsorship payments due		
No later than one year	**84**	147
Later than one year and no later than five years	**20**	177
	104	324

The Group has sponsorship commitments in respect of sports, arts and culture.

	Group 2016 Rm	Group 2015 Rm
Other commitments		
No later than one year	**—**	991

The South Africa Reserve Bank (SARB) announced in August 2014 that Africa Bank Limited (a subsidiary of Africa Bank Investments Limited) would be placed under curatorship. A consortium of six South African banks (including Barclays Africa Group Limited) and the Public Investment Corporation (PIC) had underwritten R5bn respectively. In the current financial reporting period, African Bank Holdings Limited (that is, the holding company of 'Good Bank', African Bank Limited) was successfully capitalised, with BAGL subscribing for a portion of the issued ordinary shares. The investment is recognised within Investment Securities, and the remaining commitment which was underwritten by Barclays Africa Group Limited, but guaranteed by SARB, has been extinguished during the current reporting period.

	Group 2016 Rm	Group 2015 Rm
54. Contingencies		
Guarantees	**38 441**	37 901
Irrevocable debt facilities	**135 935**	152 984
Irrevocable equity facilities	**141**	364
Letters of credit[1]	**8 481**	8 207
Other	**135**	5 325
	183 133	204 781

Note

[1] The presentation of commitments for 2015 has been revised following the reallocation of an amount of R740m from Commitments to Letters of Credit (within Contingencies) so as to more appropriately reflect the substance of the item.

54. Contingencies *(continued)*

Guarantees include performance and payment guarantee contracts.

Irrevocable facilities are commitments to extend credit where the Group does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Legal proceedings

The Group has been party to proceedings against it during the reporting period, and as at the reporting date the following material cases are disclosed:

- Pinnacle Point Holdings Proprietary Limited (PPG): New Port Finance Company and the trustees of the Winifred Trust (the plaintiffs) allege a local bank conducted itself unlawfully, and that Absa Bank Limited (the Bank) was privy to such conduct. They have instituted proceedings against the Bank for damages for an amount of R1 387m. Although Pinnacle Point Holdings' claim has been withdrawn, the second to fifth plaintiff's claims remain and will proceed to trial.
- Ayanda Collective Investment Scheme (the Scheme): Absa Capital Investor Services was the trustee of Ayanda Collective Investment Scheme, in which Corporate Money Managers (CMM) managed a portfolio of assets within the Scheme. The joint curators of the CMM group of companies and the Altron Pension Fund (an investor in the fund) allege that the defendants caused damages to them arising from their alleged failure to meet their obligations in the trust deed together with their statutory obligations set out in the Collective Investment Scheme Act, in respect of which they seek payment of R1 157m.

The Group is engaged in various other legal, competition and regulatory matters both in South Africa and a number of other jurisdictions. It is involved in legal proceedings which arise in the ordinary course of business from time to time, including (but not limited to) disputes in relation to contracts, securities, debt collection, consumer credit, fraud, trusts, client assets, competition, data protection, money laundering, employment, environmental and other statutory and common law issues.

The Group is also subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies in connection with (but not limited to) consumer protection measures, compliance with legislation and regulation, wholesale trading activity and other areas of banking and business activities in which the Group is or has been engaged.

At the present time, the Group does not expect the ultimate resolution of any of these other matters to have a material adverse effect on its financial position. However, in light of the uncertainties involved in such matters and the matters specifically described in this note, there can be no assurance that the outcome of a particular matter or matters will not be material to the Group's results of operations or cash flow for a particular period, depending on, amongst other things, the amount of the loss resulting from the matter(s) and the amount of income otherwise reported for the reporting period.

The Group has not disclosed the contingent liabilities associated with these matters either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the outcome of the matter. Provision is made for all liabilities which are expected to materialise.

Regulatory matters

The scale of regulatory change remains challenging and the global financial crisis is resulting in a significant tightening of regulation and changes to regulatory structures globally, especially for companies that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries globally which, in some cases, is leading to increased regulation. The nature and impact of future changes in the legal framework, policies and regulatory action cannot currently be fully predicted and are beyond the Group's control, but especially in the area of banking and insurance regulation, are likely to have an impact on the Group's businesses and earnings.

The Group is continuously evaluating its compliance programmes and controls in general. As a consequence of these compliance programmes and controls, including monitoring and review activities, the Group has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and made disclosures on material findings as and when appropriate.

Absa Bank Limited, a subsidiary of Barclays Africa Group Limited, has identified potentially fraudulent activity by certain of its customers using import advance payments for imports in 2014 and 2015 to effect foreign exchange transfers from South Africa to beneficiary accounts located in East Asia, UK, Europe and the US. As a result, the Group has been conducting a review of relevant activity, processes, systems and controls. The Group is keeping relevant authorities informed as to the status of this matter and is providing information to these authorities as part of its ongoing cooperation. It is not currently possible to estimate the financial impact of the actions described on the Group, if any.

In February 2017 the South African Competition Commission (SACC) referred Absa Bank Limited, among other banks, to the Competition Tribunal to be prosecuted for breaches of South African competition law related to Foreign Exchange trading of South African Rand. The SACC found from its investigation that, between 2007 – 2013, the respondents had engaged in various forms of collusive behaviour. Absa Bank Limited and its parent Barclays PLC brought the conduct to the attention of the SACC under its leniency programme and have cooperated with, and will continue to cooperate with, the SACC in relation to this matter. The SACC is therefore not seeking an order from the Tribunal to impose any administrative fine on Absa Bank Limited.

Income taxes

The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and worldwide provisions for income taxes necessarily involves a degree of estimation and judgement. There may be transactions and calculations for which the ultimate tax treatment is uncertain or in respect of which the relevant tax authorities may have indicated disagreement with the Group's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account expert external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period which such determination is made. The risks are managed in accordance with the Group's Tax Risk Framework.

	Group 2016 Rm	Group 2015 Rm
55. Cash and cash balances		
Cash, cash balances and balances with central banks[1]	**13 141**	12 899
Loans and advances to banks[2]	**4 593**	8 467
	17 734	21 366
56. Deferred cash and share-based payments		
Share-based payments expense	**563**	523
Equity-settled arrangements:		
Barclays Africa Group Limited Long-Term Incentive Plan (LTIP)	**47**	30
Barclays Africa Group Limited Joiners Share Value Plan (JSVP)	**29**	(20)
Barclays Africa Group Limited Share Value Plan (SVP)	**232**	165
Barclays Africa Group Limited Share Incentive Awards (SIA)	**58**	39
Barclays Africa Group Limited Retention Share Value Plan (SVP Cliff)	**129**	64
Cash-settled arrangements:		
Barclays Africa Group Limited Deferred Award Plan (DAP)	**—**	(91)
Barclays Africa Group Limited Phantom Joiners Share Award Plan (JSAP)	**1**	10
Barclays Africa Group Limited Joiners Share Value Plan (JSVP)	**7**	99
Barclays Africa Group Limited Share Value Plan (SVP)	**22**	117
Barclays Africa Group Limited Share Incentive Awards (SIA)	**—**	30
Barclays Africa Group Limited Retention Share Value Plan (SVP Cliff)	**31**	92
Barclays Africa Group Limited Role Based Pay (RBP)	**6**	10
Other cash-settled arrangements	**1**	(22)
Deferred cash expense		
Barclays Africa Group Limited Cash Value Plan (CVP)	**192**	139
Total deferred cash and share-based payments (refer to note 38)	**755**	662
Total carrying amount of liabilities for cash-settled arrangements (refer to note 19)	**388**	309
Total carrying amount of the equity-settled share-based payment (refer to the statement of changes in equity)	**892**	729

In 2015, the Group sought, and received shareholder approval to modify its remuneration structures by implementing a new equity-settled share scheme. The awards granted in 2015 to eligible participants under the Barclays Africa Group Limited Share Value Plan (SVP), were accordingly granted as equity-settled awards under the rules of the new scheme. In addition to making a new award under the equity-settled scheme rules, the Group also gave participants the option to convert their outstanding cash-settled awards in consideration for equivalent equity-settled awards, while keeping the terms and conditions of the replacement awards unchanged. 95% of the participants elected the option and their awards were converted effective 4 September 2015. The converted awards are considered separate equity-settled share schemes. To achieve the effect of economic neutrality in the conversion, the award values were however increased by 0,5% to reflect the additional Securities Transfer Tax which would be due on vesting. This resulted in an additional **R0,3m** (2015: R1,2m) expense being recorded.

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Barclays Africa Group Limited share price.

For part of 2015 the Group entered into forward contracts referencing Barclays Africa Group Limited shares in order to hedge a portion of the potential cash flow variability resulting from its DAP and SVP schemes. The spot price of the forward contracts and an equal number of DAP and SVP phantom shares were designated into cash flow hedging relationships. These hedges were all closed out by 31 December 2015.

Included in the share-based payments expense are hedging gains of **Rnil** (2015: R96,1m) relating to the Share Value Plan.

Notes

[1] Includes coins and banks notes.

[2] Includes call advances, which are used as working capital by the Group.

56. Deferred cash and share-based payments *(continued)*

Barclays Africa Group Limited Long-Term Incentive Plan

The Long-Term Incentive Plan (LTIP) is an equity-settled share-based payment arrangement. Qualifying participants will be entitled to Barclays Africa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Barclays Africa Group Limited ordinary shares. The award will be issued by the employing entity or subsidiary in the Group. In order for the participant to be entitled to these awards, the participant needs to render three years of service and meet requisite performance conditions. Dividends accumulate and are reinvested over the period.

Barclays Africa Group Limited Deferred Award Plan

The Deferred Award Plan (DAP) was a cash-settled share-based payment arrangement. The DAP awards (and any associated notional dividends) were awarded at no cost to the participants. The awards vested in equal tranches after one, two and three years, with each tranche subject to its own independent non-market-related performance condition. The amount that was paid to the participants was equal to the market value of a number of Barclays Africa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards were met. If the Group failed to meet the minimum performance criteria, the awards made in that tranche were forfeited in total. Dividends accumulated over the vesting period and were paid at maturity.

Barclays Africa Group Limited Phantom Joiners Share Award Plan

The Phantom Joiners Share Award Plan (JSAP) enables the Group to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Barclays Africa Group Limited phantom awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accrue to the participant over the vesting period, which can be over two to seven years.

Barclays Africa Group Limited Joiners Share Award Plan

The Joiners Share Value Plan (JSVP) enables the Group to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Barclays Africa Group Limited awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accumulate and are reinvested over the vesting period, which can be over one to five years.

Barclays Africa Group Limited Share Value Plan

The Share Value Plan (SVP) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest in equal tranches after one, two and three years, with each tranche subject to its own independent non-market-related performance condition on vesting. The Group retains the obligation to settle in cash, certain historic SVP awards that were not converted to equity-awards in 2015. The amount that is paid to the cash-settled participants is equal to the market value of a number of Barclays Africa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Barclays Africa Group Limited ordinary shares in settlement of their awards. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the period.

Barclays Africa Group Limited Share Incentive Awards

The Share Incentive Award (SIA) is a scheme for employees identified as Code Staff for Barclays PLC. The award will vest six months from the date on which it is granted, which is 50% of the participant's non-deferred annual incentive.

Barclays Africa Limited Retention Share Value Plan

The Share Value Retention Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, subject to their own independent non-market-related performance condition on vesting. The Group retains the obligation to settle in cash, certain historic SVP Cliff awards that were not converted to equity-awards in 2015. The amount that is paid to the cash-settled participants is equal to the market value of a number of Barclays Africa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Barclays Africa Group Limited ordinary shares in settlement of their awards. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the vesting period.

Barclays Africa Group Limited Role Based Pay

The Role Based Pay (RBP) is a cash settled share scheme for Code staff. It limits the maximum level of variable compensation that may be paid to certain employees to 1x fixed pay, or 2x fixed pay with shareholder approval. The cash element will be paid at the same time as salary and the share element will be delivered quarterly, with the shares subject to a holding period. Dividends accumulate and are reinvested over the period.

56. Deferred cash and share-based payments *(continued)*

	Number of awards '000											
	2016						2015					
	Opening balance	Effect of conversion	Granted	Forfeited	Exercised	Closing balance	Opening balance	Effect of conversion	Granted	Forfeited	Exercised	Closing balance
Equity-settled:												
LTIP	**1 194**	**—**	**5 390**	**(512)**	**(379)**	**5 693**	1 871	—	33	(667)	(43)	1 194
JSAP	**21**	**—**	**—**	**(3)**	**(16)**	**2**	—	21	—	—	—	21
JSVP	**566**	**(4)**	**171**	**(27)**	**(349)**	**357**	—	496	90	(20)	—	566
SVP	**2 571**	**110**	**1 720**	**(172)**	**(1 292)**	**2 937**	—	1 158	1 505	(89)	(3)	2 571
SIA	**380**	**—**	**487**	**—**	**(358)**	**509**	—	—	380	—	—	380
SVP Cliff	**2 644**	**56**	**88**	**(243)**	**(34)**	**2 511**	—	2 024	740	(120)	—	2 644
Cash-settled:												
DAP	**—**	**—**	**—**	**—**	**—**	**—**	580	—	—	(4)	(576)	—
JSAP	**—**	**—**	**—**	**—**	**—**	**—**	139	(21)	—	—	(118)	—
JSVP	**27**	**4**	**2**	**(2)**	**(23)**	**8**	738	(496)	231	(70)	(376)	27
SVP	**440**	**(110)**	**13**	**(8)**	**(202)**	**133**	2 712	(1 158)	24	(71)	(1 067)	440
SIA	**—**	**—**	**—**	**—**	**—**	**—**	218	—	8	—	(226)	—
SVP Cliff	**489**	**(56)**	**11**	**(26)**	**—**	**418**	2 627	(2 024)	—	(103)	(11)	489
RBP	**70**	**—**	**22**	**—**	**(16)**	**76**	—	—	78	—	(8)	70

The terms and conditions of the above share-based payment arrangements dictate that awards be settled immediately on vesting and therefore there are no awards which have vested but have not yet been settled at any given time. Furthermore the awards outstanding in the aforementioned schemes have no exercise price.

	Weighted average share price at the exercise date (rands)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (rands)	
	2016	2015	**2016**	2015	**2016**	2015
Equity-settled:						
LTIP	**143,97**	179,62	**2,75**	0,74	**148,90**	155,48
JSAP	**142,80**	—	**0,25**	0,78	**174,98**	174,98
JSVP	**174,75**	—	**1,46**	1,55	**164,73**	175,55
SVP	**174,46**	—	**2,00**	1,77	**160,07**	182,78
SIA	**145,97**	—	**0,67**	0,67	**145,97**	173,76
SVP Cliff	**180,19**	—	**0,96**	1,55	**176,88**	178,61
Cash-settled:						
DAP	**—**	190,93	**—**	—	**—**	—
JSAP	**—**	178,32	**—**	—	**—**	—
JSVP	**154,13**	172,76	**1,28**	1,70	**172,02**	—
SVP	**142,46**	186,78	**0,20**	0,24	**131,73**	143,48
SIA	**—**	172,35	**—**	—	**—**	—
SVP Cliff	**—**	189,15	**0,16**	1,17	**129,30**	129,30
RBP	**157,44**	176,99	**2,76**	—	**167,27**	167,27

Future cash flow effects associated with equity settled share based payments

	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Estimate of amount expected to be transferred to tax authorities	**278**	482	**—**	760

The estimates provided above indicate the amounts which are expected to be transferred to tax authorities relating to the employees' tax obligations on equity schemes which have been granted but which vest in future periods. The amounts were estimated based on the number of awards expected to vest, the share price as at year-end and an estimate of the average applicable employee effective tax rate.

Deferred cash

Barclays Africa Group Limited Cash Value Plan

The Cash Value Plan (CVP) is a deferred cash settled payment arrangement. The award will vest in three equal tranches over a period of three years, subject to the Rules which includes a ten percent service credit for the third anniversary of the CVP award date. The service credit for awards granted in 2016 is **10%** (2015: 10%) of the initial value of the award that vests.

57. Acquisitions and disposals of businesses and other similar transactions

57.1 *Acquisitions of businesses during the current reporting period*

In order to continue building and shaping the Group's predictive underwriting products, expertise and technology, the Group acquired a 75% controlling stake in Absa Instant Life Proprietary Limited, previously known as Instant Life Proprietary Limited. The acquisition of the investment had an effective acquisition date of 31 March 2016 and is a business combination within the scope of IFRS 3. The acquisition date fair value of the consideration transferred amounted to R100m.

The non-controlling interest below was measured at their proportionate share of the acquiree's identifiable net assets. Goodwill of R20m has been recognised and includes, but is not limited to, the insurer's workforce and the increased market share gained.

The transaction is currently being evaluated in terms of the Purchase Price Allocation (PPA). The initial accounting considerations include the valuation of intangible assets (identified in terms of IFRS3 – i.e. Value of business acquired and software system) and share-based payments.

From the date of acquisition, Absa Instant Life contributed revenue of R9m to the total income earned by the Group. If the combination had taken place at the beginning of the year, an additional R5m would have been generated by the Group, thereby resulting in a total income of R14m. From the date of acquisition, Absa Instant Life contributed losses after tax of R12m to total profits earned by the Group. If the combination taken place at the beginning of the year, losses after tax of an additional R3m would have been incurred by the Group, thereby resulting in a total loss after tax of R15m.

	Instant Life	Group
	2016	
	Fair value recognised on acquisition	
	Rm	Rm
Consideration at date of acquisition:		
Cash	100	100
Total consideration	100	100
Recognised amounts of identifiable assets acquired and liabilities assumed		
Loans and advances to banks	6	6
Other assets	14	14
Intangible assets	125	125
Other liabilities	(5)	(5)
Deferred tax liabilities	(32)	(32)
Provisions	(1)	(1)
Total identifiable net assets	107	107
Total NCI	(27)	(27)
Goodwill	20	20
Total	100	100

A summary of the total net cash outflow and cash and cash equivalents related to acquisitions and disposals of businesses and other similar transactions is included below:

	Group	
	2016 Rm	2015 Rm
Summary of net cash outflow due to acquisitions	100	384

57.1.2 Disposals of businesses during the current reporting period

There were no disposals of businesses during the current reporting period.

57.2.1 Acquisitions of businesses during the previous reporting period

The Group acquired 63% of the issued ordinary share capital of First Assurance Company Limited (FACL), an East African insurer, with operations in both Kenya and Tanzania. The acquisition of the investment in FACL had an effective acquisition date of 30 October 2015, and is a business combination within the scope of IFRS 3.

The non-controlling interest below was measured at their proportionate share of the acquiree's identifiable net assets. Goodwill of R164m has been recognised mainly attributable to intangible assets that do not qualify for recognition on the basis that they are not separable. The Purchase Price Allocation (PPA) for the transaction has been finalised with no differences to the provisional amounts published in the previous reporting period being noted. From the date of acquisition, FACL contributed R26m to the total income of the Group in 2015. Had the acquisition taken place at the beginning of 2015, the total income for the Group would have increased by R152m for 2015 year-end reporting. From the date of acquisition, FACL contributed R9m to profit after tax of the Group in 2015. Had the acquisition taken place at the beginning of 2015, profit after tax for the Group would have increased by R37m for 2015 year-end reporting.

The Group also purchased additional shares in a non-core joint venture which resulted in an increase in the Group's effective shareholding from 50% to 67% and a business combination in terms of IFRS 3. The acquisition occurred on 18 November 2015. A bargain purchase gain of R4m was recognised in the statement of comprehensive income.

57. Acquisitions and disposals of businesses and other similar transactions *(continued)*

57.2.1 Acquisitions of businesses during the previous reporting period *(continued)*

	First Assurance Holdings	Other	Group
	2015		
	Fair value recognised on acquisition		
	Rm	Rm	Rm
Consideration at date of acquisition:			
Cash	370	14	384
Total consideration	370	14	384
Recognised amounts of identifiable assets acquired and liabilities assumed			
Property, plant and equipment	28	—	28
Investment securities	145	—	145
Loans and advances to banks	196	—	196
Other assets	440	5	445
Investment properties	170	292	462
Current tax assets	2	—	2
Other liabilities	(65)	(1)	(66)
Insurance liabilities	(586)	—	(586)
Deferred tax liabilities	(3)	(4)	(7)
Loans from subsidiaries	—	(176)	(176)
Loans from Absa Group companies	—	(90)	(90)
Total identifiable net assets	327	26	353
Total NCI	(121)	(8)	(129)
Goodwill/(Bargain purchase)	164	(4)	160
Total	370	14	384

57.2.2 Disposals of businesses during the previous reporting period

National Bank of Commerce Limited (NBC) was recapitalised through a rights issue to all its shareholders during 2013. As the Government of Tanzania (GoT) was unable to subscribe to their rights at the time, an option was granted to GoT providing it with the right to purchase its pro rata portion of the shares from the Group within a period of two years after the rights issue. The GoT exercised their option during the previous reporting period which resulted in a decrease of the Group's shareholding from 66% to 55%.

58. Segment report

58.1 Summary of segments

The Group has identified its reportable segments based on a combination of products and services offered to customers and clients, external revenue generation and the location of the markets served. RBB, CIB and WIMI have been identified as reportable segments of the Group in the manner in which the Group's businesses are managed and reported to the CODM. None of these operating segments have been aggregated. The remaining business units are aggregated into the segment, Head Office, Treasury and Other Operations.

The following summary describes the operations in each of the Group's reportable segments:

- RBB
  - Business Banking South Africa: provides a comprehensive range of commercial banking products and services to large, medium and small Business businesses.
  - Retail Banking South Africa: offers various products and services to customers through the following divisions:
    - Home Loans: offers residential property-related finance solutions direct to the customer through personalised services, as well as through a range of electronic channels and intermediaries such as estate agents and originators.
    - Vehicle and Asset Finance (VAF): offers customised vehicle and asset finance products and services through vehicle dealers as well as directly to retail and business customers through face-to-face engagements, call centre agents and digital channels. The VAF product line incorporates vehicle management solutions including fleet card management and associated services.
    - Card: provides credit cards and merchant acquiring. It includes the Edcon portfolio as well as Woolworths Financial Services, which offers credit cards, personal loans and short-term insurance products.
    - Personal Loans: offers unsecured instalment loans, including fixed and variable loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.
    - Transactional and Deposits: offers a full range of transactional banking, savings and investment products, customer loyalty programme and services through a variety of touch points. These include physical branches, digital channels, ATMs, priority suites and call centres.
    - Other: includes Retail Banking central and head office costs, which are currently not allocated to business units along with branch distribution and channel net recoveries, and costs associated with the multi-channel investment programme.
  - RBB Rest of Africa: offers a comprehensive suite of retail and business banking products and services to individual and commercial customers on the African continent outside of South Africa.

58. Segment report (continued)

58.1 *Summary of segments* *(continued)*

- CIB: offers corporate and investment banking solutions. The business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients.
- WIMI: comprises wealth management services, various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services and a variety of investment products.
- Head Office, Treasury and Other Operations: consists of various non-banking activities and includes investment income earned by the Group, as well as income earned by the London branch, Absa Manx Holdings and Corporate Real Estate Services.

The following operational changes, management changes and associated changes to the way in which the CODM views the performance of each business segment, have resulted in the reallocation of earnings, assets and liabilities between segments.

- Statutory liquid assets allocations in loan portfolios that were moved from WIMI to RBB in previous reporting periods were reassessed and resulted in a restatement of Interest and similar charges of R6m between WIMI and RBB.
- The Group refined its transfer pricing and allocation of endowment methodologies, resulting in a restatement of Net interest income of R53m from CIB to RBB (R31m) and WIMI (R22m).
- The Group reassessed its cost allocation and recovery methodologies, resulting in the restatements of operating expenses of R328m from CIB (R38m) and Head Office, Treasury and Other Operations (R290m) to RBB and total assets of R60m from CIB South Africa to CIB Rest of Africa.
- Interest rates on internal cash balances were aligned to market-related rates, resulting in a restatement of Net interest income of R41m from CIB to Head Office, Treasury and Other Operations.
- Certain shared services operations that were previously conducted by RBB were transferred to Head Office, Treasury and Other Operations, resulting in a restatement of net interest expense of R7m and operating expenses of R311m.
- Africa Corporate Development (previously reported in CIB Private Equity) was moved from CIB to Head Office, Treasury and Other Operations to better align the management thereof. This resulted in a restatement of operating expenses of R4m between these segments.
- Cheque income and the associated costs were moved from CIB to RBB to better align the ownership of the product and the management thereof. This resulted in a restatement between CIB and RBB of Fee and commission income of R36m as well as Operating expenses of R21m.
- Integrated Processing Solutions was moved from RBB to Head Office, Treasury and Other Operations to better align the ownership of the investment and the management thereof and resulted in a restatement of Investments in associates and joint ventures of R32m between these segments.
- The Rest of Africa treasury function (previously reported in RBB and CIB) was moved to Head Office, Treasury and Other Operations resulting in a restatement of Net interest income of R53m between RBB, CIB and Head Office, Treasury and Other Operations.

	Group		
	2016		
	South Africa and other international operations Rm	**Rest of Africa Rm**	**Total Rm**
58.2 Segment report per geographical segment			
Net interest income – external	**31 177**	**10 826**	**42 003**
Non-interest income – external	**24 955**	**5 436**	**30 391**
Total assets	**936 713**	**164 310**	**1 101 023**

	2015		
	South Africa and other international operations Rm	Rest of Africa Rm	Total Rm
Segment report per geographical segment			
Net interest income – external	29 292	9 115	38 407
Non-interest income – external[1]	23 963	4 828	28 791
Total assets	957 223	187 381	1 144 604

Note

[1] These numbers have been restated, refer to note 58.1.

58. Segment report (continued)

Statement of comprehensive income (Rm)

	RBB 2016	RBB 2015[1]	CIB 2016	CIB 2015[1]
Net interest income	**33 083**	30 886	**9 375**	7 851
Net interest income – external	**42 586**	39 218	**8 401**	5 106
Net interest income – internal	**(9 503)**	(8 332)	**974**	2 745
Non-interest income	**19 134**	18 274	**6 679**	5 890
Non-interest income – external	**18 350**	17 555	**10 884**	9 479
Non-interest income – internal	**784**	719	**(4 205)**	(3 589)
Total income	**52 217**	49 160	**16 054**	13 741
Impairment losses on loans and advances	**(7 374)**	(6 094)	**(1 403)**	(793)
Operating income before operating expenses	**44 843**	43 066	**14 651**	12 948
Operating expenses	**(30 273)**	(28 223)	**(7 547)**	(7 373)
Depreciation and amortisation	**(871)**	(796)	**(63)**	(76)
Other operating expenses	**(29 402)**	(27 427)	**(7 484)**	(7 297)
Other	**(706)**	(402)	**(200)**	(149)
Other impairments	**(284)**	(14)	**(42)**	(2)
Indirect taxation	**(422)**	(388)	**(158)**	(147)
Share of post-tax results of associates and joint ventures	**134**	123	**11**	1
Operating profit before income tax	**13 998**	14 564	**6 915**	5 427
Tax expenses	**(4 135)**	(4 219)	**(1 454)**	(1 126)
Profit for the reporting period	**9 863**	10 345	**5 461**	4 301
Profit attributable to:				
Ordinary equity holders	**9 106**	9 584	**5 065**	3 999
Non-controlling interest – ordinary shares	**527**	553	**280**	195
Non-controlling interest – preference shares	**230**	208	**116**	107
	9 863	10 345	**5 461**	4 301
Headline earnings	**9 313**	9 605	**5 098**	3 999
Operating performance (%)				
Net interest margin on average interest-bearing assets[2]	**4,44**	4,34	**2,49**	2,38
Credit loss ratio[2, 3]	**1,46**	1,24	**0,53**	0,37
Non-interest income as % of income[4]	**36,6**	37,2	**41,6**	42,9
Income growth[4]	**6**	6	**17**	8
Operating expenses growth[4]	**7**	4	**2**	9
Cost-to-income ratio[4]	**58,0**	57,4	**47,0**	53,7
Statement of financial position (Rm)				
Loans and advances to customers	**484 598**	483 755	**229 432**	213 625
Loans and advances to banks	**6 348**	5 296	**34 122**	43 987
Investment securities	**42 138**	42 513	**25 431**	20 126
Other assets	**275 808**	280 611	**263 629**	296 977
Total assets	**808 892**	812 175	**552 614**	574 715
Deposits due to customers	**346 413**	344 847	**225 416**	241 689
Debt securities in issue	**871**	1 561	**14 326**	16 401
Other liabilities	**450 974**	449 429	**305 926**	307 999
Total liabilities	**798 258**	795 837	**545 668**	566 089
Financial performance (%)				
Return on average risk-weighted assets[2]	**2,41**	2,55	**2,27**	1,93
Return on average assets[2]	**1,16**	1,25	**0,90**	0,81
RoRC[2]	**21,3**	22,0	**19,90**	17,40

Notes

1 These numbers have been restated, refer to note 58.1.
2 These ratios are unaudited.
3 The calculation of the credit loss ratio was amended to include impairment losses on loans and advances for the reporting period and dividing it by total gross loans and advances to customers and banks (calculated on a daily weighted average), resulting in a restatements of comparative credit loss ratios. Based on previous methodology the ratio would have been **1,23** (2015: 1,05).
4 These ratios have been calculated by management based on extracted audit information contained in the annual financial statements.
5 Head Office and inter-segment eliminations do not represent a reportable segment, but the reconciliation to the Group results in terms of IFRS 8.

WIMI 2016	WIMI 2015[1]	Head Office and other operations[5] 2016	Head Office and other operations[5] 2015[1]	Group 2016	Group 2015[1]
375	273	(830)	(603)	42 003	38 407
280	226	(9 264)	(6 143)	42 003	38 407
95	47	8 434	5 540	—	—
4 848	4 962	(270)	(335)	30 391	28 791
5 321	5 435	(4 164)	(3 678)	30 391	28 791
(473)	(473)	3 894	3 343	—	—
5 223	5 235	(1 100)	(938)	72 394	67 198
(10)	5	36	(38)	(8 751)	(6 920)
5 213	5 240	(1 064)	(976)	63 643	60 278
(3 346)	(3 018)	1 210	953	(39 956)	(37 661)
(92)	(101)	(1 285)	(1 049)	(2 311)	(2 022)
(3 254)	(2 917)	2 495	2 002	(37 645)	(35 639)
(171)	(204)	(1 043)	(688)	(2 120)	(1 443)
(58)	(81)	(307)	15	(691)	(82)
(113)	(123)	(736)	(703)	(1 429)	(1 361)
—	—	(30)	5	115	129
1 696	2 018	(927)	(706)	21 682	21 303
(346)	(603)	100	49	(5 835)	(5 899)
1 350	1 415	(827)	(657)	15 847	15 404
1 364	1 405	(827)	(657)	14 708	14 331
(19)	4	—	—	788	752
5	6	—	—	351	321
1 350	1 415	(827)	(657)	15 847	15 404
1 399	1 452	(830)	(769)	14 980	14 287
n/a	n/a	n/a	n/a	4,92	4,81
0,13	(0,07)	n/a	n/a	1,08	0,92
92,8	94,8	n/a	n/a	42,0	42,8
(0)	7	n/a	n/a	8	6
11	4	n/a	n/a	6	5
64,1	57,6	n/a	n/a	55,2	56,0
5 660	5 350	619	629	720 309	703 359
1 973	2 225	7 346	34 443	49 789	85 951
4 687	4 642	42 059	33 684	114 315	100 965
38 882	31 681	(361 709)	(354 940)	216 610	254 329
51 202	43 898	(311 685)	(286 184)	1 101 023	1 144 604
5 144	5 160	97 892	96 723	674 865	688 419
—	—	124 517	110 721	139 714	128 683
40 602	33 226	(613 338)	(561 799)	184 164	228 855
45 746	38 386	(390 929)	(354 355)	998 743	1 045 957
n/a	n/a	n/a	n/a	2,14	2,18
3,03	3,36	n/a	n/a	1,34	1,37
23,9	24,7	n/a	n/a	n/a	n/a

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58. Segment report (continued)

	Retail Banking South Africa	
	2016 **Rm**	2015[1] Rm
Statement of comprehensive income (Rm)		
Net interest income	**19 736**	19 009
Net interest income – external	**34 400**	31 843
Net interest income – internal	**(14 664)**	(12 834)
Non-interest income	**12 819**	12 282
Non-interest income – external	**12 038**	11 551
Non-interest income – internal	**781**	731
Total income	**32 555**	31 291
Impairment losses on loans and advances	**(5 445)**	(4 772)
Operating income before operating expenses	**27 110**	26 519
Operating expenses	**(17 589)**	(16 545)
Depreciation and amortisation	**(356)**	(336)
Other operating expenses	**(17 233)**	(16 209)
Other	**(546)**	(251)
Other impairments	**(283)**	—
Indirect taxation	**(263)**	(251)
Share of post-tax results of associates and joint ventures	**134**	123
Operating profit before income tax	**9 109**	9 846
Tax expenses	**(2 552)**	(2 757)
Profit for the reporting period	**6 557**	7 089
Profit attributable to:		
Ordinary equity holders	**6 129**	6 702
Non-controlling interest – ordinary shares	**252**	228
Non-controlling interest – preference shares	**176**	159
	6 557	7 089
Headline earnings	**6 406**	6 691
Operating performance (%)		
Net interest margin on average interest-bearing assets[2]	**3,52**	3,54
Credit loss ratio[2, 3]	**1,39**	1,23
Non-interest income as percentage of income[4]	**39,4**	39,3
Income growth[4]	**4**	6
Operating expenses growth[4]	**6**	2
Cost-to-income ratio[4]	**54,0**	52,9
Statement of financial position (Rm)		
Loans and advances to customers	**375 082**	374 997
Loans and advances to banks	**6 284**	5 266
Investment securities	**31 921**	32 285
Other assets	**201 615**	190 591
Total assets	**614 902**	603 139
Deposits due to customers	**176 952**	166 015
Debt securities in issue	**871**	1 561
Other liabilities	**427 878**	425 946
Total liabilities	**605 701**	593 522
Financial performance (%)		
Return on average risk-weighted assets[2]	**2,61**	2,75
Return on average assets[2]	**1,07**	1,16

Notes

[1] These numbers have been restated, refer to note 58.1.
[2] These ratios are unaudited.
[3] The calculation of the credit loss ratio was amended to include impairment losses on loans and advances for the reporting period and dividing it by total gross loans and advances to customers and banks (calculated on a daily weighted average), resulting in a restatements of comparative credit loss ratios. Based on previous methodology the ratio would have been **1,23** (2015: 1,05).
[4] These ratios have been calculated by management based on extracted audit information contained in the annual financial statements.

	Business Banking South Africa		RBB Rest of Africa		Total RBB	
	2016 Rm	2015[1] Rm	2016 Rm	2015[1] Rm	2016 Rm	2015[1] Rm
	6 068	5 736	7 279	6 141	33 083	30 886
	2 378	2 313	5 808	5 062	42 586	39 218
	3 690	3 423	1 471	1 079	(9 503)	(8 332)
	3 543	3 372	2 772	2 620	19 134	18 274
	3 540	3 372	2 772	2 632	18 350	17 555
	3	—	—	(12)	784	719
	9 611	9 108	10 051	8 761	52 217	49 160
	(581)	(545)	(1 348)	(777)	(7 374)	(6 094)
	9 030	8 563	8 703	7 984	44 843	43 066
	(5 860)	(5 536)	(6 824)	(6 142)	(30 273)	(28 223)
	(20)	—	(495)	(460)	(871)	(796)
	(5 840)	(5 536)	(6 329)	(5 682)	(29 402)	(27 427)
	(29)	(39)	(131)	(112)	(706)	(402)
	—	(13)	(1)	(1)	(284)	(14)
	(29)	(26)	(130)	(111)	(422)	(388)
	—	—	—	—	134	123
	3 141	2 988	1 748	1 730	13 998	14 564
	(868)	(847)	(715)	(615)	(4 135)	(4 219)
	2 273	2 141	1 033	1 115	9 863	10 345
	2 204	2 092	773	790	9 106	9 584
	15	—	260	325	527	553
	54	49	—	—	230	208
	2 273	2 141	1 033	1 115	9 863	10 345
	2 138	2 124	769	790	9 313	9 605
	5,82	5,78	9,06	8,25	4,44	4,34
	0,86	0,85	2,96	1,93	1,46	1,24
	36,9	37,0	27,6	29,9	36,6	37,2
	6	3	15	12	6	6
	6	6	11	7	7	4
	61,0	60,8	67,9	70,1	58,0	57,4
	69 479	63 545	40 037	45 213	484 598	483 755
	64	30	—	—	6 348	5 296
	10 211	10 223	6	5	42 138	42 513
	34 979	42 455	39 214	47 565	275 808	280 611
	114 733	116 253	79 257	92 783	808 892	812 175
	108 783	110 096	60 678	68 736	346 413	344 847
	—	—	—	—	871	1 561
	3 624	3 838	19 472	19 645	450 974	449 429
	112 407	113 934	80 150	88 381	798 258	795 837
	2,93	3,00	1,14	1,27	2,41	2,55
	1,85	1,93	0,90	0,97	1,16	1,25

59. Derivatives

59.1 Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks.

The derivative instrument contract value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group's net interest income, net trading income, net fee and commission income and derivative assets and liabilities.

Some derivative financial instruments have been designated as hedging instruments in fair value or cash flow hedging relationships or hedges of net investments in foreign operations. At the reporting date, the Group did not have any compound financial instruments with multiple embedded derivatives in issue.

The Group trades the following derivative instruments:

Foreign exchange derivatives

The Group's principal exchange rate-related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Interest rate derivatives

The Group's principal interest rate-related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount.

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate debt securities held and highly probable forecast financing transactions and reinvestments.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers as well as investments in fixed rate debt securities held.

Credit derivatives

The Group's principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default, or downgrades by a rating agency.

A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer of the protection in return receives a predetermined amount.

Equity derivatives

The Group's principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Group also enters into fund-linked derivatives, being swaps and options which include mutual funds, hedge funds, indices and multi-asset portfolios as underlying.

Commodity derivatives

The Group's principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are agricultural commodities and precious metals.

59.2 Notional amount

The gross notional amount is the sum of the absolute value of all contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Group's participation in derivative contracts and not the market risk position nor the credit exposure arising on such contracts.

The absolute value of all contracts is also not indicative of the Group's net exposure to, or position in any of the markets that the Group trades in.

59. Derivatives *(continued)*

59.3 Derivative financial instruments

The Group's total derivative asset and liability position as reported on the statement of financial position is as follows:

	2016			2015		
	Assets Rm	Liabilities Rm	Notional contract amount Rm	Assets Rm	Liabilities Rm	Notional contract amount Rm
Derivatives held for trading	45 153	(40 920)	5 250 754	78 277	(86 695)	4 822 438
Derivatives designated as hedging instruments	1 745	(2 064)	167 080	2 232	(4 531)	176 435
Other	39	—	822	19	—	849
Total derivatives	46 937	(42 984)	5 418 656	80 528	(91 226)	4 999 722

59.4 Derivatives held for trading – detail by market and instrument type

Derivatives held for trading by the Group related to the various markets and instrument types the Group trades in are as follows:

	Group					
	2016			2015		
	Assets Rm	Liabilities Rm	Notional contract amount Rm	Assets Rm	Liabilities Rm	Notional contract amount Rm
Foreign exchange derivatives	15 210	(14 173)	613 710	27 727	(28 563)	879 407
Forwards	1 347	(936)	32 448	1 653	(2 751)	36 793
Futures	0	—	213 162	0	—	138 941
Swaps	13 308	(12 619)	339 917	23 136	(24 087)	604 566
Options	555	(618)	28 183	2 938	(1 725)	99 107
Interest rate derivatives	27 355	(24 324)	4 499 141	47 242	(53 306)	3 735 139
Forwards	1 011	(1 030)	3 006 259	1 627	(1 772)	2 244 296
Futures	0	—	35 759	52	(64)	37 565
Swaps	26 324	(23 266)	1 450 753	45 231	(51 113)	1 294 418
Options	20	(28)	6 370	332	(357)	158 860
Equity derivatives	1 607	(1 366)	114 792	2 184	(3 826)	166 462
Forwards	472	(231)	3 263	345	(1 275)	8 856
Futures	0	—	49 914	25	(54)	73 539
Swaps	377	(330)	9 278	256	(997)	19 213
Options	754	(801)	17 209	691	(1 418)	26 010
Options – exchange traded	0	—	26 837	4	—	30 839
Other – OTC	4	(4)	8 291	863	(82)	8 005
Commodity derivatives	797	(819)	12 790	212	(107)	11 866
Forwards	369	(418)	11 291	66	(22)	10 651
Swaps	95	(59)	605	106	(47)	958
Options	333	(342)	894	40	(38)	257
Credit derivatives						
Default swaps	184	(238)	10 321	912	(893)	29 564
Derivatives held for trading	45 153	(40 920)	5 250 754	78 277	(86 695)	4 822 438

Forwards, swaps and options in the table above have been traded on a bilateral OTC basis, unless specified otherwise. Futures in the table above have been traded on authorised exchanges.

59. Derivatives *(continued)*

59.5 Derivative held for investment purposes

Derivatives held for investment purposes for the 2016 period had a notional value of **R822m** (2015: R849m) and an asset carrying value of **R39m** (2015: R19m).

59.6 Derivatives designated as hedging instruments – detail by market and instrument type

	Group					
	2016			2015		
	Assets Rm	**Liabilities Rm**	**Notional contract amount Rm**	Assets Rm	Liabilities Rm	Notional contract amount Rm
Interest rate derivatives	**1 745**	**(1 973)**	**166 017**	2 232	(4 531)	176 435
Swaps – cash flow hedges	**627**	**(699)**	**125 684**	192	(2 827)	133 155
Swaps – fair value hedges	**1 118**	**(1 274)**	**40 333**	2 040	(1 704)	43 280
Foreign exchange derivatives						
Forward rate agreements – cash flow hedges	**—**	**(91)**	**1 063**	—	—	—
Derivatives designated as hedging instruments	**1 745**	**(2 064)**	**167 080**	2 232	(4 531)	176 435

59.7 Derivatives designated as cash flow hedging instruments and hedges of net investment in foreign operations

Cash flow hedges for interest rate risk are used by the Group to protect against the potential cash flow variability that results from the Group's exposure to various floating rate instruments including certain loans and advances, available-for-sale financial assets and issued debt.

The Group's cash flow hedging instruments for interest rate risk principally consist of interest rate swaps that are used to fix floating future cash flows.

The Group's cash flow hedging instruments for foreign currency risk consist of foreign exchange contracts to protect the Group against the potential cash flow variability that results from exposure to mainly IT-related transactions in foreign currency.

Net gains/(losses) on cash flow hedges were recycled from other comprehensive income to profit or loss:

	Group	
	2016 Rm	2015 Rm
Interest and similar income (refer to note 29)		
Interest rate risk	**268**	1 111
Other Operating income		
Hedges of net investments in foreign operations	**85**	—
Interest expense and similar charges (refer to note 30)		
Interest rate risk	**(8)**	135
Operating expenditure		
Foreign currency risk	**5**	—

59. Derivatives *(continued)*

59.7 Derivatives designated as cash flow hedging instruments and hedges of net investment in foreign operations (continued)

The fair value movement recognised in profit or loss in relation to ineffectiveness (including fair value movements previously deferred to equity which subsequently exceeded the IAS 39 reserve limit) is:

	Group	
	2016 Rm	2015 Rm
Gains and (losses) from banking and trading activities (refer note 35)		
Interest rate risk	**(53)**	(188)

The Group has hedged forecast cash flows, which primarily vary with interest rates. These cash flows are expected to impact the statement of comprehensive income in future financial periods as shown in the following table. The cash flows were projected using forward rates prevailing at year-end. The cash flows are presented on an undiscounted basis, before taxation and exclude any potential hedge accounting adjustments:

	Group 2016						
	Less than 1 year Rm	**1 – 2 years Rm**	**2 – 3 years Rm**	**3 – 4 years Rm**	**4 – 5 years Rm**	**More than 5 years Rm**	**Total Rm**
Forecast receivable cash flow							
Interest rate risk	**337**	**205**	**103**	**11**	**—**	**—**	**656**
Forecast payable cash flow	**(309)**	**(189)**	**(124)**	**(118)**	**(106)**	**(62)**	**(908)**
Interest rate risk	**(263)**	**(140)**	**(124)**	**(118)**	**(106)**	**(62)**	**(813)**
Foreign currency risk	**(46)**	**(49)**	**—**	**—**	**—**	**—**	**(95)**

	2015						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast receivable cash flow							
Interest rate risk	199	9	—	—	—	—	208
Forecast payable cash flow							
Interest rate risk	(127)	(890)	(803)	(606)	(321)	(114)	(2 861)

59. Derivatives *(continued)*

59.8 Derivatives designated as cash flow hedging instruments to protect against equity price risk

In the prior reporting period the Group used cash flow hedging instruments for equity price risk to protect it against the potential cash flow variability of its cash-settled share-based payment schemes, which were referenced to the market price of Barclays Africa Group Limited's shares. These hedges were all closed out by 2015 year-end.

The following net gains/(losses) on cash flow hedges were recycled from other comprehensive income to profit or loss:

	Group	
	2016 Rm	2015 Rm
Operating expenses – staff costs – share-based payments (refer to note 56)	**—**	96

The spot element of the forward contracts that were designated as hedging instruments were 100% effective during the prior periods and therefore no ineffectiveness was recognised in profit or loss.

59.9 Derivatives designated as fair value hedging instruments to protect against interest rate and exchange rate risk

Fair value hedges are used by the Group to protect against changes in the fair value of financial instruments due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

Gains and (losses) on hedging instruments and hedged items:

	Group	
	2016 Rm	2015 Rm
Financial assets – fair value hedges		
Gains/(losses) on hedged items (assets) (refer to note 29)	**1 340**	(1 591)
(Losses)/gains on hedging instruments (assets) (refer to note 29)	**(2 171)**	1 444
Interest expense on hedging instruments (refer to note 29)	**(186)**	(265)
Financial liabilities – fair value hedges		
Gains/(losses) on hedged items (liabilities) (refer to note 30)	**(866)**	925
(Losses)/gains on hedging instruments (liabilities) (refer to note 30)	**864**	(842)
Interest income/(expense) on hedging instruments	**34**	144

Movement in fair value that was recognised in profit or loss in relation to hedge ineffectiveness is:

	Group	
	2016 Rm	2015 Rm
Gains/(losses) from banking and trading activities (refer to note 35)	**(37)**	38

59.10 Counterparty netting and collateral

Derivative assets subject to counterparty netting agreements amounted to **R43 298m** (2015: R76 478m). Additionally, the Group held **R2 810m** (2015: R6 330m) of collateral against the net derivative asset exposure.

OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association (ISDA) Master Agreement is used by the Group. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

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60. Consolidated statement of financial position summary – IAS 39 classification

	2016 Fair value through profit or loss Designated at fair value Rm	Held for trading Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	4 880	—	—	4 880
Investment securities	30 494	—	—	30 494
Loans and advances to banks	19 857	—	—	19 857
Trading portfolio assets	—	94 751	—	94 751
Hedging portfolio assets[1]	—	—	1 745	1 745
Other assets	9	—	—	9
Loans and advances to customers	24 076	—	—	24 076
Investments linked to investment contracts	18 776	40	—	18 816
Assets outside the scope of IAS 39	—	—	—	—
	98 092	94 791	1 745	194 628
Liabilities				
Deposits from banks	9 085	—	—	9 085
Trading portfolio liabilities	—	47 429	—	47 429
Hedging portfolio liabilities[2]	—	—	2 064	2 064
Other liabilities	45	—	—	45
Deposits due to customers	17 121	—	—	17 121
Debt securities in issue	5 517	—	—	5 517
Liabilities under investment contracts	29 198	—	—	29 198
Borrowed funds	—	—	—	—
Liabilities outside the scope of IAS 39	—	—	—	—
	60 966	47 429	2 064	110 459

	2015 Fair value through profit or loss Designated at fair value Rm	Held for trading Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	3 372	—	—	3 372
Investment securities	24 316	—	—	24 316
Loans and advances to banks	24 328	—	—	24 328
Trading portfolio assets	—	135 158	—	135 158
Hedging portfolio assets[1]	—	—	2 232	2 232
Other assets	26	—	—	26
Loans and advances to customers	29 422	—	—	29 422
Investments linked to investment contracts	19 498	19	—	19 517
Assets outside the scope of IAS 39	—	—	—	—
	100 962	135 177	2 232	238 371
Liabilities				
Deposits from banks	12 018	—	—	12 018
Trading portfolio liabilities	—	90 407	—	90 407
Hedging portfolio liabilities[2]	—	—	4 531	4 531
Other liabilities	12	—	—	12
Deposits due to customers	17 799	—	—	17 799
Debt securities in issue	6 247	—	—	6 247
Liabilities under investment contracts	24 209	—	—	24 209
Borrowed funds	—	—	—	—
Liabilities outside the scope of IAS 39	—	—	—	—
	60 285	90 407	4 531	155 223

Notes

[1] Includes derivative assets to the amount of **R627m** (2015: R192m) and **R1 118m** (2015: R2 040m) that have been designated as cash flow and fair value hedging instruments respectively.

[2] Includes derivative liabilities to the amount of **R790m** (2015: R2 827m) and **R1 273m** (2015: R1 704m) that have been designated as cash flow and fair value hedging instruments respectively.

[3] Includes items designated as hedged items in fair value hedging relationships.

[4] Includes non-financial assets and liabilities and financial instruments outside the scope of IAS 39.

2016

Available-for-sale			Amortised cost				
Designated as available-for-sale Rm	Hedged items[3] Rm	Total Rm	Designated at amortised cost Rm	Hedged items[3] Rm	Total Rm	Assets/liabilities outside the scope of IAS 39[4] Rm	Total assets and liabilities Rm
—	—	—	45 126	—	45 126	—	50 006
56 059	27 762	83 821	—	—	—	—	114 315
—	—	—	29 932	—	29 932	—	49 789
—	—	—	—	—	—	1 485	96 236
—	—	—	—	—	—	—	1 745
—	—	—	22 120	—	22 120	3 413	25 542
—	—	—	696 231	2	696 233	—	720 309
—	—	—	—	—	—	—	18 816
—	—	—	—	—	—	24 265	24 265
56 059	27 762	83 821	793 409	2	793 411	29 163	1 101 023

—	—	—	44 107	—	44 107	—	53 192
—	—	—	—	—	—	—	47 429
—	—	—	—	—	—	—	2 064
—	—	—	23 600	—	23 600	4 051	27 696
—	—	—	657 744	—	657 744	—	674 865
—	—	—	123 600	10 597	134 197	—	139 714
—	—	—	—	—	—	—	29 198
—	—	—	11 754	3 919	15 673	—	15 673
—	—	—	—	—	—	8 912	8 912
—	—	—	860 805	14 516	875 321	12 963	998 743

2015

Available-for-sale			Amortised cost				
Designated as available-for-sale Rm	Hedged items[3] Rm	Total Rm	Designated at amortised cost Rm	Hedged items[3] Rm	Total Rm	Assets/liabilities outside the scope of IAS 39[4] Rm	Total assets and liabilities Rm
—	—	—	42 532	—	42 532	—	45 904
38 369	38 280	76 649	—	—	—	—	100 965
—	—	—	61 623	—	61 623	—	85 951
—	—	—	—	—	—	2 005	137 163
—	—	—	—	—	—	—	2 232
—	—	—	22 875	—	22 875	2 945	25 846
—	—	—	673 830	107	673 937	—	703 359
—	—	—	—	—	—	—	19 517
—	—	—	—	—	—	23 667	23 667
38 369	38 280	76 649	800 860	107	800 967	28 617	1 144 604

—	—	—	50 962	—	50 962	—	62 980
—	—	—	—	—	—	—	90 407
—	—	—	—	—	—	—	4 531
—	—	—	21 398	—	21 398	3 572	24 982
—	—	—	670 620	—	670 620	—	688 419
—	—	—	110 612	11 824	122 436	—	128 683
—	—	—	—	—	—	—	24 209
—	—	—	9 614	3 537	13 151	—	13 151
—	—	—	—	—	—	8 595	8 595
—	—	—	863 206	15 361	878 567	12 167	1 045 957

61. Fair value disclosures

61.1 *Assets and liabilities held at fair value*

The following table shows the Group's assets and liabilities that are recognised and subsequently measured at fair value and are analysed by valuation techniques. The classification of assets and liabilities is based on the lowest level input that is significant to the fair value measurement in its entirety.

	Group							
	2016				2015			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Cash, cash balances and balances with central banks	2 388	2 492	—	4 880	2 114	1 258	—	3 372
Investment securities	60 051	50 906	3 358	114 315	64 458	32 541	3 966	100 965
Loans and advances to banks	—	19 286	571	19 857	—	22 219	2 109	24 328
Trading and hedging portfolio assets	33 572	61 419	1 505	96 496	37 037	98 935	1 418	137 390
Debt instruments	15 689	6 740	1 324	23 753	18 891	9 430	897	29 218
Derivative assets	—	46 717	181	46 898	51	79 938	521	80 510
Commodity derivatives	—	797	—	797	—	212	—	212
Credit derivatives	—	70	114	184	—	889	23	912
Equity derivatives	—	1 540	67	1 607	6	2 134	43	2 183
Foreign exchange derivatives	—	15 221	—	15 221	45	27 696	3	27 744
Interest rate derivatives	—	29 089	—	29 089	—	49 007	452	49 459
Equity instruments	17 883	—	—	17 883	17 321	—	—	17 321
Money market assets	—	7 962	—	7 962	774	9 567	—	10 341
Other assets	—	4	5	9	—	1	25	26
Loans and advances to customers	—	19 186	4 890	24 076	3	21 908	7 511	29 422
Investment linked to investment contract	16 335	2 481	—	18 816	16 885	2 632	—	19 517
Total financial assets	**112 346**	**155 774**	**10 329**	**278 449**	120 497	179 494	15 029	315 020
Financial liabilities								
Deposits from banks	—	9 085	—	9 085	—	12 011	7	12 018
Trading and hedging portfolio liabilities	6 508	42 677	308	49 493	3 712	91 009	217	94 938
Derivative liabilities	—	42 677	308	42 985	—	91 009	217	91 226
Commodity derivatives	—	875	—	875	—	429	—	429
Credit derivatives	—	137	101	238	—	879	14	893
Equity derivatives	—	1 306	60	1 366	—	3 768	58	3 826
Foreign exchange derivatives	—	14 173	—	14 173	—	28 576	—	28 576
Interest rate derivatives	—	26 186	147	26 333	—	57 357	145	57 502
Short positions	6 508	—	—	6 508	3 712	—	—	3 712
Other liabilities	—	4	41	45	—	7	5	12
Deposits due to customers	154	15 828	1 139	17 121	111	15 131	2 557	17 799
Debt securities in issue	261	4 652	604	5 517	202	5 421	624	6 247
Liabilities under investment contracts	—	29 055	—	29 055	—	24 209	—	24 209
Total financial liabilities	**6 923**	**101 301**	**2 092**	**110 316**	4 025	147 788	3 410	155 223
Non-financial assets								
Commodity	1 485	—	—	1 485	2 005	—	—	2 005
Investment properties	—	—	478	478	—	—	1 264	1 264
Non-recurring fair value measurements								
Non-current assets held for sale[1]	—	—	823	823	—	—	1 700	1 700
Non-current liabilities held for sale[1]	—	—	9	9	—	—	233	233

Note

[1] Includes certain items classified in terms of the requirements of IFRS 5 which are measured in terms of their respective standards.

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61. Fair value disclosures *(continued)*

61.2 Reconciliation of Level 3 assets and liabilities

A reconciliation of the opening balances to closing balances for all movements on Level 3 assets and liabilities is set out below:

	Group 2016				
	Trading and hedging portfolio assets Rm	**Other assets Rm**	**Loans and advances to customers Rm**	**Loans and advances to banks Rm**	**Investment securities Rm**
Opening balance at the beginning of the reporting period	**1 418**	**25**	**7 511**	**2 109**	**3 966**
Net interest income	—	—	297	—	56
Other income	—	—	—	—	—
Gains and losses from banking and trading activities	112	—	—	(140)	(1 079)
Gains and losses from investment activities	—	—	—	—	106
Purchases	1 308	(3)	—	70	543
Sales	(1 333)	(17)	(1 956)	(1 468)	(233)
Movement in other comprehensive income	—	—	—	—	(80)
Issues	—	—	—	—	—
Settlements	—	—	—	—	—
Transferred to/(from)	—	—	—	—	1 136
Movement in/(out) of Level 3	—	—	(962)	—	(1 057)
Closing balance at the end of the reporting period	**1 505**	**5**	**4 890**	**571**	**3 358**

	Group 2015				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm
Opening balance at the beginning of the reporting period	1 162	17	4 731	—	6 467
Net interest income	—	—	488	—	85
Other income	—	—	—	—	—
Gains and losses from banking and trading activities	323	—	—	—	—
Gains and losses from investment activities	—	—	—	(18)	50
Purchases	16	8	5 108	2 127	47
Sales	(83)	—	(2 816)	—	(2 718)
Movement in other comprehensive income	—	—	—	—	35
Issues	—	—	—	—	—
Settlements	—	—	—	—	—
Transferred to/(from) assets/liabilities	—	—	—	—	—
Movement in/(out) of Level 3	—	—	—	—	—
Closing balance at the end of the reporting period	1 418	25	7 511	2 109	3 966

61.2.1 Significant transfers between levels

During the 2016 and 2015 reporting periods, transfers between levels occurred because of changes in the observability of valuation inputs, in some instances owing to changes in the level of market activity.

Transfers have been reflected as if they had taken place at the beginning of the year.

	Group 2016									
	Investment properties Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Liabilities under investment contract Rm	Total liabilities at fair value Rm
	1 264	—	16 293	7	217	5	2 557	624	—	3 410
	—	—	353	—	—	—	—	—	—	—
	17	—	17	—	—	—	—	—	—	—
	—	—	(1 107)	—	91	—	—	—	—	91
	—	—	106	—	—	—	139	(9)	—	130
	28	—	1 946	—	—	—	—	—	—	—
	(83)	—	(5 090)	—	—	—	—	—	—	—
	—	—	(80)	—	—	—	—	—	—	—
	—	—	—	—	—	36	1 953	—	—	1 989
	—	—	—	(7)	—	—	(3 510)	(11)	—	(3 528)
	(748)	—	388	—	—	—	—	—	—	—
	—	—	(2 019)	—	—	—	—	—	—	—
	478	—	10 807	—	308	41	1 139	604	—	2 092

	Group 2015									
	Investment properties Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Liabilities under investment contract Rm	Total liabilities at fair value Rm
	727	1	13 105	—	320	28	5 530	42	3 022	8 942
	—	—	573	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—
	—	—	323	—	(21)	—	—	—	—	(21)
	60	—	92	—	—	(23)	132	172	(479)	(198)
	478	—	7 784	—	—	—	—	—	—	—
	(1)	(1)	(5 619)	—	—	—	—	—	—	—
	—	—	35	—	—	—	—	—	—	—
	—	—	—	7	1	—	3 112	410	—	3 530
	—	—	—	—	(83)	—	(3 265)	—	—	(3 348)
	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	(2 952)	—	(2 543)	(5 495)
	1 264	—	16 293	7	217	5	2 557	624	—	3 410

61. Fair value disclosures *(continued)*

61.3 Unrealised gains and losses on Level 3 assets and liabilities

The total unrealised gains and losses for the reporting period on Level 3 positions held at the reporting date are set out below:

	Group							
	2016							
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm	Investments linked to investment contracts Rm	Non-current assets held for sale Rm	Total assets at fair value Rm
Gains and losses from banking and trading activities	3	—	35	29	—	—	—	67
	2015							
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Investment properties Rm	Investments linked to investment contracts Rm	Non-current assets held for sale Rm	Total assets at fair value Rm
Gains and losses from banking and trading activities	96	—	(28)	48	—	—	—	116

	Group				
	2016				
	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Liabilities under investment contracts Rm	Total liabilities at fair value Rm
Gains and losses from banking and trading activities	86	—	—	—	86
	2015				
	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Liabilities under investment contracts Rm	Total liabilities at fair value Rm
Gains and losses from banking and trading activities	79	—	—	—	79

61. Fair value disclosures *(continued)*

61.4 Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of possible alternative valuations. The assets and liabilities that most impact this sensitivity analysis are those with more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

The following table reflects how the unobservable parameters were changed in order to evaluate the sensitivities of Level 3 financial assets and liabilities:

Significant unobservable parameter	Positive/(negative) variance applied to parameters
Credit spreads	100/(100) bps
Volatilities	10/(10)%
Basis curves	100/(100) bps
Yield curves and repo curves	100/(100) bps
Future earnings and marketability discounts	15/(15)%
Funding spreads	100/(100) bps

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value of the asset or liability by more than 10% or the underlying value of the affected item.

This is demonstrated by the following sensitivity analysis which includes a reasonable range of possible outcomes:

		2016	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	**BAGL/Absa funding spread**	**—/—**	**—/—**
Investment securities and investments linked to investment contracts	**Risk adjustment yield curves, future earnings and marketability discount**	**34/36**	**94/100**
Loans and advances to customers	**Credit spreads**	**72/71**	**—/—**
Other assets	**Credit spreads**	**—/—**	**—/—**
Trading and hedging portfolio assets	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**175/175**	**—/—**
Trading and hedging portfolio liabilities	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**20/20**	**—/—**
Other liabilities	**Volatility, credit spreads**	**—/—**	**—/—**
		301/302	**94/100**

61. Fair value disclosures *(continued)*

61.4 Sensitivity analysis of valuations using unobservable inputs (continued)

		2015	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	BAGL/Absa funding spread	—/—	—/—
Investment securities and investments linked to investment contracts	Risk adjustment yield curves, future earnings and marketability discount	—/—	—/—
Loans and advances to customers	Credit spreads	235/246	—/—
Other assets	Volatility, credit spreads	—/—	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	107/107	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	15/15	—/—
Other liabilities	Volatility, credit spreads	—/—	—/—
		357/368	—

61.5 Unrecognised (losses)/gains as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in the statement of comprehensive income that relates to the difference between the transaction price and the amount that would have arisen had valuation models using observable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	Group	
	2016 Rm	2015 Rm
Opening balance at the beginning of the reporting period	**(105)**	(52)
New transactions	**(64)**	(91)
Amounts recognised in profit or loss during the reporting period	**30**	38
Closing balance at the end of the reporting period	**(139)**	(105)

61.6 Third-party credit enhancements

There were no significant liabilities measured at fair value and issued with inseparable third-party credit enhancements.

61. Fair value disclosures *(continued)*

61.7 Assets and liabilities not held at fair value

The following table summarises the carrying amounts and fair value of those assets and liabilities not held at fair value.

	Group 2016				
	Carrying value Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with other central banks	13 395	13 395	13 395	—	—
Balances with the SARB	18 552	18 552	18 552	—	—
Coins and bank notes	13 141	13 141	13 141	—	—
Money market assets	38	38	38	—	—
Cash, cash balances and balances with central banks	45 126	45 126	45 126	—	—
Loans and advances to banks	29 932	29 827	1 834	26 450	1 543
Other assets	22 120	22 188	9 640	7 832	4 716
Retail Banking South Africa	375 082	374 973	—	—	374 973
Credit cards	35 614	35 614	—	—	35 614
Instalment credit agreements	73 955	73 650	—	—	73 650
Loans to associates and joint ventures	18 933	18 933	—	—	18 933
Mortgages	223 662	223 674	—	—	223 674
Other loans and advances	510	510	—	—	510
Overdrafts	3 947	3 947	—	—	3 947
Personal and term loans	18 461	18 645	—	—	18 645
Business Banking South Africa	69 375	69 387	1 238	—	68 149
Mortgages (including CPF)	35 295	35 307	—	—	35 307
Overdrafts[1]	18 426	18 426	1 238	—	17 188
Term loans[1]	15 654	15 654	—	—	15 654
RBB Rest of Africa	40 037	40 027	—	5 415	34 612
CIB	205 464	205 464	15 588	39 975	149 901
WIMI	5 660	5 660	—	—	5 660
Head Office, Treasury and other operations	615	615	—	615	—
Loans and advances to customers – net of impairment losses	696 233	696 126	16 826	46 005	633 295
Total assets	793 411	793 267	73 426	80 287	639 554
Financial liabilities					
Deposits from banks	44 107	44 107	978	43 124	5
Other liabilities	23 600	23 584	7 646	10 721	5 217
Call deposits	62 426	62 426	15 500	46 926	—
Cheque account deposits	200 367	200 367	191 103	9 264	—
Credit card deposits	1 906	1 906	1 906	—	—
Fixed deposits	153 295	153 358	415	148 395	4 548
Foreign currency deposits	24 825	24 825	447	24 378	—
Notice deposits	59 358	59 371	1 674	57 697	—
Other deposits	3 189	3 189	1 236	1 898	55
Saving and transmission deposits	152 378	152 378	143 897	8 243	238
Deposits due to customers	657 744	657 820	356 178	296 801	4 841
Debt securities in issue	134 197	134 197	457	130 951	2 789
Borrowed funds	15 673	15 893	—	15 797	96
Total liabilities	875 321	875 601	365 259	497 394	12 948

Note

[1] Some overdrafts were reallocated to term loans to align to the way the products are utilised by the customers. The restatement effected resulted in a decrease of **R821m** (2015: R555m) in 'Overdrafts' with corresponding increase in 'Term loans'.

61. Fair value disclosures *(continued)*

61.7 Assets and liabilities not held at fair value (continued)

	Group 2015				
	Carrying value Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with other central banks	12 141	12 141	12 141	—	—
Balances with the SARB	17 459	17 459	17 459	—	—
Coins and bank notes	12 898	12 898	12 898	—	—
Money market assets	34	34	34	—	—
Cash, cash balances and balances with central banks	42 532	42 532	42 532	—	—
Loans and advances to banks	61 623	61 632	5 018	51 667	4 947
Other assets	22 875	22 875	13 428	3 872	5 575
Retail Banking South Africa	374 996	373 967	—	—	373 967
Credit cards	37 148	37 148	—	—	37 148
Instalment credit agreements	72 859	71 798	—	—	71 798
Loans to associates and joint ventures	16 175	16 175	—	—	16 175
Mortgages	228 349	228 359	—	—	228 359
Other loans and advances	367	367	—	—	367
Overdrafts	2 820	2 820	—	—	2 820
Personal and term loans	17 278	17 300	—	—	17 300
Business Banking South Africa	63 412	63 440	1 093	—	62 347
Mortgages (including CPF)	30 730	30 742	—	—	30 742
Overdrafts[1]	17 604	17 620	1 093	—	16 527
Term loans[1]	15 078	15 078	—	—	15 078
RBB Rest of Africa	45 212	45 212	—	13 056	32 156
CIB	184 342	184 344	21 046	42 387	120 911
WIMI	5 350	5 350	—	—	5 350
Head Office and other operations	625	625	—	389	236
Loans and advances to customers – net of impairment losses	673 937	672 938	22 139	55 832	594 967
Total assets	800 967	799 977	83 117	111 371	605 489
Financial liabilities					
Deposits from banks	50 962	50 962	7 243	43 386	333
Other liabilities	21 398	21 278	8 282	7 672	5 324
Call deposits	72 172	72 172	69 034	3 138	—
Cheque account deposits	200 614	200 614	192 769	7 845	—
Credit card deposits	2 002	2 002	2 002	—	—
Fixed deposits	157 661	157 774	5 222	133 368	19 184
Foreign currency deposits	27 865	27 865	465	27 400	—
Notice deposits	48 954	48 963	1 376	47 587	—
Other deposits	13 791	13 791	1 289	4 695	7 807
Saving and transmission deposits	147 561	147 561	138 881	8 320	360
Deposits due to customers	670 620	670 742	411 038	232 353	27 351
Debt securities in issue	122 436	119 859	157	117 605	2 097
Borrowed funds	13 151	13 520	—	12 739	781
Total liabilities	878 567	876 361	426 720	413 755	35 886

Note

[1] Some overdrafts were reallocated to term loans to align to the way the products are utilised by the customers. The restatement effected resulted in a decrease of **R821m** (2015: R555m) in 'Overdrafts' with corresponding increase in 'Term loans'.

62. Credit risk of financial instruments designated at fair value

The following table represents the maximum exposure to credit risk of financial assets designated at fair value through profit or loss at the reporting date before taking into account collateral held or other credit enhancements.

	Group		Credit risk mitigation	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Assets				
Cash, cash balances and balances with central banks	**4 880**	3 372	**—**	—
Investment securities	**25 056**	19 939	**—**	—
Loans and advances to banks	**19 857**	24 328	**18 768**	19 423
Other assets	**9**	26	**—**	—
Loans and advances to customers	**24 076**	29 422	**16 201**	21 028
Investments linked to investment contracts	**18 776**	19 498	**—**	—
	92 654	96 585	**34 969**	40 451

The Group utilised credit derivatives and credit linked notes as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss.

Contractual obligation at maturity of financial liabilities designated at fair value through profit or loss

The following table represents the carrying amount of financial liabilities designated at fair value through profit or loss and the amount that the Group is contractually required to pay to the holder of the obligation at maturity.

	Group			
	2016		2015	
	Carrying value Rm	**Contractual obligation Rm**	Carrying value Rm	Contractual obligation Rm
Liabilities				
Deposits from banks	**9 085**	**10 771**	12 018	15 343
Other liabilities	**45**	**45**	12	12
Deposits due to customers	**17 121**	**20 454**	17 799	17 799
Debt securities in issue	**5 517**	**7 003**	6 247	7 058
Liabilities under investment contracts	**29 198**	**29 198**	24 209	24 209
	60 966	**67 471**	60 285	64 421

62. Credit risk of financial instruments designated at fair value *(continued)*

(Increase)/Decrease in fair value attributable to changes in own credit risk during the reporting period

	Group 2016 Rm	Group 2015 Rm
Liabilities		
Deposits from banks and customers	**(12)**	130
Cumulative adjustment in fair value attributable to changes in own credit risk		
Liabilities		
Deposits from banks and customers	**105**	93

The following approaches are used in determining changes in fair value due to changes in credit risk for deposits from banks and customers designated at fair value through profit or loss:

- The carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data, such as funding issued by the Group. Most market parameters are either directly observable or are implied by instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

63. Risk management

63.1 *Effective risk management and control are essential for sustainable and profitable growth*

The role of risk management is to evaluate, respond to, and monitor risks in the execution of the Group's strategy. It is essential that the business growth strategy is supported by an effective Enterprise Risk Management Framework (ERMF). Risk culture is closely aligned to that of the business. The Risk Function retains independence in analysis and decision-making.

The approach to managing risk is outlined in the ERMF, which provides the basis for setting policies and standards, and establishing the appropriate risk practices throughout the Group. It defines the risk management process and sets out the activities, tools, techniques and organisational arrangements to ensure that material risks can be identified and managed. It also ensures that appropriate responses are in place to protect the Group and prevent detriment to its stakeholders.

The ERMF includes those risks taken by the Group that are foreseeable, and material enough to merit establishing specific group-wide control frameworks. These are known as key risks and are grouped into five principal risks.

The three lines of defence operating model, which has been defined in the ERMF, enables the appropriate assignment of risk management activities between those parties that:

- Originate and own risk, and implement controls (first line);
- Oversee and challenge the first line, providing independent risk management activity and support controls (second line); and
- Provide assurance that risk processes are fit for purpose, and that they are being carried out as intended (third line).

The ERMF enables businesses and functions to be organised along the three lines by formalising independence and challenge, while promoting collaboration and the flow of information between all areas.

The ERMF is reviewed and approved annually by the Board.

Future priorities (Unaudited)

- Regularly review and alter risk appetite (where appropriate) to take account of global and local macroeconomic deterioration.
- Increase focus on governance and model risk across the Group.
- Continue to focus on technology, fraud (including cybercrime) and anti-money laundering.
- Increase focus on data initiatives, including those arising from regulations (eg BCBS 239, and IFRS 9).
- Continue to enhance our scenario development and stress testing processes.
- Embed enhanced Risk Measurement tools and models to include more extensive use of Economic Capital metrics.

Credit risk

The risk of financial loss should the Group's customers, clients or market counterparties fail to fulfil their contractual obligations due to a borrower, counterparty to a derivative transaction, or an issuer of debt securities defaulting on its contractual obligations.

Risk appetite

Risk appetite and stress testing are key components of the Group's management of risk and are embedded as part of the strategic planning process. The risk appetite statement describes and measures the amount and types of risk that the Group is prepared to take in executing its strategy. The Group's risk appetite framework combines a top-down view of capacity to take risk with a bottom-up view of the risk profile associated with each business area's plans.

63. Risk management *(continued)*

63.1 Effective risk management and control are essential for sustainable and profitable growth *(continued)*

Risk appetite key indicators and triggers

The Group manages its risk profile in a forward-looking manner through a trigger and management action framework, which has been reviewed and strengthened. Key indicators and triggers have been developed to serve as an early warning system. The indicators include, inter alia, economic indices directly correlated with risk measures and key financial indicators. The indicators and triggers have been implemented at Group, Business Unit, country, and product levels, and are regularly monitored by management and reported to the Group Risk and Capital Management Committee (GRCMC) on a quarterly basis.

Stress testing

Stress testing is a key element of the Group's integrated planning and risk management processes. Through the use of stress testing and scenario analysis, the Group is able to assess the performance of the Group's portfolios in the expected economic environment and also evaluate the impact of adverse economic conditions.

Actual market stresses, which have been experienced throughout the financial system in recent years, have been used to inform the Group's capital planning process and enhance the stress scenarios employed. The Group takes into account the results of all such stress testing when assessing its internal and regulatory capital requirements including the setting of capital and liquidity buffers.

The GRCMC exercises governance oversight and approval authority over stress testing results.

Performance (unaudited)

- Loans and advances: Growth in loans and advances to customers moderated to 2,7%. In South Africa, solid growth was seen in the Business Bank and Corporate and Investment Bank portfolios, while the Retail portfolio remained overall flat. Notably, the home loans portfolio decreased by 2% during the year. The growth in South African Wholesale banking was offset by a decline across the Rest of Africa businesses.
- Impairments: The credit loss ratio deteriorated to **108 bps** (December 2015: 92 bps). The retail credit impairment charge increased to **R6 590m** (December 2015: R5 451m) due to deterioration across most retail portfolios in South Africa and Rest of Africa, and additional macroeconomic provisions of R141m. The deterioration in retail credit performance in South Africa can be ascribed to increased pressure on consumers as a result of the weakening macroeconomic environment. The wholesale credit impairment charge increased to **R2 197m** (December 2015: R1 431m) due to new single name impairments in CIB, Business Bank and Rest of Africa and additional macroeconomic provisions of R220m.
- Non-performing loans (NPLs): The balance of Retail NPLs increased by 9,8% due to higher roll into late arrears. The balance of Wholesale NPLs increased by 14,6% due to new defaults in the Consumer Sector and Rest of Africa. NPLs as a percentage of gross loans and advances increased to **3,9%** (December 2015: 3,5%) as a result of the higher NPL balances and restrained book growth. The NPL coverage ratio increased overall to **44,2%** (December 2015: 43,2%).
- Performing Coverage: Performing coverage increased further to **0,79%** (December 2015: 0,65%) due to additional macroeconomic provisions of R283m that were raised during the year as well as increased early arrears. This is against the backdrop of the increasingly challenging macroeconomic environment in which the bank operates.
- EAD/PD/LGD: PDs in the Retail portfolios increased, while LGDs decreased as a result of new model implementations across all Retail portfolios. EAD growth in Retail IRB portfolios is due to new EAD model implementations and reclassification of SME Corporates to SME Retail, while growth in Wholesale IRB portfolios is due to growth in Corporate and Sovereign exposures, offset by a reduction in Bank exposure.
- RWA as a percentage of EAD: The result of lower LGD levels in the Retail portfolios and continuing capital optimisation exercises resulted in lower RWA intensity levels.

Future priorities (Unaudited)

- Identify and actively manage credit risk trends and opportunities in order to deliver a world-class credit risk operation.
- Continue to refine and enhance the embedment of credit risk appetite throughout the group to ensure alignment of business strategy with credit risk appetite.
- Focus on data and systems as enablers of efficient credit risk management.
- Close monitoring of the macroeconomic environment and emerging risks, and implementation of agreed management actions when required.

63. Risk management *(continued)*

63.2 *Credit risk*

The following table analyses financial assets between those that are neither past due nor impaired and those that are past due and/or impaired. Past due/impaired assets are further analysed in the tables that follow.

Maximum exposure to credit risk

	Group 2016				
		Neither past due nor impaired[1]			
	Gross maximum exposure Rm	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total past due and/or impaired loans Rm
Balances with other central banks	13 395	5 612	7 783	—	—
Balances with the SARB	18 552	18 552	—	—	—
Money market assets	4 918	4 918	—	—	—
Cash, cash balances and balances with central banks (refer to note 2)	36 865	29 082	7 783	—	—
Government bonds	46 781	46 781	—	—	—
Other	29 088	18 169	10 919	—	—
Treasury bills	32 365	28 746	3 619	—	—
Investment securities (refer to note 3)	108 234	93 696	14 538	—	—
Loans and advances to banks (refer to note 4)	49 789	37 541	12 092	147	9
Debt instruments	23 753	20 007	3 746	—	—
Derivative assets	46 898	44 840	2 056	2	—
Money market assets	7 962	7 469	339	154	—
Trading and hedging portfolio assets (refer to note 5)	78 613	72 316	6 141	156	—
Accounts receivable	15 612	13 174	2 393	25	20
Settlement accounts	6 517	6 480	37	—	—
Other assets (refer to note 6)	22 129	19 654	2 430	25	20
RBB	501 457	77 404	342 428	26 465	55 160
Retail Bank South Africa	387 027	55 732	262 358	23 687	45 250
Credit cards	40 225	4 373	17 972	8 596	9 284
Instalment credit agreements	75 615	6 766	57 296	5 996	5 557
Loans to associates and joint ventures	18 933	18 933	—	—	—
Mortgages	226 984	23 431	171 920	5 671	25 962
Other loans and advances	510	86	394	30	—
Overdrafts	4 143	1 002	2 493	194	454
Personal and term loans	20 617	1 141	12 283	3 200	3 993
Business Bank South Africa	71 434	12 169	51 252	1 921	6 092
Mortgages (including CPF)	36 113	7 970	25 039	930	2 174
Overdrafts	19 213	1 794	14 760	582	2 077
Term loans	16 108	2 405	11 453	409	1 841
RBB Rest of Africa	42 996	9 503	28 818	857	3 818
CIB	232 214	153 880	70 152	3 425	4 757
WIMI	5 731	1 366	4 051	192	122
Head Office, Treasury and other operations	623	623	—	—	—
Loans and advances to customers (refer to note 8)	740 025	233 273	416 631	30 082	60 039
Insurance contracts	985	798	187	—	—
Investment contracts	—	—	—	—	—
Reinsurance assets (refer to note 10)	985	798	187	—	—
Debt instruments	506	506	—	—	—
Derivative instruments	39	39	—	—	—
Money market assets	2 085	2 085	—	—	—
Investments linked to investment contracts (refer to note 11)	2 630	2 630	—	—	—
Total gross maximum exposure to credit risk	1 039 270				
Impairments raised (refer to note 9)	(19 716)				
Total net exposure to credit risk as disclosed on the statement of financial position	1 019 554				
Assets not subject to credit risk	81 469				
Total assets per the statement of financial position	1 101 023				

Note
[1] Refer to note 1.2 for DG bucket definitions.

63. Risk management *(continued)*

63.2 Credit risk *(continued)*

Maximum exposure to credit risk

	Group				
	2015				
		Neither past due nor impaired[1]			
	Gross maximum exposure Rm	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total past due and/or impaired loans Rm
Balances with other central banks	12 141	4 819	7 322	—	—
Balances with the SARB	17 459	17 459	—	—	—
Money market assets	3 405	3 405	—	—	—
Cash, cash balances and balances with central banks (refer to note 2)	33 005	25 683	7 322	—	—
Government bonds	45 578	45 578	—	—	—
Other	20 133	15 973	4 160	—	—
Treasury bills	30 649	19 924	10 725	—	—
Investment securities (refer to note 3)	96 360	81 475	14 885	—	—
Loans and advances to banks (refer to note 4)	85 951	71 689	14 248	—	14
Debt instruments	29 219	27 850	1 369	—	—
Derivative assets[2]	80 509	78 595	1 914	—	—
Money market assets	10 341	7 979	2 362	—	—
Trading portfolio assets (refer to note 5)[2]	120 069	114 424	5 645	—	—
Accounts receivable	14 695	13 727	777	—	191
Settlement accounts	8 206	7 480	726	—	—
Other assets (refer to note 6)	22 901	21 207	1 503	—	191
RBB	499 033	153 912	264 114	26 920	54 087
Retail Bank South Africa	385 673	121 845	197 950	22 439	43 439
Credit cards	41 404	4 938	13 787	13 359	9 320
Instalment credit agreements	74 028	13 926	53 267	1 987	4 848
Loans to associates and joint ventures	16 176	16 176	—	—	—
Mortgages	231 656	82 530	118 982	4 780	25 364
Other loans and advances	367	82	273	12	—
Overdrafts	2 953	537	2 070	2	344
Personal and term loans	19 089	3 656	9 571	2 299	3 563
Business Bank South Africa	65 358	15 195	42 366	1 990	5 807
Mortgages (including CPF)	31 636	6 885	20 793	1 240	2 718
Overdrafts[3]	18 249	3 974	12 357	421	1 497
Term loans[3]	15 473	4 336	9 216	329	1 592
RBB Rest of Africa	48 002	16 872	23 798	2 491	4 841
CIB	215 342	135 065	69 986	5 189	5 102
WIMI	5 415	678	4 141	114	482
Head Office, Treasury and other operations	669	669	—	—	—
Loans and advances to customers (refer to note 8)	720 459	290 324	338 241	32 223	59 671
Insurance contracts	581	537	44	—	—
Investment contracts	—	—	—	—	—
Reinsurance assets (refer to note 10)	581	537	44	—	—
Debt instruments	694	694	—	—	—
Derivative instruments	19	19	—	—	—
Money market assets	1 105	1 105	—	—	—
Investments linked to investment contracts (refer to note 11)	1 818	1 818	—	—	—
Total gross maximum exposure to credit risk	1 081 144			—	—
Impairments raised (refer to note 9)	(17 100)				
Total net exposure to credit risk as disclosed on the statement of financial position	1 064 044				
Assets not subject to credit risk	80 560				
Total financial assets per the statement of financial position	1 144 604				

Notes

[1] Refer to note 1.2 for DG bucket definitions.

[2] In the current reporting period, the Group has aggregated the hedging portfolio derivative asset balances and comparatives have been restated accordingly.

[3] Some overdrafts were reallocated to term loans to align to the way the products are utilised by the customers, resulting in a restatement of the comparatives. The restatement was effected as follows: a decrease of R555m in the Overdrafts gross maximum exposures causing a decrease of R469m and R86m in the DG1-11 and DG 12-19 categories respectively; an increase of R555m in the Term loans gross maximum exposures causing an increase of R469m and R86m in the DG1-11 and DG 12-19 categories respectively.

63. Risk management *(continued)*

63.2 *Credit risk (continued)*

Credit exposures relating to off-statement of financial position items

For financial guarantees, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Group	
	2016 Rm	2015 Rm
Financial guarantee contracts (refer to note 52)	**10**	24
Guarantees (refer to note 54)	**38 441**	37 901
Irrevocable debt facilities (refer to note 54)	**135 935**	152 984
Letters of credit (refer to note 54)[1]	**8 481**	8 207
Other (refer to note 54)	**135**	5 325
	183 002	204 441

Concentration of credit risk

Concentration of credit risk exists when a number of counterparties are located in a geographical region, such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions.

	Group				
	2016				
Geographical concentration of risk	**Asia, Americas and Australia Rm**	**Europe[2] Rm**	**Rest of Africa Rm**	**South Africa Rm**	**Total Rm**
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	**26**	**1**	**13 501**	**23 337**	**36 865**
Investment securities	**3 978**	**1 728**	**23 731**	**78 797**	**108 234**
Loans and advances to banks	**6 759**	**23 079**	**10 485**	**9 466**	**49 789**
Trading portfolio assets	**162**	**19 035**	**6 647**	**51 025**	**76 869**
Hedging portfolio assets	**28**	**581**	**—**	**1 135**	**1 744**
Other assets	**296**	**510**	**2 650**	**18 673**	**22 129**
Loans and advances to customers	**3 595**	**9 307**	**82 550**	**624 857**	**720 309**
Reinsurance assets	**83**	**230**	**488**	**184**	**985**
Investments linked to investment securities	**—**	**—**	**—**	**2 630**	**2 630**
Subject to credit risk	**14 927**	**54 471**	**140 052**	**810 104**	**1 019 554**
Off-statement of financial position exposures					
Financial guarantee contracts	**—**	**—**	**—**	**10**	**10**
Guarantees	**429**	**737**	**8 726**	**28 549**	**38 441**
Irrevocable debt facilities	**—**	**—**	**5 091**	**130 844**	**135 935**
Letters of credit	**1 307**	**1 459**	**5 604**	**111**	**8 481**
Other	**—**	**—**	**—**	**135**	**135**
Subject to credit risk	**1 736**	**2 196**	**19 421**	**159 649**	**183 002**

Amounts presented in the above table are presented net of impairments, where relevant.

Notes

[1] The presentation of commitments for 2015 has been revised following the reallocation of an amount of R740m from Commitments to Letters of Credit (within Contingencies) so as to more appropriately reflect the substance of the item.

[2] Included within the balance in respect of Europe are exposures facing Barclays PLC.

63. Risk management *(continued)*

63.2 Credit risk *(continued)*

Geographical concentration of risk	Asia, Americas and Australia Rm	Europe[1] Rm	Rest of Africa Rm	South Africa Rm	Total Rm
	Group 2015				
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	180	—	12 141	20 684	33 005
Investment securities	1 403	2 834	23 258	68 865	96 360
Loans and advances to banks	15 217	39 564	17 417	13 753	85 951
Trading portfolio assets	164	51 664	6 988	59 021	117 837
Hedging portfolio assets	33	857	17	1 325	2 232
Other assets	—	919	3 053	18 929	22 901
Loans and advances to customers	6 089	6 888	90 314	600 068	703 359
Reinsurance assets	71	167	192	151	581
Investments linked to investment securities	—	—	—	1 818	1 818
Subject to credit risk	23 157	102 893	153 380	784 614	1 064 044
Off-statement of financial position exposures					
Financial guarantee contracts	—	—	—	24	24
Guarantees	899	802	7 425	28 775	37 901
Irrevocable debt facilities	—	—	5 950	147 034	152 984
Letters of credit	2 117	2 212	1 567	1 570	7 466
Other	—	—	5 303	22	5 325
Subject to credit risk	3 016	3 014	20 245	177 425	203 700

Amounts presented in the above table are presented net of impairments, where relevant.

IFRS disclosures in terms of credit mitigation

The financial effect and forms of collateral and credit enhancements for each class of financial instrument giving rise to credit risk are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset balance is described further in note 1.2.1.

The Group offsets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Group has a legally enforceable right to do so. Amounts disclosed in the maximum exposure category are stated net of these.

The percentage collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying value of the related credit exposure where a loan is possibly over-collateralised, and dividing this value by the maximum exposure, as reported. The percentage reported is calculated independently of other forms of collateral and the assessment of impairment losses on loans and advances.

The Group may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount of this collateral and the value of this collateral is not reported.

Collateral includes:

- Guarantees and/or letters of credit from third parties.
- Credit default swaps and other credit derivatives.
- Credit insurance.
- Physical collateral including fixed charges over property.
- Cash collateral.
- Other forms including master netting agreements, put options, and highly liquid securities held under reverse repo agreements.

Note
[1] Included within the balance in respect of Europe are exposures facing Barclays PLC.

63. Risk management *(continued)*

63.2 Credit risk *(continued)*

Analysis of credit risk mitigation and collateral	Group 2016 Gross maximum exposure Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm
Balances with other central banks	13 395	—	—	—	—	13 395
Balances with SARB	18 552	—	—	—	—	18 552
Money market	4 918	—	—	—	—	4 918
Cash, cash balances and balances with central banks (refer to note 2)	**36 865**	**—**	**—**	**—**	**—**	**36 865**
Loans and advances to banks (refer to note 4)	**49 789**	**—**	**—**	**—**	**20 555**	**29 234**
Government bonds	46 781	—	—	—	—	46 781
Other	29 088	—	—	—	—	29 088
Treasury bills	32 365	—	—	—	—	32 365
Investment securities (refer to note 3)	**108 234**	**—**	**—**	**—**	**—**	**108 234**
Debt instruments	23 753	—	—	—	979	22 774
Derivative assets	46 898	—	—	2 810	35 340	8 748
Money market assets	7 962	—	—	—	—	7 962
Trading and hedging portfolio assets (refer to note 5)	**78 613**	**—**	**—**	**2 810**	**36 319**	**39 484**
Accounts receivable	15 612	126	—	6	26	15 454
Settlement accounts	6 517	—	—	—	—	6 517
Other assets (refer to note 6)	**22 129**	**126**	**—**	**6**	**26**	**21 971**
RBB	501 457	581	347 788	1 040	5 804	146 244
Retail Banking South Africa	387 027	2	292 307	58	—	94 660
Credit cards	40 225	2	63	41	—	40 119
Instalment credit agreements	75 615	—	75 598	17	—	—
Loans to associates and joint ventures	18 933	—	—	—	—	18 933
Mortgages	226 984	—	216 646	—	—	10 338
Other loans and advances	510	—	—	—	—	510
Overdrafts	4 143	—	—	—	—	4 143
Personal and term loans	20 617	—	—	—	—	20 617
Business Banking South Africa	71 434	101	50 268	982	6	20 077
Mortgages (including CPF)	36 113	13	32 629	18	2	3 451
Overdrafts	19 213	71	8 319	756	3	10 064
Term loans	16 108	17	9 320	208	1	6 562
RBB Rest of Africa	42 996	478	5 213	—	5 798	31 507
CIB	232 214	3 427	14 423	168	52 928	161 268
WIMI	5 731	—	939	—	—	4 792
Head Office, Treasury and other operations	623	—	—	—	—	623
Loans and advances to customers (refer to note 8)	**740 025**	**4 008**	**363 150**	**1 208**	**58 732**	**312 927**

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

63. Risk management *(continued)*

63.2 *Credit risk* *(continued)*

Analysis of credit risk mitigation and collateral	Group 2015 Gross maximum exposure Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm
Balances with other central banks	12 141	—	—	—	—	12 141
Balances with SARB	17 459	—	—	—	—	17 459
Money Market	3 405	—	—	—	—	3 405
Cash, cash balances and balances with central banks (refer to note 2)	33 005	—	—	—	—	33 005
Loans and advances to banks (refer to note 4)	85 951	—	—	87	21 177	64 687
Government bonds	45 578	—	—	—	—	45 578
Other	20 133	—	—	—	4 698	15 435
Treasury bills	30 649	—	—	—	—	30 649
Investment securities (refer to note 3)	96 360	—	—	—	4 698	91 662
Debt instruments	29 219	—	—	—	337	28 882
Derivative assets[1]	80 509	—	—	6 330	62 857	11 322
Money market assets	10 341	—	—	—	—	10 341
Trading and hedging portfolio assets (refer to note 5)[1]	120 069	—	—	6 330	63 194	50 545
Accounts receivable	14 695	307	—	—	531	13 857
Settlement accounts	8 206	9	—	—	2	8 195
Other assets (refer to note 6)	22 901	316	—	—	533	22 052
RBB	499 033	354	333 538	3 764	2 961	158 416
Retail Banking South Africa	385 673	2	285 186	45	—	100 440
Credit cards	41 404	2	59	34	—	41 309
Instalment credit agreements	74 028	—	67 165	11	—	6 852
Loans to associates and joint ventures	16 176	—	—	—	—	16 176
Mortgages	231 656	—	217 962	—	—	13 694
Other loans and advances	367	—	—	—	—	367
Overdrafts	2 953	—	—	—	—	2 953
Personal and term loans	19 089	—	—	—	—	19 089
Business Banking South Africa	65 358	161	38 800	1 096	3	25 298
Mortgages (including CPF)	31 636	25	24 219	20	—	7 372
Overdrafts[2]	18 249	100	7 262	878	2	10 007
Term loans[2]	15 473	36	7 319	198	1	7 919
RBB Rest of Africa	48 002	191	9 552	2 623	2 958	32 678
CIB	215 342	1 109	12 583	119	63 340	138 191
WIMI	5 415	—	974	—	—	4 441
Head Office, Treasury and other operations	669	—	—	—	—	669
Loans and advances to customers (refer to note 8)	720 459	1 463	347 095	3 883	66 301	301 717

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

Notes

[1] In the current reporting period, the Group included the effects of master netting arrangements within 'Other'. The Bank accordingly has realigned the comparative disclosures. In addition, the 'Other' collateral of R5 623m, and 'Guarantees, credit insurance, and credit derivatives collateral of R125m, have been reclassified to 'Cash' collateral to accordingly reflect the appropriate nature of collateral. The Group has also aggregated the hedging portfolio derivative asset balances and the comparatives have been restated accordingly.

[2] Some overdrafts were reallocated to term loans to align to the way the products are utilised by the customers, resulting in a restatement of the comparatives. The restatement was effected as follows: a decrease of R555m in the Overdrafts gross maximum exposures causing a decrease of R26m and R109m in the physical collateral and the cash collateral categories respectively; an increase of R555m in the Term loans gross maximum exposures causing an increase of R26m and R109m in the physical collateral and the cash collateral categories respectively.

63. Risk management *(continued)*

63.2 *Credit risk* *(continued)*

Enforcement of collateral

Residential properties

Carrying value of assets held by Group at the reporting date as a result of the enforcement of collateral is as follows:

	Group	
	2016 Rm	2015 Rm
Balance at the beginning of the reporting period	**—**	—
Acquisitions	**55**	25
Disposals	**(55)**	(25)
Provisions	**—**	—
Balance at the end of the reporting period	**—**	—

The Group has optimised the sales strategies of the stock of property in possession (PIP) to manage the inflow in order to minimise financial loss. This has resulted in the book remaining at **Rnil** (2015: Rnil).

The number of properties in possession reduced from 120 properties in the previous reporting period to 115 properties in the current reporting period. The gross PIPS portfolio increased from R37m in the previous reporting period to R62m in the current reporting period. Currently **41%** (2015: 48%) of the current inventory is sold pending registration.

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63. Risk management *(continued)*

63.2 *Credit risk (continued)*

Analysis of past due accounts

The following table demonstrates the maximum exposure to credit risk of financial assets considered past due and/or considered to be impaired:

	Group				
	2016				
		Past due not impaired Performing loans			
	Total past due and/or impaired loans Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm
Loans and advances to banks	9	—	—	—	—
Accounts receivable	20	7	5	2	—
Settlement accounts	—	—	—	—	—
Other assets	20	7	5	2	—
RBB	55 160	1 930	270	83	96
Retail Banking South Africa	45 250	22	7	2	17
Credit cards	9 284	—	—	—	—
Instalment credit agreements	5 557	22	7	2	17
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	25 962	—	—	—	—
Other loans and advances	—	—	—	—	—
Overdrafts	454	—	—	—	—
Personal and term loans	3 993	—	—	—	—
Business Banking South Africa	6 092	1 789	219	52	79
Mortgages (including CPF)	2 174	372	88	17	—
Overdrafts	2 077	738	41	13	36
Term loans	1 841	679	90	22	43
RBB Rest of Africa	3 818	119	44	29	—
CIB	4 757	—	—	—	—
WIMI	122	1	—	—	—
Head Office, Treasury and other operations	—	—	—	—	—
Loans and advances to customers	60 039	1 931	270	83	96

Financial assets not disclosed in the table above did not have any past due accounts.

	Group 2016							
	Past due not impaired Non-performing loans					Past due and/or impaired		
Past due older than 4 months Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Performing loans Rm	Non-performing loans Rm	Total non-performing loans Rm
9	—	—	—	—	—	—	—	—
6	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
6	—	—	—	—	—	—	—	—
105	331	61	55	64	719	26 085	25 361	26 591
—	35	3	—	18	8	25 036	20 102	20 166
—	—	—	—	—	—	3 861	5 423	5 423
—	35	3	—	18	8	3 424	2 021	2 085
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	15 933	10 029	10 029
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	234	220	220
—	—	—	—	—	—	1 584	2 409	2 409
47	255	45	49	5	340	619	2 593	3 287
23	129	23	5	—	75	108	1 334	1 566
18	17	—	10	1	144	302	757	929
6	109	22	34	4	121	209	502	792
58	41	13	6	41	371	430	2 666	3 138
199	9	3	1	33	1 214	168	3 130	4 390
2	1	—	—	—	25	3	90	116
—	—	—	—	—	—	—	—	—
306	341	64	56	97	1 958	26 256	28 581	31 097

63. Risk management *(continued)*

63.2 *Credit risk* *(continued)*

	Group				
	2015				
		Past due not impaired Performing loans			
	Total past due and/or impaired loans Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm
Loans and advances to banks	14	10	—	4	—
Accounts receivable	191	9	4	—	—
Settlement accounts	—	—	—	—	—
Other assets	191	9	4	—	—
RBB	54 087	922	139	107	22
Retail Banking South Africa	43 439	14	3	6	3
Credit cards	9 320	—	—	—	—
Instalment credit agreements	4 848	14	3	6	3
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	25 364	—	—	—	—
Other loans and advances	—	—	—	—	—
Overdrafts	344	—	—	—	—
Personal and term loans	3 563	—	—	—	—
Business Banking South Africa	5 807	908	136	101	19
Mortgages (including CPF)	2 718	403	79	66	4
Overdrafts	1 497	134	20	7	6
Term loans	1 592	371	37	28	9
RBB Rest of Africa	4 841	—	—	—	—
CIB	5 102	—	—	—	—
WIMI	482	114	81	68	30
Head Office, Treasury and other operations	—	—	—	—	—
Loans and advances to customers	59 671	1 036	220	175	52

Financial assets not disclosed in the table above did not have any past due accounts.

Group 2015								
	Past due not impaired Non-performing loans					Past due and/or impaired		
Past due older than 4 months Rm	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Performing loans Rm	Non-performing loans Rm	Total non-performing loans Rm
—	—	—	—	—	—	—	—	—
178	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
178	—	—	—	—	—	—	—	—
716	247	54	13	40	1 094	27 104	23 629	25 077
—	7	1	2	—	4	25 215	18 184	18 198
—	—	—	—	—	—	4 306	5 014	5 014
—	7	1	2	—	4	3 220	1 588	1 602
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	16 023	9 341	9 341
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	172	172	172
—	—	—	—	—	—	1 494	2 069	2 069
108	156	38	11	13	298	1 229	2 790	3 306
34	72	25	4	6	97	512	1 416	1 620
16	7	5	2	—	116	354	830	960
58	77	8	5	7	85	363	544	726
608	84	15	—	27	792	660	2 655	3 573
187	298	37	—	1	762	2 081	1 736	2 834
120	—	—	—	—	—	—	69	69
—	—	—	—	—	—	—	—	—
1 023	545	91	13	41	1 856	29 185	25 434	27 980

63. Risk management *(continued)*

63.2 Credit risk *(continued)*

Allowances for impairments on loans and advances to customers

Based on the credit quality of financial assets disclosed in the previous two tables, the Group raised the following allowances for impairments on loans and advances to customers during the reporting period.

	Group 2016				
	Unidentified impairment	Identified individual impairment		Identified collective impairment	
	performing loans Rm	Performing loans Rm	Non-performing loans Rm	Performing loans Rm	Non-performing loans Rm
RBB	(1 877)	(774)	(2 083)	(2 285)	(9 840)
Retail Banking South Africa	(981)	(51)	(188)	(2 258)	(8 467)
Credit cards	(159)	—	—	(569)	(3 883)
Instalment credit agreements	(346)	(51)	(188)	(338)	(737)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(361)	—	—	(852)	(2 109)
Other loans and advances	—	—	—	—	—
Overdrafts	(12)	—	—	(42)	(142)
Personal and term loans	(103)	—	—	(457)	(1 596)
Business Banking South Africa	(645)	(122)	(1 034)	(27)	(127)
Mortgages (including CPF)	(163)	(11)	(506)	(5)	(29)
Overdrafts	(282)	(70)	(358)	(14)	(63)
Term loans	(200)	(41)	(170)	(8)	(35)
RBB Rest of Africa	(251)	(601)	(861)	—	(1 246)
CIB	(1 017)	—	(1 765)	—	—
WIMI	(12)	(2)	(57)	—	—
Head Office, Treasury and other operations	(4)	—	—	—	—
Loans and advances to customers (refer to note 9)	(2 910)	(776)	(3 905)	(2 285)	(9 840)

63. Risk management *(continued)*

63.2 *Credit risk (continued)*

	Group 2015				
	Unidentified impairment performing loans Rm	Identified individual impairment		Identified collective impairment	
		Performing loans Rm	Non-performing loans Rm	Performing loans Rm	Non-performing loans Rm
RBB	(1 637)	(244)	(1 985)	(2 303)	(9 109)
Retail Banking South Africa	(811)	(26)	(122)	(2 187)	(7 530)
Credit cards	(154)	—	—	(570)	(3 532)
Instalment credit agreements	(265)	(26)	(122)	(257)	(499)
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	(287)	—	—	(956)	(2 064)
Other loans and advances	—	—	—	—	—
Overdrafts	(17)	—	—	(17)	(99)
Personal and term loans	(88)	—	—	(387)	(1 336)
Business Banking South Africa	(538)	(99)	(1 051)	(24)	(101)
Mortgages (including CPF)	(150)	(33)	(562)	(7)	(24)
Overdrafts	(228)	(28)	(325)	(15)	(45)
Term loans	(160)	(38)	(164)	(2)	(32)
RBB Rest of Africa	(288)	(119)	(812)	(92)	(1 478)
CIB	(636)	(130)	(933)	—	(18)
WIMI	(32)	—	(33)	—	—
Head Office, Treasury and other operations	(40)	—	—	—	—
Loans and advances to customers (refer to note 9)	(2 345)	(374)	(2 951)	(2 303)	(9 127)

63. Risk management *(continued)*

63.3 Market risk

Market risk is the risk that the Group's earnings, capital or business objectives will be adversely impacted by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads and comprises:

- **Traded market risk:** the risk of the Group being impacted by changes in the level or volatility of positions in its trading books, primarily in the Investment Bank.
- **Non-traded market risk:** the risk of the Group's earnings or capital being reduced due to the market risk exposure from banking book positions which may arise net of hedging activities.
- **Insurance risk:** the risk that future experiences relating to claims, expenses, policyholder behaviour and investment returns are different from the assumptions made when setting premiums or valuing policyholder liabilities.
- **Pension risk:** the risk that arises when an adverse movement between pension assets and liabilities contributes to a pension deficit.

Traded market risk arises in the trading book to support client-trading activity, whereas non-traded market risk arises from the banking book activities such as the provision of retail and wholesale banking products and services as well as treasury functions net of hedges.

The Group Market Risk Committee (GMRC) meets monthly to review, challenge and make recommendations concerning the market risk profile, including risk appetite, policies, limits, risk utilisation and the effectiveness of the control environment.

The Trading Risk Committee (TRC), Africa Treasury Committee (ATC) and the ATC subcommittees provide oversight of specific market risks.

Strategy

Market risk management objectives are to:

- ensure risk is managed within the Group's risk appetite by monitoring risk against the limit and appetite framework;
- ensure a high degree of net interest margin stability in the banking books;
- use appropriate models to measure risk and understand risk sensitivity and volatility, leverage stress testing and empirical analytics;
- underwrite risks that are well diversified in terms of types of risk and the level of insured benefits; and
- ensure pension risk is managed in accordance with outlined principles, objectives and governance, as well as the country specific regulations.

Traded market risk

Approach

Traded market risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, risk management solutions and execution of syndications. Mismatches between client transactions and hedges result in market risk. In CIB, trading risk is measured for the trading book, as defined for regulatory purposes and certain banking books.

Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported separately as 'Interest rate risk in the banking book'.

Risk appetite

The risk appetite for market risk is based on:

- proposed business strategy and growth;
- targeted growth in risk;
- budgeted revenue growth;
- historical risk usage;
- statistical modelling measures; and
- risk equated to capital projection under stress.

Risk measurement

A number of techniques are used to measure and control traded market risk on a daily basis, which include:

- value at risk (VaR) based measures (incorporating tail risk metrics) including both VaR and stressed value at risk (sVaR);
- tail metrics;
- position and sensitivity reporting (non-VaR);
- stress testing;
- backtesting; and
- standardised general and specific risk, as relevant.

63. Risk management *(continued)*

63.3 Market risk (continued)

Daily value at risk

Daily value at risk (DVaR) is an estimate of the potential loss that may arise from unfavourable market movements if current positions were to be held unchanged for one business day.

The Group uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 95%.

The historical simulation methodology can be split into three parts:

- Calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves.
- Sum of all hypothetical profits or losses for day one across all positions, giving one total profit or loss. Repeat for all other days in the two-year history.
- DVaR is the 95th percentile loss selected from the resultant two-year historically simulated strip of daily hypothetical net profit or loss. Daily losses in excess of the DVaR figure are likely to occur, on average, up to 26 times over the two-year period.

This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level for regulatory backtesting and RC calculation purposes, respectively. The VaR internal model has been approved by the SARB to calculate RC for all trading book portfolios in South Africa. The approval covers general position risk across all interest rate, foreign exchange, commodity, equity and traded credit products. Issuer-specific risk is currently reported in accordance with the regulatory standardised approach across the Group. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach. General position risk in trading books in the rest of Africa is also capitalised under the regulatory standardised approach.

DVaR is an important market risk measurement and control tool that is used by the Group. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. Backtesting measures daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily.

VaR estimates have a number of limitations:

- Historical simulation assumes that the past is a good representation of the future, which may not always be the case.
- The assumed time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- VaR does not indicate the potential loss beyond the selected percentiles.
- VaR is based on positions as at the close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured.
- Prudent valuation practices are used in the VaR calculation when there is difficulty obtaining rate/price information.

Tail risk metrics, stress testing and other sensitivity measures are used to complement VaR.

Backtesting

The Group conducts backtesting of the VaR risk measurement model against:

- the theoretical profit or loss representing the change in the value of the portfolio as computed by the risk system under the assumption that the portfolio holdings remained constant for the holding period; and
- the actual profit or loss representing the actual daily trading outcome.

Tail metrics

Tail risk metrics highlight the risk beyond the percentile selected for DVaR. The two tail risk metrics chosen for daily monitoring, using the current portfolio and two years of price and rate history, are:

- the average of the worst three hypothetical losses from the historical simulation; and
- expected shortfall (also referred to as expected tail loss), which is the average of all hypothetical losses from the historical simulation beyond the 95th percentile used for DVaR.

Non-value at risk

Non-value at risk (non-VaR) reporting covers non-statistical measures of measuring and monitoring risk sensitivities and exposures as well as gross or notional limits where appropriate. All asset classes and product types have non-VaR reporting and limit monitoring, as required. These limits are aligned to DVaR limits, but do not bear a direct linear relationship.

63. Risk management *(continued)*

63.3 Market risk (continued)

Stressed value at risk

Stressed value at risk (sVaR) is an estimate of the potential loss arising from a 12-month period of significant financial stress. The Group's sVaR model and period selection methodology were approved by the SARB. The SARB has also assigned a sVaR model multiplier to be used for RC calculations. sVaR uses DVaR methodology based on inputs calibrated to historical data from a continuous 12-month period to replicate a period of significant stress. A regular process is applied to assess the stress period in terms of the approved methodology, which means that the stress period is subject to change.

The sVaR regulatory capital (RC) requirement is calculated daily for South Africa and is disclosed for the reporting period.

Stress testing

Stress testing provides an indication of the potential size of losses that could occur in extreme conditions. Stress testing assists in identifying risk concentrations across business lines and assists senior management in making capital planning decisions. The Group performs two main types of stress/scenario testing. Firstly, risk factor stress testing is carried out, where extended historical stress moves are applied to each of the main risk categories including interest rate, equity, foreign exchange, commodity and credit spread risk. Secondly, the trading book is subjected to multi-factor scenarios that simulate past periods of significant market disturbance and hypothetical extreme yet plausible events. Scenarios are reviewed at least annually.

Stress testing results are monitored against approved limits and triggers for trading books in South Africa. A full revaluation approach is applied to undertake stress testing for said trading books. The approach taken for trading books in the region is sensitivity based.

Standardised specific risk

Idiosyncratic risks are capitalised through the Basel/regulatory framework using standardised rules. In addition, the standardised rules are used to quantify general risk RC for any instruments traded in South Africa for which internal model approach approval has not yet been obtained.

General risk for the region is quantified using standardised rules, specifically for the interest rate and foreign exchange asset classes to which exposures in these entities are limited. In particular, the maturity method is used to quantify general interest rate risk for the rest of Africa.

Risk control

Risk limits are set and reviewed at least annually to control the trading activities, in line with the defined risk appetite of the Group. The criteria for setting risk limits include relevant market analysis, market liquidity and business strategy.

This limit structure comprises the following types of market risk limits:

- VaR limits (DVaR);
- sVaR as relevant;
- position and sensitivity (non-VaR) limits;
- stress testing limits, as relevant; and
- management action triggers: reporting of actual losses based on predetermined tolerance levels.

Valuation control, independent price testing and bid-offer testing are conducted by Product Control and the results are reviewed monthly by the Valuation Governance and Control Committee of CIB.

The model validation function is responsible for validating all valuation models used for accounting and risk. The validation reviews the theoretical approach and its applicability to the product. Focus is on ensuring the implementation of the model is correct, identifying the primary risks, model limitations or uncertainties and recommending provisions to account for such uncertainties.

Risk reporting

The market risk team produces a number of detailed and summary market risk reports daily and monthly. These reports summarise the positions, risks and top stresses covering interest rate, foreign exchange, equity, commodity and credit spread risks. A risk summary is also presented at the MRC and other governance committees, as required.

63. Risk management *(continued)*

63.3 Market risk *(continued)*

Analysis of traded market risk exposure

The following table reflects the DVaR and expected shortfall statistics for trading book activities as measured by the internal models approach (IMA) for general trading position risk. Traded market risk exposure, as measured by average total DVaR, increased to **R25,12m** (2015: R23,20m) for the reporting period, which is an 8% increase on the prior year balance. This was principally due to increased volatility in interest rate risk during the period. The business model of CIB is orientated around client flow and the risk profile is maintained so that it is aligned with the near-term demands of clients. The model showed resilience in tough trading conditions. Trading revenues declined marginally compared to the previous reporting period, but a favourable risk-adjusted return was sustained for the reporting period.

	Group							
	2016				2015			
	Average Rm	**High[1] Rm**	**Low[1] Rm**	**As at the reporting date Rm**	Average Rm	High[1] Rm	Low[1] Rm	As at the reporting date Rm
Interest rate risk	**23,26**	**37,46**	**15,83**	**23,80**	20,41	33,61	13,36	23,95
Foreign exchange risk	**7,97**	**23,30**	**1,70**	**6,51**	6,54	24,26	1,83	5,86
Equity risk	**5,79**	**20,25**	**1,91**	**3,21**	6,23	14,46	1,97	4,92
Commodity risk	**0,45**	**1,75**	**0,02**	**0,66**	0,59	1,76	0,07	0,14
Inflation risk	**10,97**	**32,59**	**4,06**	**8,12**	9,49	24,75	3,14	15,81
Credit spread risk	**7,89**	**16,47**	**5,85**	**6,02**	10,94	15,79	7,27	15,77
Diversification effect	**(31,22)**	**n/a**	**n/a**	**(25,53)**	(31,00)	n/a	n/a	(36,75)
Total DVaR[2]	**25,12**	**48,51**	**14,10**	**22,80**	23,20	39,65	16,98	29,71
Expected shortfall[2]	**39,34**	**83,52**	**21,23**	**33,70**	35,52	61,85	24,58	50,30
Regulatory VaR[3]	**45,55**	**98,46**	**23,91**	**44,56**	39,61	81,15	26,14	47,76
Regulatory sVaR[3]	**84,54**	**144,51**	**50,49**	**50,49**	62,79	125,17	31,36	89,97

Interest rate risk in the banking book

Interest rate risk is the risk that the Group's financial position may be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, as well as from certain structural exposures within the statement of financial position, mainly due to repricing timing differences between assets, liabilities and equity. These risks impact both the earnings and the economic value of the Group.

Strategy

The Group's objective for managing interest rate risk in the banking book is to ensure a higher degree of interest rate margin stability and lower interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to the local treasury or Group Treasury, which in turn hedges material net exposures with the external market. As a result of mainly timing considerations, interest rate risk may arise when some of the net position remains with Treasury. A limit framework is in place to ensure that retained risk remains within approved risk appetite.

Risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Group's interest rate risk exposure within limits.

Where possible, hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules as detailed in the Group's accounting policies, are followed.

Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Group's equity, and is managed by Group Treasury. Interest rate risk also arises in each of the Rest of Africa treasuries in the normal course of managing the statement of financial position and facilitating customer activity. The risk is managed by the local treasury functions, subject to modest risk limits and other controls.

Prepayment risk arises in relation to transactions where an early settlement option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the Group is unable to collect full market-related compensation. The risk is controlled through book and term limits, funding (hedging) new loans according to the expected behavioural repayment profile and tracking deviations of actual customer behaviour from the expected profile.

Notes

[1] The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted.

[2] The analysis includes trading books for which internal models approval has been obtained.

[3] Regulatory VaR and sVaR are reported with a one-day holding period at a 99% confidence level. Consequently these figures are not directly comparable to the 95% risk metrics reported in the rest of the table. The sVaR period is subject to ongoing review for appropriateness.

63. Risk management *(continued)*

63.3 Market risk (continued)

Risk measurement

The techniques used to measure and control interest rate risk in the banking book include repricing profiles, annual earnings at risk (AEaR), DVaR and tail metrics, economic value of equity (EVE) sensitivity and stress testing.

Repricing profiles

With the repricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets based on the most likely repricing behaviour. The repricing profiles take the assumed behavioural profile of structural product balances into account.

Annual earnings at risk (AEaR)/Net interest income (NII) sensitivity

AEaR/Net interest income sensitivity measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. AEaR is monitored against approved internal limits.

Daily value at risk (DVaR)

The Group uses a sensitivity-based approach to calculate DVaR at a 95% confidence level for measuring interest rate risk in the banking book. The DVaR is monitored against approved internal limits, and is used as a complementary tool to AEaR. The DVaR is supplemented by non-DVaR, stress and tail metrics.

Economic value of equity (EVE) sensitivity

EVE sensitivity measures the sensitivity of the present value of the banking book at a specific point in time to a specified shock to the yield curve. Similar to DVaR, EVE is a present value sensitivity and is complementary to income sensitivity measures such as AEaR. EVE sensitivity is measured against regulatory guidelines and not against approved internal limits.

Stress testing

Stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. Stress testing is carried out by Market Risk to supplement the DVaR and AEaR metrics for South Africa. Stress testing for the Rest of Africa is carried out by Market Risk and the risk functions in each country and has been adopted as one of the primary risk metrics for the Rest of Africa and is monitored against formal internal limits.

Risk control

Market risk is controlled through the use of AEaR, DVaR and stress limits as appropriate and supported by non-DVaR metrics, as well as the monthly monitoring of the risk profiles and EVE sensitivity. Limits are set and monitored in accordance with the limit framework. Limits for AEaR, DVaR and stress are agreed by the GMRC. Compliance with limits is monitored by the respective Rest of Africa market risk team with oversight provided by Market Risk.

Risk reporting

DVaR and supporting metrics are reported daily for Group Treasury and the Rest of Africa businesses respectively, with the exception of two businesses, where reporting is performed on a monthly basis. The repricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for both Group Treasury and the Rest of Africa.

Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Group's banking book are set out in the table that follows, namely, the repricing profile of the book, the potential effect of changes in market interest rates on annual earnings and impact on equity reserves.

Repricing profile

The repricing profile of the Group's South Africa and Rest of Africa banking books shows that the consolidated banking book remains asset sensitive, as interest-earning assets reprice sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates.

63. Risk management *(continued)*
63.3 *Market risk (continued)*

	Group			
	2016			
Expected repricing profile	**On demand – 3 months Rm**	**4 – 6 months Rm**	**7 – 12 months Rm**	**Over 12 months Rm**
***Domestic bank book*[1]**				
Interest rate sensitivity gap	**106 528**	**(10 769)**	**(30 274)**	**(31 712)**
Derivatives[2]	**(109 180)**	**13 817**	**21 169**	**74 194**
Net interest rate sensitivity gap	**(2 652)**	**3 048**	**(9 105)**	**42 482**
Cumulative interest rate gap	**(2 652)**	**396**	**(8 709)**	**33 773**
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	**(0,3)**	**0,0**	**(1,0)**	**3,7**
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	**23 228**	**4 391**	**6 487**	**22 054**
Derivatives[2]	**120**	**—**	**25**	**66**
Net interest rate sensitivity gap	**23 348**	**4 391**	**6 512**	**22 120**
Cumulative interest rate gap	**23 348**	**27 739**	**34 251**	**56 371**
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	**12,9**	**15,3**	**18,9**	**31,1**
Total				
Cumulative interest rate gap	**20 696**	**28 135**	**25 542**	**90 144**
Cumulative gap as a percentage of the Group's total assets (%)	**1,9**	**2,6**	**2,3**	**8,2**

	2015			
Expected repricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
***Domestic bank book*[1]**				
Interest rate sensitivity gap	96 057	(7 809)	(27 471)	(34 563)
Derivatives[2]	(93 518)	5 293	18 294	69 931
Net interest rate sensitivity gap	2 539	(2 516)	(9 177)	35 368
Cumulative interest rate gap	2 539	23	(9 154)	26 214
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	0,3	0,0	(1,0)	2,8
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	19 425	13 999	6 690	30 433
Derivatives[2]	705	0	(15)	159
Net interest rate sensitivity gap	20 130	13 999	6 675	30 592
Cumulative interest rate gap	20 130	34 129	40 804	71 396
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	9,7	16,4	19,6	34,3
Total				
Cumulative interest rate gap	22 669	34 152	31 650	97 610
Cumulative gap as a percentage of the Group's total assets (%)	2,0	3,0	2,8	8,5

Notes
[1] Includes exposures held in the CIB banking book.
[2] Derivatives for interest rate risk management purposes (net nominal value).

63. Risk management *(continued)*

63.3 *Market risk (continued)*

Impact on earnings

The following table shows the impact on AEaR/NII for 100 and 200 bps up and down movements in market interest rates for the Group's banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of **R2,38bn** (31 December 2015: R1,96bn). A similar increase would result in an increase in projected 12-month net interest income of **R2,22bn** (31 December 2015: R2,26bn). AEaR increased by 0,6% to 5,7% of the Group's net interest income.

Annual earnings at risk for 100 and 200 bps changes in market interest rates

	Group			
	2016			
	Change in market interest rates			
	200 bps decrease	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Domestic bank book (Rm)[1]	**(1 835)**	**(766)**	**840**	**1 681**
Foreign subsidiaries' bank books (Rm)[2]	**(541)**	**(270)**	**270**	**541**
Total (Rm)	**(2 376)**	**(1 036)**	**1 110**	**2 222**
Percentage of the Group's net interest income (%)	**(5,7)**	**(2,5)**	**2,6**	**5,3**
Percentage of the Group's equity (%)	**(2,3)**	**(1,0)**	**1,1**	**2,2**
	2015			
	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book (Rm)[1]	(1 376)	(701)	865	1 672
Foreign subsidiaries' bank books (Rm)[2]	(586)	(293)	293	586
Total (Rm)	(1 962)	(994)	1 158	2 258
Percentage of the Group's net interest income (%)	(5,1)	(2,6)	3,0	5,9
Percentage of the Group's equity (%)	(2,0)	(1,0)	1,2	2,3

Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:

- higher or lower profit after tax resulting from higher or lower net interest income;
- higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments; and
- higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the effective tax rate for the reporting period.

The equity reserve sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios which are mark-to-market through reserves. The impact on equity is calculated by revaluing the fixed rate available-for-sale financial assets, including the effect of any associated hedges and derivatives designated as cash flow hedges, for an assumed change in market interest rates. The increase in sensitivity of the available-for-sale reserves is mainly due to the increase in the net directional risk.

Notes

[1] Includes exposures held in the CIB banking book.

[2] African subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.

63. Risk management *(continued)*

63.3 Market risk (continued)

Sensitivity of reserves to market interest rate movements

	Group					
	2016			2015		
	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1,2] Rm	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1,2] Rm
+100 bps parallel move in all yield curves						
Available-for-sale reserve	**(427)**	**(469)**	**(421)**	(444)	(591)	(444)
Cash flow hedging reserve	**(2 348)**	**(2 354)**	**(1 893)**	(2 084)	(2 387)	(2 084)
	(2 776)	**(2 801)**	**(2 342)**	(2 528)	(2 922)	(2 527)
As a percentage of Group equity (%)	**(2,7)**	**(2,7)**	**(2,3)**	(2,6)	(3,0)	(2,6)
–100 bps parallel move in all yield curves						
Available-for-sale reserve	**427**	**469**	**421**	444	591	444
Cash flow hedging reserve	**2 348**	**2 354**	**1 893**	2 084	2 387	2 084
	2 776	**2 801**	**2 342**	2 528	2 922	2 527
As a percentage of Group equity (%)	**2,7**	**2,7**	**2,3**	2,6	3,0	2,6

Foreign exchange risk

The Group is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Group's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Group's policy, there were no significant net open currency positions outside the trading book at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

Foreign currency translation sensitivity analysis

The following table depicts the carrying value of foreign currency net investments and the pre-tax impact on equity of a 5% change in the exchange rate between the ZAR and the relevant functional foreign currencies.

Notes

[1] The maximum and minimum impacts for each reserve category did not necessarily occur for the same months.

[2] The number represents the maximum or minimum potential combined impact for both reserve categories in a single month (and does not equate to the sum of the minimum and maximum per month as indicated in footnote 1 above.

63. Risk management *(continued)*

63.3 *Market risk (continued)*

Functional foreign currency

	Group			
	2016		2015	
	Foreign currency net investment Rm	Impact on equity from 5% currency translation shock Rm	Foreign currency net investment Rm	Impact on equity from 5% currency translation shock Rm
Botswana pula	2 238	112	2 269	113
Ghana cedi	2 569	129	2 437	122
Kenya shilling	6 529	326	6 966	348
Mauritian rupee	720	36	1 011	50
Mozambican metical	965	48	1 527	76
Namibian dollar	96	5	90	5
Nigerian naira	6	0	5	0
Seychelles rupee	639	32	618	31
Pound sterling	168	8	1 634	82
Tanzanian shilling	2 243	112	2 331	117
Uganda shilling	1 350	68	1 455	73
United States dollar	3 659	183	3 901	195
Zambia kwacha	1 504	75	1 454	73
	22 686	1 134	25 698	1 285

Other market risks

The Group maintains different pension plans with defined benefit and defined contribution structures for current and former employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises when the estimated market value of the pension plan assets declines, their investment returns reduce, or when the estimated value of the pension liabilities increases, resulting in a weaker funding position or shortfall. In these circumstances, the Group may choose to make additional contributions or be required to make good the shortfall of the plan.

Asset management income risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of the likely volatility in the annual earnings over the next year to reflect the sensitivity of earnings to shocks in financial markets. Group policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises mainly in the Wealth, Investment Management and Insurance (WIMI) segment.

Insurance risk management

Insurance risk is the risk that future claims, expenses, policyholder behaviour and investment returns may be adversely different to the allowances made in measuring policyholder liabilities and in product pricing. Within the broader Group, four categories of insurance risk are generally recognised, namely short-term insurance underwriting risk, life insurance underwriting risk and investment risks (life and short-term insurance). Mismatch risk may also exist between the profile of assets and liabilities. The various categories of insurance risk are managed within different entities of the Group.

Short-term insurance underwriting activities are undertaken by Absa Insurance Company Limited, Absa Insurance Risk Management Services Limited, Absa idirect Limited, Absa Manx Insurance Company Limited, First Assurance Kenya and First Assurance Tanzania. Life insurance underwriting activities are undertaken by Absa Life Limited, Barclays Life Botswana Limited, Barclays Life Zambia Limited, Barclays Life Assurance Kenya Limited, Woolworths Financial Services Proprietary Limited (through an Absa Life Limited cell captive) and Instant Life Proprietary Limited (through an Absa Life cell captive). Global Alliance Proprietary Limited underwrites both life and short-term insurance business.

Short-term insurance underwriting risk, life insurance underwriting risk and investment risks are core to the business of the insurance entities. The successful management of these risks ultimately determines the success of the entities. The same risk management frameworks and governance structures that enabled the effective management of risks for South African entities are implemented and embedded in any new entities established or acquired.

63. Risk management *(continued)*

63.3 Market risk (continued)

Strategy

The Group's insurance risk management objectives are to:

- pursue profitable growth opportunities within the financial volatility and solvency Risk Appetite approved by the Board;
- balance exposure between, and within, life and short-term insurance to allow for better diversification and optimal risk-adjusted returns; and
- leverage off the Barclays Africa presence and infrastructure across Africa.

Risk management

Short-term insurance underwriting risk

Management monitors loss ratios on a monthly basis and identifies portions of the business where claims experience is not in line with the underlying premium rate structure. In addition, reviews of policy conditions are carried out, when necessary, to determine if any changes are needed. Volumes of business and strike rates are monitored for increases in volumes out of line with expectations, indicating rates may be low compared to market rates. There are extensive measures in place to control claims, which include assessing claims, checking total potential claims against the sum insured and procurement management on service providers required for repair of damaged insured items.

The table that follows summarises risk management measures implemented per short-term insurance product line.

Homeowners' comprehensive insurance	Pooling large volumes of similar claims improve the predictability of the expected claim experience in normal circumstances. Scientific pricing using multiple risk factors enable risk selection and the ability to charge premiums matched to the underlying risk level. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase. Policyholder excess payments are implemented on claims to manage moral hazard.
Personal lines, accident and travel insurance	Scientific pricing using multiple risk factors enable risk selection and the ability to charge premiums matched to the underlying risk level. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase. Policyholder excess payments are implemented on claims to manage moral hazard.
Commercial insurance for small, medium and large companies	In underwriting these risks, significant focus is placed on the quality of fire protection and other risk measures. Assessment and adjustment of potential claims is undertaken. Catastrophe reinsurance is purchased to protect against natural catastrophes, in particular earthquakes and against large individual losses. In some cases large, specialised risks are reinsured fully where these do not fit within the approved risk appetite.
Specialist lines	Risks underwritten by underwriting management agencies are only underwritten with specialists in their respective areas with track records of underwriting and claims control. Reinsurance for relevant risks is included in the main or specific reinsurance treaties.

Short-term insurance underwriting risk is managed through underwriting authority mandates and through referral to an Underwriting Review forum, as and when required. Risk governance is monitored by the Control Review Committees, the Group Actuarial Committee and Key Risk Reporting. Risk Appetite utilisation is reported to the Board on a quarterly basis. Stress and scenario testing is used to measure the resilience of the business to unplanned events of different magnitude.

Reinsurance and reinsurance credit risk

The impact of large individual short-term insurance claims is limited through the purchase of reinsurance that limits the risk retained on each claim. The accumulation of net retained exposures due to multiple claims is limited through the purchase of catastrophe reinsurance cover. Catastrophe reinsurance, particularly related to earthquake risk, is purchased to cover losses of up to **R3,0bn** (2015: R3,0bn) for the South African business; the cover has been maintained from the previous year as exposure at the one in 250-year event level has been stable year-on-year.

The credit risk in respect of reinsurance partners is managed by ensuring the entities only transact with reinsurers with good credit ratings and within limits that are approved on an annual basis. The creditworthiness of reinsurers is regularly monitored. To qualify as a reinsurance partner, reinsurers must be assigned a minimum 'A' rating by the Standard and Poor's (or equivalent) rating agency. An agreement with a reinsurer with a lower credit rating can qualify provided sufficient reasoning and Wealth Investment Management and Insurance (WIMI) Financial Risk Committee (FRC) approval has been obtained.

63. Risk management *(continued)*

63.3 Market risk (continued)

	% of premium ceded (RSA entities only)	
	2016	2015
AA	**16**	37
A	**82**	52
BBB	**2**	12

Concentration risk

The main source of concentration risk is exposure to personal property, personal lines and commercial and industrial insurance business. Geographically, the main concentrations are in Pretoria, Johannesburg and the East Rand in South Africa. The proportionate sum insured for these three areas are as follows:

- Pretoria – **13,7%** as at the reporting period (2015: 11,5%);
- Johannesburg – **12,6%** as at the reporting period (2015: 9,4%); and
- East Rand – **10,0%** as at the reporting period (2015: 10,6%).

The maximum expected loss for a one in 250-year event is a loss of **R2,6bn** as at 31 December 2016 (31 December 2015: R2,5bn); the slight increase is as a result of improved data used in the catastrophe risk modelling. Catastrophe cover is purchased to cover losses up to **R3,0bn** as at 31 December 2016 (31 December 2015: R3,0bn).

Outstanding claims reserves and incurred but not reported claims reserves

Outstanding claims reserves are held for claims which have been notified, but which have not been fully settled. Individual estimates are sourced from claims assessors and are reviewed as and when new information regarding a claim becomes available. The claims provision includes the expected claim cost and any associated claim handling costs. Claims development patterns are regularly monitored to assess trends and to determine the appropriate level of reserving. The provision for the RSA entities at the reporting date amounted to **R393m** (2015: R415m). Reserves are calculated for the Rest of Africa entities based on the in-country regulatory requirements and are governed by the Group Actuarial Committee.

A stochastic reserving model is applied to calculate the IBNR claim provision for the majority of the exposures. Where detailed data is not available, the provision is based on interim measures proposed by the Financial Services Board. The IBNR provision at the reporting date amounted to **R99m** (2015: R111m); the decrease is as a result of the run-off of the 1com cell within the Absa Insurance Risk Management licence and the smaller book size compared to 2015.

The IBNR provision is determined by taking the following factors, per class of business underwritten, into account:

- actual and expected claims experience;
- actual and expected reporting patterns; and
- premium volumes.

These factors affect the sensitivity of the IBNR and are taken into account in setting the level of reserves required.

The IBNR and outstanding claims provisions take historical data, trends and recent experience in claims processing and loss ratios into account. These calculations, together with changes in the underlying risk profile of the business, impact the determination of the final balances.

Cash-back reserves

These reserves allow for the cash back bonus which Absa idirect policyholders receive after a specified number of claim-free months. The cash back percentages of total premiums collected are: 10% after 36 months, 15% after the following 12 months and 20% for every 12 months thereafter. The cash-back reserve provision at the reporting date amounted to **R25,0m** (2015: R20,8m).

63. Risk management *(continued)*

63.3 *Market risk (continued)*

Life insurance underwriting risk

The number of risks falling outside the ambit of standard underwriting mandates is reviewed on a regular basis to determine whether underwriting rules need to be tightened and/or risk parameters extended. The business relies on annual experience investigations, ongoing studies and analysis of surplus investigations to set pricing and valuation parameters. The non-economic pricing and reserving assumptions (i.e. mortality, morbidity, persistency and expense assumptions) are revised to determine changes in trends that are likely to continue in the future.

The table that follows summarises risk management measures implemented per life insurance product line:

Underwritten life business	The main risks are mortality and morbidity. Each life is individually underwritten. Premium rates differentiate by gender, age, smoker status, socio-economic class and occupation. Sub-standard risks generally receive additional premium loadings, specified exclusions or might be declined. Correct pricing and effective underwriting control the mortality and morbidity risks. Exposure in excess of a retention limit for each life is reinsured to reduce the variability of the claims experience and the exposure to a single life. Most benefits have premium guarantee terms, which can be up to 10 years. For products with an investment component, the overall premium rate is guaranteed; however, the investment portion is not guaranteed and could be reduced at the discretion of the Group. However, it is the Group's policy when products are priced to have no intention to increase premium rates over the policy term. Experience is monitored to confirm that actual experience is in line with pricing assumptions. Underwriting risks are monitored on a quarterly basis by the Underwriting Risk forum which reports into the WIMI Control and Review Committee.
Limited underwritten life business	This product family consists of a wide range of individual products. Underwriting varies from a limited number of underwriting questions to the application of waiting periods, pre-existing condition exclusions and the phasing in of sums insured. The main risks are mortality, morbidity and persistency. Aids mortality represents a medium risk in the target market. There are generally limited rating factors, with age being the most prevalent. The mortality and morbidity risks are therefore exacerbated since premium rates are generally consistent across lives. The risks are managed through annual experience investigations and the tracking of trends on a more regular basis. There is a contractual right to increase premiums if experience worsens. The intention is not to exercise this right, but the Group does have the option to do so. Reinsurance is utilised to manage the pricing risk, accept more risks and to gain exposure to the technical expertise of reinsurance companies.
Funeral business	The main risk is mortality increased by high Aids rates experienced in the target market. The risk is exacerbated by premium rates that are the same, irrespective of the age and gender of policyholders, since significant changes in the age and gender profile of customers could impact on experience. Limitation of cover for certain pre-existing conditions for defined time periods (generally two years) applies. There are also usually waiting periods during which no claim event is covered. Strict experience monitoring limits the risk, combined with the contractual right to increase premiums with a three-month notice period. The intention is not to exercise this right, but the Group does have the option to do so. Reinsurance is not utilised as sums assured per individual life is minor.
Credit life business	The main risks are retrenchment and mortality. Treaty reassurance arrangements are in place for some products whereby risk is shared with external business partners. The Group retains the right to change premiums within a 30-day notice period. Premiums generally do not differ by gender, age or smoker status and demographic shifts might introduce additional insurance risk. Economic conditions also influence retrenchment risk.
Group life business	The main risks are mortality and morbidity. Treaty reinsurance arrangements are in place whereby risk is shared with external business partners. Contracts and premium rates are reviewed annually. Additional catastrophe reinsurance cover will be implemented for an accumulation of losses that may occur due to the geographical concentration of a group.

Life insurance underwriting risk is monitored on a quarterly basis by the Underwriting Risk forum to ensure the risk taken is in line with the risk priced and reserved for. Risk governance is monitored by the entity Control and Review Committees and Group Actuarial Committee. Risk Appetite utilisation is reported to the Board on a quarterly basis. Stress and scenario testing is used to measure the resilience of the business to unplanned events of different magnitude.

Reinsurance and reinsurer credit risk

The reinsurance policy under the Insurance Key Risk Control Framework governs reinsurance across the Group. Reinsurance is used in respect of large individual risks and in respect of risks where the life insurance entity needs to build knowledge and experience as well as obtain technical assistance from the reinsurers. Catastrophe reinsurance is used as a protection against a large number of simultaneous losses.

Reinsurer credit risk is managed by transacting solely with approved reinsurers and within mandated levels as defined in the credit risk mandates. Mandates are governed and approved by the WIMI Financial Risk Committee. In existing reinsurance agreements, reinsurer credit risk is managed by monitoring counterparty exposures to take corrective actions should the creditworthiness of the counterparty deteriorate materially. Reinsurer credit risk is also managed by holding capital in line with or in excess of regulatory requirements.

63. Risk management *(continued)*

63.3 *Market risk (continued)*

Credit rating of reinsurance assets (RSA entities only)

	Standard and Poor's rating	Description	Parental guarantee
Treaty and Facultative reinsurer, **32,4%** (2015: 23,1%) of business ceded	AA+	Very strong	Yes
Treaty and Facultative reinsurer, **35,6%** (2015: 38,8%) of business ceded	AA–	Strong	No
Treaty and Facultative reinsurer, **31,2%** (2015: 36,1%) of business ceded	A	Strong	No
Treaty and Facultative reinsurer, **0,1%** (2015: 0,2%) of business ceded	BBB+	Strong	No

The individual ratings of the various reinsurers, knowledge of disputes and collection experience are used to determine whether the reinsurance assets should be impaired. The reinsurance assets were unimpaired at the reporting date as none of the reinsurance amounts receivable were past due (2015: none past due).

Concentration risk

The risk of several claims arising simultaneously (concentration risk) on individual lives is small. The size of individual policies is low and reinsurance is used to cover larger individual exposures.

	2016				2015			
	Gross of reinsurance		**Net of reinsurance**		Gross of reinsurance		Net of reinsurance	
Benefit band per life assured (RSA entities only) (R'000)	**Total benefits assured Rm**	**%**	**Total benefits assured Rm**	**%**	Total benefits assured Rm	%	Total benefits assured Rm	%
0 – 250	**83 821**	**54**	**78 439**	**61**	82 018	55	76 139	62
250 – 500	**21 306**	**14**	**17 383**	**14**	22 433	15	17 961	14
500+	**49 697**	**32**	**32 051**	**25**	44 617	30	29 572	24
	154 824	**100**	**127 873**	**100**	149 068	100	123 672	100

In the case of the Group's Life business, geographic concentration of risk exists. For Absa Life Limited, the largest concentration risk is in Johannesburg introduced by the Absa Staff Group Life Scheme. In addition to comprehensive quota share reinsurance, the Company also uses catastrophe reinsurance to provide further protection against an accumulation of losses in respect of risk retained.

Mortality and morbidity risks

The Group uses experienced underwriters to review risk cover applications in excess of specified limits and evaluated them against established standards. Where an applicant requires cover in excess of specified monetary or impairment limits, the excess is reinsured. Mortality and morbidity risks are managed per product line based on underwriting criteria, pricing, reinsurance and experience.

Effective claims management processes ensure that all valid claims are honoured, in line with policy documentation and allowances made in setting premiums or valuing liabilities. Proactive fraud detection capabilities continue to be developed and improved to minimise fraudulent claim payouts.

Human immunodeficiency virus and Aids risk

The Group's Life insurance business is exposed to human immunodeficiency virus (HIV) and Aids risk where an insufficient allowance has been made in the pricing and valuation bases. To manage risk for the business that is medically underwritten, HIV tests are performed as part of the normal underwriting process. Cover is not provided in instances where the mortality risk is uncertain or is deemed to be too high. For other lines of business, such as funeral and credit life, general pre-existing condition clauses are included in the contract to protect against anti-selection by policyholders. In such an event, a claim will not be paid if it occurs as a result of a condition existing at the inception of the policy or within a certain period (generally 12 months) from inception.

Aids mortality investigations are performed. The results of these investigations assist in setting the premium and mortality basis for life policies. Additional allowances are included in the valuation basis to allow for a worse than expected Aids risk experience.

Lapse risk

Lapse risk is the risk of not recouping expenses such as commission and/or underwriting costs generally incurred at the inception of the policy. In such instances, a loss is incurred if the policy lapses before the costs have been recouped. This risk is managed by entering into clawback arrangements with financial advisers, whereby the commission or underwriting cost is recouped. Annual investigations of lapse experience are done to ensure pricing and valuation assumptions are appropriate, relevant and in line with experience.

63. Risk management *(continued)*

63.3 *Market risk (continued)*

Expense risk

An allowance for future maintenance and claim expenses, inflated at the assumed expense inflation rate, is included in liability calculations based on the current level of maintenance and claim expenses per policy. The risk of understating and pricing insufficiently for this risk is managed by:

- conducting annual expense investigations based on the most recent operating expenditure incurred;
- monitoring costs monthly to ensure they remain within anticipated levels and identifying trends at an early stage; and
- basing the assumed future inflation rate on observable economic indicators and experience.

Model risk

Model risk is the risk of determining expected future cash flows and liabilities from existing policies using modelling techniques or methodologies that may be incorrect or inappropriate for certain classes of business. This risk is managed by placing the models through rigorous checking procedures and processes. The modelling methodologies used are in line with guidance issued by the ASSA or, in the absence of such guidance, generally accepted actuarial methods. Models are governed by the WIMI Models Committee and the BAGL Models Risk policy.

Data risk

Data risk is the risk that the policy data used in the models is not accurate or incomplete, leading to incorrect premiums being set or insufficient reserves being held. This risk is managed by conducting reasonability checks on data and by reconciling the data with the previous valuation data (i.e. a movement analysis) and the financial statements.

Assumption risk

Assumption risk is the risk that the change and effect of the assumptions used in the most recent valuation are not considered. Best estimate assumptions are derived from annual investigations into the demographic experience of the business and economic assumptions are based on observable, actual, consistent economic indicators. Margins are added to best estimate assumptions to allow for variability in the assumptions. These margins include compulsory margins where considered necessary by the Standard of Actuarial Practice 104 (SAP 104) issued by the Actuarial Society of South Africa (ASSA).

The risk discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from assumptions. The government bond curve is used to determine the risk-free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk-free rate curve. The economic assumptions used, including certain representative points on the risk-free curve, are as follows (gross of tax where applicable):

Economic assumptions (RSA entities only)

	2016 %	2015 %
Risk-free rate of return		
1-year term	**7,96**	8,19
5-year term	**8,58**	9,67
10-year term	**9,29**	10,06
20-year term	**10,22**	10,83
Equity return differential	**3,36**	3,36
Cash return differential	**(2,00)**	(2,00)
Overall investment return differential	**(0,44)**	(0,44)
Risk discount rate differential	**3,15**	3,15

The expense inflation assumption is a company-specific inflation rate assumption of 3,5% for the first three years and the general inflation rate is implied by the difference between the nominal and real yield curves from the seventh year. The curve is blended between the third and the sixth years.

Additional allowances are incorporated into the liabilities to mitigate assumption risk. The compulsory margins prescribed in the SAP 104 note have been applied in the valuation of liabilities.

63. Risk management *(continued)*

63.3 Market risk (continued)

Compulsory margins as per SAP 104	**2016 %**	2015 %
Mortality	**+7,5**	+7,5
Morbidity	**10**	10
Lapse	**±25**	±25
Surrenders	**±10**	±10
Expenses	**10**	10
Expense inflation	**10**	10
Charge against investment return	**±25 bps**	±25 bps

The results of the sensitivities disclosed in the following table indicate that assumptions regarding future mortality and morbidity experience have a significant impact on the quantum of the actuarial liability. Future developments in mortality and morbidity experience, whether positive or negative, will impact on profits in future years, particularly in areas influenced by the Aids infection rates. A further factor to take into consideration is the impact of investment returns. Although a significant portion of the book, such as credit life, is short term, the mortgage protection business increases the duration of the overall business and therefore future investment returns. The business is not sensitive to changes in other assumptions.

Sensitivity analysis (RSA entities only)

	Group	
	2016	2015
	Potential effect recorded in (profit) or loss Rm	Potential effect recorded in (profit) or loss Rm
Mortality and morbidity +10%	**117**	94
Lapse rate +10%	**(43)**	(32)
Renewal and termination expenses +10%	**23**	31
Expense inflation +1%	**32**	27
Investment return -1%	**39**	38

Data risk

Data risk is the risk that the policy data used in the models is not accurate or incomplete, leading to incorrect premiums being set or insufficient reserves being held. This risk is managed by conducting reasonability checks on data and by reconciling the data with the previous valuation data (i.e. a movement analysis) and the financial statements.

Life insurance mismatch risk

A mismatch arises if the assets backing non-linked products do not grow sufficiently or materialise timeously to match specified amounts guaranteed on death, disability, critical illness or retrenchments, or on survival to the end of the policy. Mismatch risk is managed through setting asset allocations which appropriately match assets to underlying liabilities. Guaranteed life event benefits and guaranteed maturity benefits are each managed in terms of separate investment strategies.

Life insurance mismatch risk is monitored on a quarterly basis by the WIMI Financial Risk Committee. The asset-liability matching exercises carried out are reviewed by the WIMI Financial Risk Committee and the Statutory Actuary, and approved by the Group Actuarial Committee.

Through the use of asset-liability modelling, appropriate investment strategies for the assets backing policyholder liabilities are determined to mitigate mismatch risk as far as possible. These investment strategies are reviewed biennially and the asset manager mandates amended accordingly. For guaranteed mortality, morbidity and retrenchment benefits as well as projected expenses, an asset allocation comprising cash and bonds of various terms to maturity is used. For guaranteed maturity benefits, cash and long-dated bonds are used and for policies close to maturity, the appropriate hedging strategies are implemented. Quarterly meetings are held with the asset manager to monitor these asset durations and targeted levels.

Life and short-term investment risks

Investment risk relates to the variability in the value of life and short-term shareholder assets and of assets backing policyholder liabilities. Interest rate/Equity risk relates to the change in investment value of assets due to a change in market interest rates/equity performance. Foreign exchange risk is the risk that a change in the exchange rate could affect the financial results of the insurance entity. Investment risk is mitigated through diversified asset allocations and investment mandates.

Life and short-term insurance investment risk is monitored by WIMI Financial Risk Committee on a quarterly basis.

63. Risk management *(continued)*

63.3 Market risk *(continued)*

A single investment strategy is maintained for short-term insurance shareholder assets and for assets backing short-term insurance policy holder liabilities. Assets are invested in short-dated interest-earning assets. The duration of interest-earning assets is monitored against a maximum effective duration.

The Life insurance shareholders' funds in South Africa are invested in a balanced portfolio to provide secure and stable growth over the long term. For entities outside of South Africa, the shareholder funds are invested in money market type instruments, with the exception of Barclays Life Assurance Kenya where the shareholder assets are invested in government bonds.

The following table indicates the asset allocations as at the reporting date:

Life shareholder funds – actual asset allocation (%)

	Group	
	2016 %	2015 %
Offshore equities	**5**	7
Offshore bonds	**—**	—
Offshore alternatives and cash	**3**	4
Domestic equities	**22**	26
Domestic bonds	**20**	12
Domestic cash	**50**	51
	100	100

Domestic assets have a limit on active equity exposures or tracking error taken on by the asset manager versus the underlying equity benchmark. Counterparty credit risk in respect of investments is managed by investing with a spread of issuers as required by the Insurance Investment Management policy under the Insurance Key Risk Control Framework. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Liquidity risk is managed in the short-term insurance businesses by investing in short-dated interest-earning assets, with limits on investments in less liquid assets such as preference shares and corporate bonds. The life insurance businesses are less exposed to liquidity risks due to the low risk of large cumulative claims. Liquidity risk is managed through close management of potential cash outflow in discussion with the asset managers, as well as the use of a liquidity fund consisting of cash and money market investments – set aside to meet large outflows.

63.4 Equity investment risk

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book for non-trading purposes.

The Group's equity investment risk objective is to balance the portfolio composition in line with the Group's risk appetite, with selective exits as appropriate.

Approach

The Group's governance of equity investments is based on the following key fundamental principles:

- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Group's equity investments are held in CIB and RBB – Business Banking. Equity and other investments held by insurance entities are addressed in the insurance risk management section of this report.

The CPF Equities portfolio decreased during the current reporting period due to fair value revaluations and planned sell-downs in line with the Group's equity investment strategy.

63. Risk management *(continued)*

63.4 *Equity investment risk (continued)*

Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and Economic Capital (EC) requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Group has adopted the market-based simple risk-weighted approach to calculate Risk Weighted Assets (RWAs) and Regulatory Capital (RC) for equity risk in the banking book. According to this approach, the Group applies a 300% risk weighting to listed exposures and 400% to unlisted exposures in non-financial entities subject to a prescribed scaling factor of 1,06. Investments in financial entities are treated in line with the principals embodied in Basel III and the regulations relating to banks, whereby the risk weightings are subject to the aggregate value of the Group's shareholding in those investments and also in relation to the Group's capital. For those financial investments constituting a significant minority investment (i.e. 20% to 50%) with no other significant shareholder, the Group applies a capital deduction.

The Solvency Assessment Management (SAM) regime is equivalent to Solvency II in the UK and is now due to go live in 2017. This means that Absa Financial Services entities' liabilities, capital and solvency positions will continue to be reported under parallel processes.

Economic capital for equity investment risk in the banking book is based on investment type and portfolio risk modelling and varies from 35,2% to 100%.

Analysis of equity investment risk in the banking book

The following table presents the equity sensitivity analysis and discloses the impact on pre-tax profit or loss and equity after the effect of hedges. Debt instruments have been excluded from the sensitivity analysis. Equity hedge structures were in place for the shareholders' equity investment portfolio in previous reporting periods. This assisted to hedge downside risk on equities if market values decrease with more than 6% and resulted in counterparties sharing in positive returns if market values increased by between 2% and 4%. No equity hedge structures were in place at the reporting date.

	Group									
	2016					2015				
	Impact of a 5% reduction in fair value			Impact of a 5% increase in fair value		Impact of a 5% reduction in fair value			Impact of a 5% increase in fair value	
	Profit or loss Rm	Equity Rm	Fair value Rm	Profit or loss Rm	Equity Rm	Profit or loss Rm	Equity Rm	Fair value Rm	Profit or loss Rm	Equity Rm
Insurance activities' listed and unlisted equity investments[1,2]	(127)	—	2 551	127	—	(122)	—	2 443	122	—
Listed equity investments	(122)	—	2 450	122	—	(117)	—	2 342	117	—
Unlisted equity investments	(5)	—	101	5	—	(5)	—	101	5	—
Group listed and unlisted equity investments, excluding insurance activities' investments	(144)	(32)	3 531	144	32	(97)	(11)	2 162	97	11
Listed equity investments	(31)	(3)	694	31	3	(32)	(3)	692	32	3
Unlisted equity investments	(113)	(29)	2 837	113	29	(65)	(8)	1 470	65	8
Total on Group equity investments	(271)	(32)	6 082	271	32	(219)	(11)	4 605	219	11

Notes

[1] The above sensitivities were only calculated on shareholder and non-linked policyholder assets (for unit linked policyholder liabilities there is no impact on the sensitivity analysis due to the fact that the asset and liability is 100% matched) and exclude all assets linked to investment and unit linked contracts due to the fact that the asset and liability is 100% matched.

[2] The figures exclude all associates and joint ventures, which account for the differences in fair value compared to that shown in the table titled equity investments in the banking book.

63. Risk management *(continued)*

63.5 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations as they fall due, resulting in an inability to support normal business activity, and a failure to meet liquidity-related regulatory requirements. These outflows would deplete available cash resources for client lending, trading activities and investments. Such outflows could be through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of group-specific and market-wide events.

Liquidity risk is monitored at a group level under a single group framework. Each entity is responsible to implement appropriate processes and controls to ensure compliance with local liquidity appetite, regulatory limits and reporting requirements.

Strategy

The Group's liquidity risk management objectives are:

- manage the funding position in line with Board-approved liquidity risk appetite framework and liquidity coverage ratio requirements;
- build and maintain adequate liquidity buffers to ensure the bank remains continuously compliant with the liquidity coverage ratio
- grow and diversify the funding base to support asset growth and other strategic initiatives;
- manage the Bank's maturity profile in order to achieve planned liquidity ratios; and
- balance the above objectives against the long-term impacts on the bank cost of funding.

Approach

The efficient management of liquidity is essential to the Group. Liquidity risk is managed through the Liquidity Risk Framework, which is designed to meet the following objectives:

- to maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk framework as expressed by the Board;
- to maintain market confidence;
- to set limits to control liquidity risk within and across lines of business and legal entities;
- to set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- to project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- to maintain a Contingency Funding Plan that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

The Barclays Africa Group applies a three-step risk management process:

- **Evaluate:** Risk evaluation is carried out by those individuals, teams and departments that are best placed to identify and assess the potential liquidity risks, and include those responsible for delivering the objectives under review.
- **Respond:** The appropriate risk response ensures that liquidity risk is kept within appetite.
- **Monitor:** Once risks have been identified and measured, and controls put in place, progress towards objectives must be tracked. Monitoring must be ongoing and can prompt re-evaluation of the risks and/or changes in responses.

Stress and scenario testing

Under the Liquidity Framework, the Group has established the Liquidity Risk Appetite (LRA), which is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool.

Each entity within the Barclays Africa Group undertakes a range of stress tests appropriate to their business. Stress tests consider both institution-specific and market-wide scenarios separately and on a combined basis. The results of the stress tests are used to develop the contingency funding plan and are taken into account when setting limits for the management of liquidity risk and the business planning process.

As part of stress and scenario testing, the Group's liquid assets portfolio serves as the main source of liquidity under stress. Liquidity value is also assigned to unsecured funding lines, readily marketable investment securities and price-sensitive overnight loans.

Contingency funding planning

The Contingency Funding Plan (CFP) includes, inter alia:

- the roles and responsibilities of senior management in a crisis situation;
- authorities for invoking the plan;
- communications and organisation;
- an analysis of a realistic range of market-wide and Group-specific liquidity stress tests; and
- scenario analyses and the extent to which each stress test and scenario can be mitigated by managing the balance sheet.

The Group maintains a range of early warning indicators (EWIs). These assist in informing management on deciding whether the CFP should be invoked. Each operation must adopt and conform to the Group CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Group's level plan. The CFPs set out the specific requirements to be undertaken locally in a crisis situation. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets. The Group continues to work with the Regulator on recovery and resolution planning.

63. Risk management *(continued)*

63.5 *Liquidity risk* *(continued)*

Analysis of contractual mismatch

A detailed breakdown of the contractual mismatch position is provided below:

	Group				
	2016				
Discounted maturity	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	47 380	2 258	368	—	50 006
Investment securities	10 531	44 805	17 705	41 274	114 315
Loans and advances to banks	20 388	25 785	2 869	746	49 788
Trading portfolio assets	94 751	—	—	—	94 751
Derivative assets	45 153	—	—	—	45 153
Non-derivative assets	49 598	—	—	—	49 598
Hedging portfolio assets	—	61	622	1 062	1 745
Other financial assets	9 023	12 386	166	554	22 129
Loans and advances to customers	85 164	150 629	255 531	228 986	720 310
Reinsurance assets	—	785	—	200	985
Investments linked to investment contracts	705	2 771	6 304	9 036	18 816
Financial assets	267 942	239 480	283 565	281 858	1 072 845
Non-financial assets					28 178
Total assets					1 101 023
Liabilities					
Deposits from banks	16 589	30 278	6 154	171	53 192
Trading portfolio liabilities	47 429	—	—	—	47 429
Derivative liabilities	40 920	—	—	—	40 920
Non-derivative liabilities	6 509	—	—	—	6 509
Hedging portfolio liabilities	—	398	568	1 098	2 064
Other financial liabilities	17 476	5 918	6	245	23 645
Deposits due to customers	469 882	170 992	28 368	5 623	674 865
Debt securities in issue	646	75 886	52 154	11 028	139 714
Liabilities under investment contracts	5 013	2 630	12 173	9 382	29 198
Policyholder liabilities under insurance contracts	196	921	—	3 352	4 469
Borrowed funds	530	2 863	10 173	2 107	15 673
Financial liabilities	557 761	289 886	109 596	33 006	990 249
Non-financial liabilities					8 494
Total liabilities					998 743
Equity					102 280
Total liabilities and equity					1 101 023
Net liquidity position of financial instruments	(289 819)	(50 406)	173 969	248 852	82 596

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63. Risk management *(continued)*

63.5 Liquidity risk (continued)

	Group				
	2015				
Discounted maturity	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	44 921	865	118	—	45 904
Investment securities	10 099	31 318	21 012	38 536	100 965
Loans and advances to banks	35 475	37 944	9 125	3 407	85 951
Trading portfolio assets	135 158	—	—	—	135 158
Derivative assets	78 277	—	—	—	78 277
Non-derivative assets	56 881	—	—	—	56 881
Hedging portfolio assets	—	112	360	1 760	2 232
Other financial assets	9 548	12 580	10	764	22 902
Loans and advances to customers	82 904	122 274	257 806	240 375	703 359
Reinsurance assets	—	512	—	69	581
Investments linked to investment contracts	831	3 507	6 134	9 045	19 517
Financial assets	318 936	209 112	294 565	293 956	1 116 569
Non-financial assets					28 035
Total assets					1 144 604
Liabilities					
Deposits from banks	21 537	37 757	2 791	895	62 980
Trading portfolio liabilities	90 408	—	—	—	90 408
Derivative liabilities	86 696	—	—	—	86 696
Non-derivative liabilities	3 712	—	—	—	3 712
Hedging portfolio liabilities	—	240	2 580	1 711	4 531
Other financial liabilities	13 765	7 196	4	445	21 410
Deposits due to customers	460 791	165 600	27 288	34 740	688 419
Debt securities in issue	327	62 250	52 929	13 177	128 683
Liabilities under investment contracts	4 174	1 522	8 545	9 968	24 209
Policyholder liabilities under insurance contracts	153	620	42	3 525	4 340
Borrowed funds	314	230	9 786	2 822	13 152
Financial liabilities	591 469	275 415	103 965	67 283	1 038 132
Non-financial liabilities					7 827
Total liabilities					1 045 959
Equity					98 645
Total liabilities and equity					1 144 604
Net liquidity position of financial instruments	(272 533)	(66 303)	190 600	226 673	78 437

63. Risk management *(continued)*

63.5 *Liquidity risk* *(continued)*

Liquidity risk measurement – undiscounted (statement of financial position value with impact of future interest)	Group 2016 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	16 589	30 642	9 236	381	(3 656)	53 192
Trading portfolio liabilities	47 429	—	—	—	—	47 429
Derivative liabilities	40 920	—	—	—	—	40 920
Non-derivative liabilities	6 509	—	—	—	—	6 509
Hedging portfolio liabilities	—	422	814	2 437	(1 609)	2 064
Other financial liabilities	17 476	5 980	7	546	(364)	23 645
Deposits due to customers	469 882	177 193	38 838	12 491	(23 539)	674 865
Debt securities in issue	646	76 395	57 051	15 032	(9 410)	139 714
Liabilities under investment contracts	5 013	2 740	18 613	20 898	(18 066)	29 198
Policyholder liabilities under insurance contracts	196	948	—	8 933	(5 608)	4 469
Borrowed funds	530	3 086	15 607	4 513	(8 064)	15 672
Financial liabilities	557 761	297 406	140 166	65 231	(70 316)	990 248
Non-financial liabilities						8 495
Total liabilities						998 743
Off-statement of financial position						
Financial guarantee contracts	10	—	—	—	—	10
Loan commitments	143 576	39 281	—	—	—	182 857

Undiscounted maturity (statement of financial position value with impact of future interest)	2015 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	21 537	38 045	3 601	1 480	(1 683)	62 980
Trading portfolio liabilities	90 407	—	—	—	—	90 407
Derivative liabilities	86 695	—	—	—	—	86 695
Non-derivative liabilities	3 712	—	—	—	—	3 712
Hedging portfolio liabilities	—	246	3 179	3 040	(1 934)	4 531
Other financial liabilities	13 765	7 301	5	1 038	(699)	21 410
Deposits due to customers	460 791	169 212	32 576	53 982	(28 142)	688 419
Debt securities in issue	327	63 721	65 318	23 410	(24 093)	128 683
Liabilities under investment contracts	4 174	1 568	10 957	17 709	(10 199)	24 209
Policyholder liabilities under insurance contracts	153	620	53	6 263	(2 749)	4 340
Borrowed funds	314	248	12 065	5 012	(4 488)	13 151
Financial liabilities	591 468	280 961	127 754	111 934	(73 987)	1 038 130
Non-financial liabilities						7 827
Total liabilities						1 045 957
Off-statement of financial position						
Financial guarantee contracts	24	—	—	—	—	24
Loan commitments	112 773	47 677	—	—	—	160 450

63. Risk management *(continued)*

63.6 Capital management

Capital risk is the risk that the Group is unable to maintain adequate levels of capital which could lead to an inability to support business activity; a failure to meet regulatory requirements; and/or changes to credit ratings, which could also result in increased costs or reduced capacity to raise funding.

The Group's strategic focus is to maintain an optimal mix of high-quality capital, while continuing to generate sufficient capital to support economically profitable asset growth and the active management of the business portfolio.

Strategy

Effective capital planning and management ensures that the Group has sufficient and appropriate capital structures to support its risk appetite (the risk appetite describes and measures the amount and types of risk that the Group is prepared to take in executing its strategy. It defines the integrated approach to business, risk and capital management and supports the achievement of strategic objectives), business activities, credit rating and regulatory requirements.

The capital management process includes:

- meeting capital ratios required by regulators and the target ranges approved by the Board;
- maintaining an adequate level of capital resources in excess of both regulatory capital and economic capital requirements;
- maximise shareholder value by optimising the level and mix of capital resources and the utilisation of those resources; and
- increasing business and legal entity accountability for the use of capital and, where relevant, the use of capital per client or portfolio.

The Board sets Group and Bank target capital ranges. The Group and its regulated entities (including insurance entities) remain adequately capitalised above minimum capital requirements as at the reporting date. Target capital ratios of the Group for the current reporting period were set by considering the following:

- capital risk appetite;
- the preference of rating agencies for loss absorbing capital;
- stress scenarios;
- current and future Basel III requirements including capital conservation buffer and domestic-systemically important bank buffer; and
- peer analysis.

Capital adequacy ratios (unaudited)

Group	**2016**	2015	**2016 Board target ranges %**	**2016 Minimum regulatory capital requirements %**	2015 Board target ranges %	2015 Minimum regulatory capital requirements %
Capital adequacy ratios (%)						
Common Equity Tier 1	**12,1**	11,9	**9,5 — 11,5**	**6,9**	9,5 – 11,5	6,5
Tier 1	**12,6**	12,6	**10,5 — 12,5**	**8,1**	10,5 – 12,5	8,0
Total	**14,8**	14,5	**13,0 — 15,0**	**10,4**	12,5 – 14,5	10,0
Capital supply and demand for the reporting period (Rm)						
Net generated equity	**1 398**	1 261				
Qualifying capital	**104 486**	101 628				
Total RWA	**703 785**	702 663				

Regulatory capital comprises the following:

- Common Equity Tier 1 – ordinary share capital, share premium and retained earnings including reserves, less regulatory deductions.
- Tier1 – Common Equity Tier 1 plus perpetual, non-cumulative instruments with principal loss-absorption features issued in terms of the Basel III rules.
- Total Capital – Tier 1 plus other items such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under Basel III. Subordinated debt issued under Basel I and Basel II is included in total capital but is subject to regulatory phase-out requirements, over a 10-year period effective from 1 January 2013.

During the past year, the Group complied in full with all externally imposed capital requirements (2015: the same).

64. Going concern

The directors assess the Group's future performance and financial position on an ongoing basis and have no reason to believe that the Group will not be a going concern in the reporting period ahead. For this reason, these consolidated financial statements are prepared on a going concern basis.

65. Events after the reporting period

The directors are not aware of any other events after the reporting date of 31 December 2016 and the date of authorisation of these financial statements (as defined per IAS 10).

66. Directors' and prescribed officers' remuneration

The Barclays Africa Group Remuneration Committee's (Remco) mandate is to ensure that reward practices are aligned with shareholder interests, both in the performance of our employees and the values they uphold. The Group strives to promote reward practices that foster sustainable high performance and accordingly, the Group rewards both short and longer term performance. All elements of pay are benchmarked against the market, as well as local and international best practice.

The Remco evaluates prescribed officer and executive pay against the Balanced Scorecard, which ensures rigorous concentration on business imperatives including, importantly, financial performance. Risk management is carefully considered.

Remuneration of risk and compliance employees is determined independently within the function, rather than by the business the function supports, and within the parameters of the pool allocated to the function by the Remco.

The Barclays Africa remuneration approach is fully compliant with the regulatory and statutory provisions relating to reward governance, in all the countries where the Group operates and in accordance with relevant requirements in Africa, the United Kingdom and European Union.

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66. Directors' and prescribed officers' remuneration *(continued)*

Combined tables for 2016 total remuneration

	Group 2016			
	Maria Ramos		David Hodnett	
Executive directors	**2016 R**	2015 R	**2016 R**	2015 R
Salary	**7 622 073**	7 282 552	**6 388 552**	5 913 471
Role based pay	**6 500 000**	6 500 000	**4 250 000**	3 500 000
Medical aid	**97 680**	89 208	**125 664**	114 768
Pension	**244 599**	592 593	**226 599**	484 593
Other employee benefits	**44 960**	44 960	**39 498**	38 480
Total fixed remuneration	**14 509 312**	14 509 313	**11 030 313**	10 051 312
Non-deferred cash award	**3 000 000**	2 740 000	**2 900 000**	2 600 000
Non-deferred share award	**3 000 000**	2 740 000	**2 900 000**	2 600 000
Deferred cash award[1]	**4 500 000**	4 110 000	**4 350 000**	3 900 000
Deferred share award[1]	**4 500 000**	4 110 000	**4 350 000**	3 900 000
Total variable remuneration	**15 000 000**	13 700 000	**14 500 000**	13 000 000
Total remuneration	**29 509 312**	28 209 313	**25 530 313**	23 051 312

	Craig Bond		Stephen van Coller[2]	
Prescribed officers	**2016 R**	2015 R	**2016 R**	2015 R
Salary	**5 668 964**	5 452 730	**2 730 389**	3 558 286
Role based pay	**5 000 000**	5 000 000	**5 250 000**	7 000 000
Medical aid	**125 664**	114 768	**104 742**	127 548
Pension	**220 426**	447 556	**151 466**	296 296
Other employee benefits	**36 258**	36 258	**515 824**	27 182
Total fixed remuneration	**11 051 312**	11 051 312	**8 752 421**	11 009 312
Non-deferred cash award	**1 840 000**	2 720 000	**—**	2 500 000
Non-deferred share award	**1 840 000**	2 720 000	**—**	2 500 000
Deferred cash award	**2 760 000**	4 080 000	**—**	3 750 000
Deferred share award	**2 760 000**	4 080 000	**—**	3 750 000
Total variable remuneration	**9 200 000**	13 600 000	**—**	12 500 000
Total remuneration	**20 251 312**	24 651 312	**8 752 421**	23 509 312

Board appointment dates and contract terms

Maria Ramos and David Hodnett were appointed to the Board on 1 May 2009 and 1 March 2010 respectively. Peter Matlare and Jason Quinn were appointed to the Board on 1 August 2016 and 1 September 2016 respectively. All executive directors and prescribed officers have a notice period of six months with their potential compensation for loss of office at six months fixed remuneration.

Notes

1 Note that the election between deferred cash award and deferred share award will be made once restrictions are lifted.
2 Resigned effective 30 September 2016. Stephen van Coller's other benefits include leave payouts following his resignation. No amounts were paid as compensation for loss of office.
3 Appointed 1 October 2015, prior to this date Nomkhita Nqweni represented key management personnel and as a result the total remuneration represents remuneration earned from 1 January 2015.
4 Resigned effective 30 September 2015.
5 Excludes Jason Quinn for 2015. Jason Quinn was appointed as Financial Director on 1 September 2016, however total remuneration has been calculated from 1 January 2016. His fixed remuneration received as an Executive Director was R1 769 771.

Jason Quinn 2016 R	Jason Quinn 2015 R	Peter Matlare 2016 R	Peter Matlare 2015 R	Group 2016 Total 2016 R	Group 2016 Total 2015 R
3 459 337	n/a	**2 439 812**	n/a	**19 909 774**	13 196 023
333 333	n/a	**1 458 333**	n/a	**12 541 666**	10 000 000
84 012	n/a	**55 828**	n/a	**363 184**	203 976
284 843	n/a	**200 617**	n/a	**956 658**	1 077 186
26 495	n/a	**15 180**	n/a	**126 133**	83 440
4 188 020	n/a	**4 169 770**	n/a	**33 897 415**	24 560 625
1 000 000	n/a	**800 000**	n/a	**7 700 000**	5 340 000
1 000 000	n/a	**800 000**	n/a	**7 700 000**	5 340 000
1 500 000	n/a	**1 200 000**	n/a	**11 550 000**	8 010 000
1 500 000	n/a	**1 200 000**	n/a	**11 550 000**	8 010 000
5 000 000	n/a	**4 000 000**	n/a	**38 500 000**	26 700 000
9 188 020	n/a	**8 169 770**	n/a	**72 397 415**	51 260 625

Nomkhita Nqweni[3] 2016 R	Nomkhita Nqweni[3] 2015 R	Willie Lategan[4] 2016 R	Willie Lategan[4] 2015 R	Total 2016 R	Total 2015[4] R
4 049 835	3 246 561	**n/a**	2 679 186	**12 449 188**	14 936 763
2 500 000	1 166 667	**n/a**	1 125 000	**12 750 000**	14 291 667
50 412	46 464	**n/a**	58 077	**280 818**	346 857
195 216	271 605	**n/a**	224 556	**567 108**	1 240 013
47 182	111 349	**n/a**	990 782	**599 264**	1 165 571
6 842 645	4 842 646	**n/a**	5 077 601	**26 646 378**	31 980 871
1 300 000	1 060 000	**n/a**	760 000	**3 140 000**	7 040 000
1 300 000	1 060 000	**n/a**	760 000	**3 140 000**	7 040 000
1 950 000	1 590 000	**n/a**	1 140 000	**4 710 000**	10 560 000
1 950 000	1 590 000	**n/a**	1 140 000	**4 710 000**	10 560 000
6 500 000	5 300 000	**n/a**	3 800 000	**15 700 000**	35 200 000
13 342 645	10 142 646	**n/a**	8 877 601	**42 346 378**	67 180 871

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives

The table below outlines share-based and long-term incentive awards (awarded in respect of performance in a prior period) and role based pay delivered as phantom shares in the year.

	Group 2016			
	Number of shares under award at 1 January 2016	Number of shares awarded during 2016	Share price on award R	Number of shares released during 2016
Executive directors				
Maria Ramos				
Absa Long-term incentive Plan 2012 – 2014	4 746	—	151	4 746
Barclays Africa Long-term incentive Plan 2013 – 2015	216 029	—	139	59 408
Share Value Plan 2014 – 2016	34 108	—	129	17 054
Share Value Plan 2015 – 2017	45 678	—	189	15 226
Share Value Plan 2016 – 2018	—	56 312	146	—
Role based pay March 2014	10 055	—	129	2 513
Role based pay June 2014	8 368	—	155	2 092
Role based pay October 2014	7 730	—	168	1 932
Role based pay December 2014	7 431	—	175	1 857
Role based pay March 2015	8 591	—	189	1 718
Role based pay June 2015	8 893	—	183	1 778
Role based pay September 2015	9 105	—	178	1 821
Role based pay December 2015	10 160	—	160	2 032
Role based pay March 2016	—	5 566	146	—
Role based pay June 2016	—	5 593	145	—
Role based pay September 2016	—	5 578	146	—
Role based pay December 2016	—	5 117	159	—
Non-deferred share award 2016	—	18 770	146	18 770
Total	370 894	96 936		130 947
David Hodnett				
Absa Long-term incentive Plan 2012 – 2014	2 966	—	151	2 966
Barclays Africa Long-term incentive Plan 2013 – 2015	108 014	—	139	29 704
Share Value Plan 2013 – 2015	7 262	—	166	7 262
Share Value Plan 2014 – 2016	26 513	—	129	13 256
Share Value Plan 2015 – 2017	42 824	—	189	14 276
Share Value Plan 2016 – 2018	—	53 434	146	—
Non-deferred share award 2016	—	17 811	146	17 811
Total	187 579	71 245		85 275
Jason Quinn[1]				
Absa Long-term incentive Plan 2012 – 2014	2 373	—	151	2 373
Share Value Plan 2013 – 2015	2 663	—	166	2 663
Share Value Plan 2014 – 2016	3 820	—	129	1 910
Share Value Plan 2015 – 2017	4 758	—	189	1 586
Share Value Plan 2016 – 2018	—	5 480	146	—
Retention award 2014	19 494	—	129	—
Non-deferred share award 2016	—	5 480	146	5 480
Total	33 108	10 960		14 012

Note

[1] Jason Quinn's outstanding share-based long-term incentives include awards received prior to being appointed as an Executive Director in 2016.

			Group			
Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2016	Number of shares under award at 31 December 2016	End of performance period	Last scheduled vesting date
145	687 695	99 740	—	—	2014/12/31	2015/06/14
151	8 970 608	6 376 428	**97 213**	**59 408**	2015/12/31	2016/10/01
149	2 539 341	495 539	—	**17 054**	2016/12/31	2017/09/01
149	2 267 151	228 115	—	**30 452**	2017/12/31	2018/09/01
—	—	—	—	**56 312**	2018/12/31	2019/09/01
142	356 871	41 041	—	**7 542**	2019/03/01	2019/03/01
146	305 327	31 791	—	**6 276**	2019/06/01	2019/06/01
149	287 675	37 970	—	**5 798**	2019/09/01	2019/09/01
157	292 125	38 541	—	**5 574**	2019/12/01	2019/12/01
142	243 973	13 491	—	**6 873**	2020/03/01	2020/03/01
146	259 499	26 805	—	**7 115**	2020/06/01	2020/06/01
149	271 147	27 249	—	**7 284**	2020/09/01	2020/09/01
157	319 654	23 125	—	**8 128**	2020/12/01	2020/12/01
—	—	—	—	**5 566**	2020/12/31	2021/12/01
—	—	—	—	**5 593**	2020/12/31	2021/12/01
—	—	—	—	**5 578**	2020/12/31	2021/12/01
—	—	—	—	**5 117**	2020/12/31	2021/12/01
149	2 794 853	202 206	—	—	2016/03/01	2016/09/01
	19 595 919	7 642 041	**97 213**	**239 670**		
145	429 773	62 374	—	—	2014/12/31	2015/06/14
151	4 485 304	3 188 214	**48 606**	**29 704**	2015/12/31	2016/10/01
149	1 081 312	347 384	—	—	2015/12/31	2016/03/01
149	1 973 818	385 204	—	**13 257**	2016/12/31	2017/09/01
149	2 125 696	214 118	—	**28 548**	2017/12/31	2018/09/01
—	—	—	—	**53 434**	2018/12/31	2019/09/01
149	2 652 058	191 932	—	—	2016/03/01	2016/09/01
	12 747 961	4 389 226	**48 606**	**124 943**		
145	343 848	49 870	—	—	2014/12/31	2016/06/14
142	378 173	87 762	—	—	2015/12/31	2016/03/01
149	284 399	32 609	—	**1 910**	2016/12/31	2017/09/01
149	236 155	23 824	—	**3 172**	2017/12/31	2018/09/01
—	—	—	—	**5 480**	2018/12/31	2019/09/01
—	—	—	—	**19 494**	2016/12/31	2017/03/01
149	815 972	58 964	—	—	2016/03/01	2016/09/01
	2 058 547	253 029	—	**30 056**		

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives (continued)

	Group 2016			
	Number of shares under award at 1 January 2016	Number of shares awarded during 2016	Share price on award R	Number of shares released during 2016
Prescribed officers				
Craig Bond				
Barclays Africa Long-term incentive Plan 2013 – 2015	129 617	—	139	35 645
Share Value Plan 2014 – 2016	32 750	—	129	16 375
Share Value Plan 2015 – 2017	25 377	—	189	8 459
Share Value Plan 2016 – 2018	—	27 950	146	—
Joiners Share Value Plan	48 910	—	156	46 206
Non-deferred share award 2016	—	18 633	146	18 633
Total	236 654	46 583		125 318
Stephen van Coller				
Absa Long-term incentive Plan 2012–2014	2 966	—	151	2 966
Barclays Africa Long-term incentive Plan 2013 – 2015	108 014	—	139	29 704
Share Value Plan 2013 – 2015	16 340	—	166	16 340
Share Value Plan 2014 – 2016	33 530	—	129	16 765
Share Value Plan 2015 – 2017	45 996	—	189	15 332
Share Value Plan 2016 – 2018	—	51 380	146	—
Non-deferred share award 2016	—	17 126	146	17 126
Total	206 846	68 506		98 233
Nomkhita Nqweni				
Absa Long -term incentive Plan 2012–2014	1 186	—	151	1 186
Barclays Africa Long-term incentive Plan 2013 – 2015	43 205	—	139	11 881
Share Value Plan 2013 – 2015	3 019	—	166	3 019
Share Value Plan 2014 – 2016	9 281	—	129	4 640
Share Value Plan 2015 – 2017	7 613	—	189	2 537
Share Value Plan 2016 – 2018	—	21 784	146	—
Non-deferred share award 2016	—	7 261	146	7 261
Total	64 304	29 045		30 524

Group 2016						
Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2016	Number of shares under award at 31 December 2016	End of performance period	Last scheduled vesting date
151	5 382 395	3 825 887	**58 327**	**35 645**	2015/12/31	2016/10/01
149	2 438 238	475 736	**—**	**16 375**	2016/12/31	2017/09/01
149	1 259 545	126 863	**—**	**16 918**	2017/12/31	2018/09/01
—	—	—	**—**	**27 950**	2018/12/31	2019/09/01
146	6 737 297	1 564 687	**—**	**2 704**	2016/12/31	2017/03/31
149	2 774 454	200 568	**—**	**—**	2016/03/01	2016/09/01
	18 591 929	6 193 741	**58 327**	**99 592**		
145	429 773	62 374	**—**	**—**	2014/12/31	2015/06/14
151	4 485 304	3 188 214	**48 606**	**29 704**	2015/12/31	2016/10/01
149	2 433 026	781 576	**—**	**—**	2015/12/31	2016/03/01
149	2 496 309	487 201	**—**	**16 765**	2016/12/31	2017/09/01
149	2 282 935	229 902	**—**	**30 664**	2017/12/31	2018/09/01
—	—	—	**—**	**51 380**	2018/12/31	2019/09/01
149	2 550 061	184 338	**—**	**—**	2016/03/01	2016/09/01
	14 677 408	4 933 605	**48 606**	**128 513**		
145	171 851	25 007	**—**	**—**	2014/12/31	2015/06/14
151	1 794 031	1 275 346	**19 443**	**11 881**	2015/12/31	2016/10/01
142	428 728	99 833	**—**	**—**	2015/12/31	2016/03/01
149	690 896	79 364	**—**	**4 641**	2016/12/31	2017/09/01
149	377 759	37 970	**—**	**5 076**	2017/12/31	2018/09/01
—	—	—	**—**	**21 784**	2018/12/31	2019/09/01
149	1 081 163	78 321	**—**	**—**	2016/03/01	2016/09/01
	4 544 428	1 595 841	**19 443**	**43 382**		

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives (continued)

	Group 2015			
	Number of shares under award at 1 January 2015	Number of shares awarded during 2015	Share price on award R	Number of shares released during 2015
Executive directors				
Maria Ramos				
Deferred Award Plan 2012 – 2014	31 405	—	—	31 405
Absa Long-term incentive Plan 2012 – 2014	79 464	—	151	4 746
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	216 029	—	139	—
Share Value Plan 2014 – 2016	51 044	78	129	17 014
Share Value Plan 2015 – 2017	—	45 678	189	—
Role based pay March 2014	12 568	—	129	2 513
Role based pay June 2014	10 460	—	155	2 092
Role based pay October 2014	9 662	—	168	1 932
Role based pay December 2014	9 288	—	175	1 857
Role based pay March 2015	—	8 591	189	—
Role based pay June 2015	—	8 893	183	—
Role based pay September 2015	—	9 105	178	—
Role based pay December 2015	—	10 160	160	—
Non-deferred share award 2015	—	15 226	189	15 226
Total	419 920	97 731		76 785
David Hodnett				
Deferred Award Plan 2012 – 2014	12 114	—	—	12 114
Absa Long-term incentive Plan 2012 – 2014	49 665	—	151	2 966
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	108 014	—	139	—
Share Value Plan 2013 – 2015	14 490	17	166	7 245
Share Value Plan 2014 – 2016	39 676	62	129	13 225
Share Value Plan 2015 – 2017	—	42 824	189	—
Non-deferred share award 2015	—	14 274	189	14 274
Total	223 959	57 177		49 824

Note

[1] The Barclays Africa Long-term incentive plan 2013 – 2015 was expected to vest at 55% of the maximum based on performance achieved against the metrics.

Group 2015

Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2015	Number of shares under award at 31 December 2015	End of performance period	Last scheduled vesting date
191	5 996 157	943 405	—	—	2014/12/31	2015/02/20
180	852 477	—	69 972	4 746	2014/12/31	2015/06/14
—	—	—	—	216 029	2015/12/31	2016/10/01
172	2 932 363	258 021	—	34 108	2016/12/31	2017/09/01
—	—	—	—	45 678	2017/12/31	2018/09/01
189	475 334	27 570	—	10 055	2019/03/01	2019/03/01
183	382 250	20 181	—	8 368	2019/06/01	2019/06/01
172	332 980	9 438	—	7 730	2019/09/01	2019/09/01
159	295 059	16 375	—	7 431	2019/12/01	2019/12/01
—	—	—	—	8 591	2020/03/01	2020/03/01
—	—	—	—	8 893	2020/06/01	2020/06/01
—	—	—	—	9 105	2020/09/01	2020/09/01
—	—	—	—	10 160	2020/12/01	2020/12/01
172	2 624 201	74 382	—	—	2015/09/01	2015/09/01
	13 890 821	1 349 372	69 972	370 894		
191	2 312 926	363 904	—	—	2014/12/31	2015/02/20
180	532 753	—	43 733	2 966	2014/12/31	2015/06/14
—	—	—	—	108 014	2015/12/31	2016/10/01
172	1 248 676	248 928	—	7 262	2015/12/31	2016/03/01
172	2 279 329	200 557	—	26 513	2016/12/31	2017/09/01
—	—	—	—	42 824	2017/12/31	2018/09/01
172	2 460 124	69 731	—	—	2015/09/01	2015/09/01
	8 833 808	883 120	43 733	187 579		

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding share-based long-term incentives (continued)

	Group 2015			
	Number of shares under award at 1 January 2015	Number of shares awarded during 2015	Share price on award R	Number of shares released during 2015
Prescribed officers				
Craig Bond				
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	129 617	—	139	—
Share Value Plan 2014 – 2016	49 011	76	129	16 337
Share Value Plan 2015 – 2017	—	25 377	189	—
Joiners Share Value Plan	94 467	112	156	45 669
Non-deferred share award (2015)	—	16 918	189	16 918
Total	273 095	42 483		78 924
Stephen van Coller				
Deferred Award Plan 2012 – 2014	20 190	—	—	20 190
Absa Long-term incentive Plan 2012 – 2014	49 665	—	151	2 966
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	108 014	—	139	—
Share Value Plan 2013 – 2015	32 603	38	166	16 301
Share Value Plan 2014 – 2016	50 178	78	129	16 726
Share Value Plan 2015 – 2017	—	45 996	189	—
Non-deferred share award 2015	—	15 332	189	15 332
Total	260 650	61 444		71 515
Nomkhita Nqweni				
Deferred Award Plan 2012 – 2014	3 365	—	—	3 365
Absa Long-term incentive Plan 2012 – 2014	19 866	—	151	1 186
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	43 205	—	139	—
Share Value Plan 2013 – 2015	6 038	—	166	3 019
Share Value Plan 2015 – 2017	13 921	—	129	4 640
Share Value Plan 2014 – 2016	—	7 613	189	—
Non-deferred share award 2015	—	5 075	189	5 075
Total	86 395	12 688		17 285
Willie Lategan				
Deferred Award Plan 2012 – 2014	7 404	—	—	7 404
Absa Long-term incentive Plan 2012 – 2014	29 799	—	—	1 780
Barclays Africa Long-term incentive Plan 2013 – 2015[1]	54 007	—	—	—
Share Value Plan 2013 – 2015	10 506	12	166	5 253
Share Value Plan 2015 – 2017	19 838	32	129	6 612
Share Value Plan 2014 – 2016	—	9 278	189	—
Non-deferred share award 2015	—	6 186	189	6 186
Total	121 554	15 508		27 235

Note

[1] The Barclays Africa Long-term incentive plan 2013 – 2015 was expected to vest at 55% of the maximum based on performance achieved against the metrics.

Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2015	Number of shares under award at 31 December 2015	End of performance period	Last scheduled vesting date
			Group 2015			
—	—	—	—	129 617	2015/12/31	2016/10/01
172	2 815 682	247 754	—	32 750	2016/12/31	2017/09/01
—	—	—	—	25 377	2017/12/31	2018/09/01
181	8 280 246	1 049 017	—	48 910	2016/12/31	2017/03/31
172	2 915 817	82 648	—	—	2015/09/01	2015/09/01
	14 011 745	1 379 419	—	236 654		
191	3 854 877	606 507	—	—	2014/12/31	2015/02/20
180	532 753	—	43 733	2 966	2014/12/31	2015/06/14
—	—	—	—	108 014	2015/12/31	2016/10/01
172	2 809 477	560 080	—	16 340	2015/12/31	2016/03/01
172	2 882 726	253 654	—	33 530	2016/12/31	2017/09/01
—	—	—	—	45 996	2017/12/31	2018/09/01
172	2 642 470	74 900	—	—	2015/09/01	2015/09/01
	12 722 303	1 495 141	43 733	206 846		
191	642 479	101 085	—	—	2014/12/31	2015/02/20
180	213 029	—	17 494	1 186	2014/12/31	2015/06/14
—	—	—	—	43 205	2015/12/31	2016/10/01
189	571 044	91 928	—	3 019	2015/12/31	2016/03/01
189	877 656	80 906	—	9 281	2016/12/31	2017/09/01
—	—	—	—	7 613	2017/12/31	2018/09/01
172	874 676	24 792	—	—	2015/09/01	2015/09/01
	3 178 884	298 711	17 494	64 304		
191	1 413 646	222 415	—	—	2014/12/31	2015/02/20
180	319 724	—	26 239	1 780	2014/12/31	2015/06/14
—	—	—	—	54 007	2015/12/31	2016/10/01
172	905 355	180 485	—	5 265	2015/12/31	2016/03/01
172	1 139 578	100 272	—	13 258	2016/12/31	2017/09/01
—	—	—	—	9 278	2017/12/31	2018/09/01
172	1 066 157	30 219	—	—	2015/09/01	2015/09/01
	4 844 460	533 391	26 239	83 588		

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding cash-based long-term awards

	Group 2016			
	Value under award at 1 January 2016 R	Maximum potential value at 1 January 2016 R	Value awarded in the year R	Value released in the year R
Executive directors				
Maria Ramos				
Cash value plan 2014 – 2016	4 400 000	5 060 000	—	2 200 000
One Africa Long-term incentive Plan 2012 – 2014[3]	2 285 714	2 285 714	—	2 285 714
Restricted award 2016[1]	—	—	8 000 000	—
Total	6 685 714	7 345 714	8 000 000	4 485 714
David Hodnett				
Cash value plan 2014 – 2016	3 400 000	3 910 000	—	1 700 000
One Africa Long-term incentive Plan 2012 – 2014[3]	1 428 571	1 428 571	—	1 428 571
Restricted award 2016[1]	—	—	7 000 000	—
Total	4 828 571	5 338 571	7 000 000	3 128 571
Jason Quinn[2]				
Cash value plan 2014 – 2016	492 800	566 720	—	246 400
Cash value plan 2015 – 2017	900 000	990 000	—	300 000
Cash value plan 2016 – 2018	—	—	800 000	—
Restricted award 2016[1]	—	—	3 000 000	—
Total	1 392 800	1 556 720	3 800 000	546 400
Prescribed officers				
Craig Bond				
Cash value plan 2014 – 2016	4 200 000	4 830 000	—	2 100 000
Cash value plan 2015 – 2017	4 800 000	5 280 000	—	1 600 000
Cash value plan 2016 – 2018	—	—	4 080 000	—
Restricted award 2016[1]	—	—	3 000 000	—
Total	9 000 000	10 110 000	7 080 000	3 700 000
Stephen van Coller				
Cash value plan 2014 – 2016	4 300 000	4 945 000	—	2 150 000
One Africa Long-term incentive Plan 2012 – 2014[3]	1 428 571	1 428 571	—	1 428 571
Total	5 728 571	6 373 571	—	3 578 571
Nomkhita Nqweni				
Cash value plan 2014 – 2016	1 200 000	1 380 000	—	600 000
Cash value plan 2015 – 2017	1 440 000	1 584 000	—	480 000
Restricted award 2016[1]	—	—	3 000 000	—
Total	2 640 000	2 964 000	3 000 000	1 080 000

Notes

[1] Due to JSE listing restrictions, the 2016 Restricted Award has been made in cash but to be settled as equity (subject to relevant regulatory and JSE listing approvals).

[2] Jason Quinn's outstanding cash-based long-term awards include awards received prior to being appointed as an Executive Director in 2016.

[3] The remaining value of the One Africa Long-term incentive plan 2012 – 2014 was released in June 2016 as shares.

		Group 2016			
Value forfeited in the year R	Grant credit R	Value under award at 31 December 2016 R	Maximum potential value at 31 December 2016 R	End of performance period	Last scheduled vesting date
—	—	2 200 000	2 860 000	2016/12/31	2017/03/01
—	—	—	—	2014/12/31	2016/06/14
—	—	8 000 000	8 000 000	2017/12/31	2018/09/30
—	—	10 200 000	10 860 000		
—	—	1 700 000	2 210 000	2016/12/31	2017/03/01
—	—	—	—	2014/12/31	2016/06/14
—	—	7 000 000	7 000 000	2017/12/31	2018/09/30
—	—	8 700 000	9 210 000		
—	—	246 400	320 320	2016/12/31	2017/03/01
—	—	600 000	690 000	2017/12/31	2018/03/01
—	80 000	800 000	880 000	2018/12/31	2019/03/01
—	—	3 000 000	3 000 000	2017/12/31	2018/09/30
—	80 000	4 646 400	4 890 320		
—	—	2 100 000	2 730 000	2016/12/31	2017/03/01
—	—	3 200 000	3 680 000	2017/12/31	2018/03/01
—	408 000	4 080 000	4 488 000	2018/12/31	2019/03/01
—	—	3 000 000	3 000 000	2017/12/31	2018/09/30
—	408 000	12 380 000	13 898 000		
—	—	2 150 000	2 795 000	2016/12/31	2017/03/01
—	—	—	—	2014/12/31	2016/06/14
—	—	2 150 000	2 795 000		
—	—	600 000	780 000	2016/12/31	2017/03/01
—	—	960 000	1 104 000	2017/12/31	2018/03/01
—	—	3 000 000	3 000 000	2017/12/31	2018/09/30
—	—	4 560 000	4 884 000		

66. Directors' and prescribed officers' remuneration *(continued)*

Outstanding cash-based long-term awards

	Group 2015		
	Value under award at 1 January 2015 R	Maximum potential value at 1 January 2015 R	Value awarded in the year R
Executive directors			
Maria Ramos			
Cash Value Plan 2014 – 2016	6 600 000	7 260 000	—
One Africa Long-term incentive Plan 2012 – 2014[1]	4 000 000	20 000 000	—
Total	10 600 000	27 260 000	—
David Hodnett			
Cash Value Plan 2014 – 2016	5 100 000	5 610 000	—
One Africa Long-term incentive Plan 2012 – 2014[1]	2 500 000	12 500 000	—
Total	7 600 000	18 110 000	—
Prescribed officers			
Craig Bond			
Cash Value Plan 2014 – 2016	6 300 000	6 930 000	—
Cash Value Plan 2015 – 2017	—	—	4 800 000
Total	6 300 000	6 930 000	4 800 000
Stephen van Coller			
Cash Value Plan 2014 – 2016	6 450 000	7 095 000	—
One Africa Long-term incentive Plan 2012 – 2014[1]	2 500 000	12 500 000	—
Total	8 950 000	19 595 000	—
Nomkhita Nqweni			
Cash Value Plan 2014 – 2016	1 800 000	1 980 000	—
Cash Value Plan 2015 – 2017	—	—	1 440 000
Total	1 800 000	1 980 000	1 440 000
Willie Lategan			
Cash Value Plan 2014 – 2016	2 550 000	2 805 000	—
Cash Value Plan 2015 – 2017	—	—	1 755 000
One Africa Long-term incentive Plan 2012 – 2014[1]	1 500 000	7 500 000	—
Total	4 050 000	10 305 000	1 755 000

Note

1 The remaining value of the One Africa Long-term incentive plan 2012 – 2014 was released in June 2016 as shares.

Group 2015					
Value released in the year R	Value forfeited in the year R	Value under award at 31 December 2015 R	Maximum potential value at 31 December 2015 R	End of performance period	Last scheduled vesting date
2 200 000	—	4 400 000	5 060 000	2016/12/31	2017/03/01
2 285 714	15 428 572	2 285 714	2 285 714	2014/12/31	2015/06/14
4 485 714	15 428 572	6 685 714	7 345 714		
1 700 000	—	3 400 000	3 910 000	2016/12/31	2017/03/01
1 428 571	9 642 858	1 428 571	1 428 571	2014/12/31	2015/06/14
3 128 571	9 642 858	4 828 571	5 338 571		
2 100 000	—	4 200 000	4 830 000	2016/12/31	2017/03/01
—	—	4 800 000	5 280 000	2017/12/31	2018/03/01
2 100 000	—	9 000 000	10 110 000		
2 150 000	—	4 300 000	4 945 000	2016/12/31	2017/03/01
1 428 571	9 642 858	1 428 571	1 428 571	2014/12/31	2015/06/14
3 578 571	9 642 858	5 728 571	6 373 571		
600 000	—	1 200 000	1 380 000	2016/12/31	2017/03/01
—	—	1 440 000	1 584 000	2017/12/31	2018/03/01
600 000	—	2 640 000	2 964 000		
850 000	—	1 700 000	1 955 000	2016/12/31	2017/03/01
—	—	1 755 000	1 930 500	2017/12/31	2018/03/01
857 143	5 785 714	857 143	857 143	2014/12/31	2015/06/14
1 707 143	5 785 714	4 312 143	4 742 643		

66. Directors' and prescribed officers' remuneration *(continued)*

Group Chairman and non-executive directors' fees

	Group					
	2016					
			Subsidiary boards and committees			
	Group Board R	Group Board committees and sub-committees[5] R	Absa Bank R	Absa Financial Services R	Other R	2016 Total R
Alex Darko[1]	518 520	561 110	—	—	16 113	**1 095 743**
Ashok Vaswani[3]	486 497	377 370	—	—	—	**863 867**
Colin Beggs[2,6]	518 520	1 710 624	161 187	209 612	140 302	**2 740 245**
Dhanasagree (Daisy) Naidoo	341 729	258 391	—	—	—	**600 120**
Francis Okomo-Okello	518 520	109 485	—	—	—	**628 005**
Mark Merson[3]	486 497	389 866	—	—	—	**876 363**
Mohamed Husain[6]	518 520	1 376 010	161 187	—	—	**2 055 717**
Patrick Clackson[3,6]	486 497	365 717	—	—	—	**852 214**
Paul O'Flaherty[6]	479 662	915 411	148 313	—	—	**1 543 386**
Peter Matlare[5]	279 581	87 945	—	—	—	**367 526**
Trevor Munday[6]	518 520	1 551 760	161 187	—	—	**2 231 467**
Wendy Lucas-Bull (Chairman)[4]	5 275 300	—	—	—	—	**5 275 300**
Yolanda Cuba[6]	518 520	467 814	78 921	—	—	**1 065 255**
Total	10 946 883	8 171 503	710 795	209 612	156 415	**20 195 208**

	Group					
	2015					
			Subsidiary Boards, committees and trusts			
	Group Board R	Group Board committees and sub-committees R	Absa Bank R	Absa Financial Services R	Other R	2015 Total R
Alex Darko[1]	457 496	426 339	—	—	16 112	899 947
Ashok Vaswani[2]	457 496	342 200	—	—	—	799 696
Colin Beggs[3]	457 496	1 382 877	151 580	66 133	152 575	2 210 661
Francis Okomo-Okello	457 496	34 980	—	—	—	492 476
Mark Merson[2]	457 496	345 980	—	—	—	803 476
Mohamed Husain	457 496	1 129 707	151 580	—	—	1 738 783
Patrick Clackson[2]	457 496	313 600	—	—	—	771 096
Peter Matlare	457 496	—	—	—	—	457 496
Trevor Munday[5]	457 496	1 585 545	151 580	—	—	2 194 621
Wendy Lucas-Bull (Group Chairman)[4]	4 960 800	—	—	—	—	4 960 800
Yolanda Cuba[6]	457 496	354 344	151 580	—	—	963 420
Total	9 535 760	5 915 572	606 320	66 133	168 687	16 292 472

Notes

1 Member of the Share Incentive Trust (reported under 'Other').
2 Member of the Group Actuarial Review Committee and AFS Audit Risk and Compliance Committee (under 'Absa Financial Services'); and a Trustee of the Absa Group Pension Fund (reported under 'Other').
3 Fees are paid to Barclays PLC and not to the individual.
4 Fee applicable to the Group Chairman, which covers chairmanship and membership of all Board committees and sub-committees. A decision was taken by the Directors' Affairs Committee in early 2017, to provide the Chairman with compensation, on an equivalent basis to the other members, for ad hoc committee meetings in 2016 relating to the Barclays PLC sell-down. This will be implemented in 2017.
5 Status changed to Executive Director during 2016.
6 Chairmen of sub-committees receive additional fees.

Annexure A: Embedded value report for Life Insurance entities (unaudited)

Scope of the embedded value report

This report deals with the embedded value of the life insurance entities (including Absa Life Limited, Barclays Life Botswana Proprietary Limited, Barclays Life Zambia Limited, Global Alliance Seguros S.A., Barclays Life Assurance Kenya, Woolworths Financial Services and Instant Life), including the value of new business written during the current reporting period in respect of these entities.

The embedded value as at 31 December 2016 has been calculated in accordance with the principles contained in the Actuarial Society of South Africa's guidance note APN 107: Embedded value reporting.

Embedded value

The present value of in-force covered business (PVIF) is the discounted value of the projected stream of future after tax shareholder profits arising in the company's accounts from covered business in force at the valuation date. Covered business is taken to be all long-term insurance business written on the company's licences.

The free surplus is the excess of assets over the sum of liabilities and required capital, with assets at market value and liabilities on the statutory valuation method, adjusted to add back inadmissible assets. The required capital is taken to be two times the statutory capital adequacy requirement, in line with the results of internal capital models and the company's dividend policy.

Value of new business

The value of new business is the discounted value, at the date of sale, of the projected after tax shareholder profits from new covered business (net of the opportunity cost of the required capital for new business). New covered business is defined as long-term insurance contracts written by the respective life insurance licenses during the financial year and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Embedded value and value of new business

	Group	
	2016 **Rm**	2015 Rm
Free surplus[1]	**507**	681
Required capital	**862**	721
Covered business adjusted net worth (ANW)	**1 369**	1 402
Present value of in-force business (PVIF)	**3 763**	3 158
Cost of required capital (CoC)	**(282)**	(218)
Total embedded value (EV)	**4 850**	4 342
Value of new business (before CoC)	**579**	470
CoC	**(32)**	(18)
Value of new business (VNB)	**547**	452
Present value of future premiums (gross of reinsurance premiums)	**10 890**	7 699
Value of new business as a percentage of the present value of future premiums[2]		
All business (%)	**5,0**	5,9
Excluding investment business (%)	**17,6**	18,1

Notes

1 A full year dividend of **R779m** (2015: R823m) was proposed for the reporting period ended 31 December 2016.

2 Reported gross of reinsurance premiums.

Annexure A: Embedded value report for Life Insurance entities (unaudited)

Assumptions

The value of the covered in-force and new business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the 'best estimate' assumptions used in the statutory valuation. These assumptions were based on recent experience investigations.

For Absa Life Limited, the government bond curve is used to determine the risk free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk free rate curve. The economic assumptions used including certain representative points on the risk-free curve are as follows (gross of tax where applicable):

	2016 Absa Life Limited Rm	2015 Absa Life Limited Rm
Risk-free rate of return:		
1-year term	**7,97**	8,19
5-year term	**8,6**	9,67
10-year term	**9,3**	10,06
20-year term	**10,22**	10,83
Equity return differential	**3,36**	3,36
Cash return differential	**(2,00)**	(2,00)
Overall investment return differential	**(0,44)**	(0,44)
Risk discount rate differential	**3,15**	3,15

For the non-South-African life licences, all values are discounted using an assumed country-specific risk discount rate. Each risk discount rate was set equal to the country-specific risk-free rate of return plus the fixed beta percentage of 90% multiplied by the assumed equity risk premium of 3,5%, plus a further company risk specific margin of 0,25%. The economic assumptions used including the country-specific risk free rates for the non-South-African life insurance entities are as follows (gross of tax where applicable):

	2016				2015		
	Barclays Life Botswana Proprietary Limited Rm	**Barclays Life Zambia Limited Rm**	**Global Alliance Seguros S.A. Rm**	**Barclays Life Kenya Limited Rm**	Barclays Life Botswana Proprietary Limited Rm	Barclays Life Zambia Limited Rm	Global Alliance Seguros S.A. Rm
Risk-free rate of return	**4,5**	**26,5**	**10,0**	**12,5**	4,75	22,75	10,0
Equity return – unhedged	**n/a**	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a
Cash return	**4,5**	**24,0**	**8,0**	**0,0**	4,75	19,25	8,0
Overall investment return	**2,5**	**24,0**	**10,0**	**12,5**	2,75	14,5	8,0
Risk discount rate	**7,9**	**27,4**	**13,4**	**15,9**	8,15	26,15	13,4
Expense inflation	**3,0**	**7,5**	**7,0**	**9,5**	3,25	14,25	7,0

Sensitivities

The following table summarises the sensitivity of the embedded value and value of new business calculation of Absa Life Limited (South Africa) to changes in the underlying assumptions. In each of the scenarios, no offsetting management actions were assumed to occur.

	Group 2016							
Percentage change	**Risk discount rate +1%**	**Interest rates –1%**	**Equity capital values x 0,9**	**Equity returns +1%**	**Mortality/ morbidity x 0,9**	**Mainte-nance expenses x 0,9**	**Lapse/ surrender x 0,9**	**Initial expenses x 0,9**
ANW	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**n/a**
PVIF	**(4,7)**	**3,0**	**(1,8)**	**0,3**	**3,7**	**2,2**	**4,6**	**n/a**
CoC	**10,3**	**12,9**	**0,0**	**(5,2)**	**3,2**	**0,0**	**11,6**	**n/a**
EV	**(4,2)**	**1,5**	**(1,4)**	**0,5**	**2,7**	**1,7**	**3,0**	**n/a**
VNB	**(4,4)**	**3,5**	**0,3**	**0,1**	**3,0**	**2,1**	**9,1**	**2,3**

Annexure A: Embedded value report for Life Insurance entities (unaudited)

Sensitivities *(continued)*

Percentage change	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
	2015							
ANW	0,0	0,0	0,0	0,0	0,0	0,0	0,0	n/a
PVIF	(4,6)	2,9	(0,6)	0,4	3,5	2,3	4,6	n/a
CoC	11,0	14,4	0,0	(5,6)	0,2	0,0	8,8	n/a
EV	(3,9)	1,4	(0,5)	0,6	2,6	1,7	2,9	n/a
VNB	(3,7)	3,9	(0,4)	0,2	3,1	2,2	10,2	2,3

The development of the embedded value of Absa Life Limited (South Africa) can be analysed as follows:

	Group	
	2016 Rm	2015 Rm
Embedded value at the end of the reporting period	**4 279**	3 936
Dividends accrued or paid	**829**	704
Embedded value at the beginning of the reporting period	**(3 936)**	(3 818)
Embedded value earnings	**1 172**	822
Components of embedded value earnings:		
Value of new business at point of sale	**517**	398
Expected return on covered business (unwinding)	**332**	290
Operating experience variances	**161**	48
Operating assumption and model changes	**12**	(4)
Credit Life reprice	**—**	95
Modelling net of tax	**4**	
Release of gross-up reserve	**2**	(1)
Expected return on ANW	**102**	87
Embedded value operating return	**1 130**	913
Investment return variances on in-force covered business	**4**	(32)
Investment return variances on ANW	**(27)**	(10)
Effect of economic assumption changes	**65**	(49)
Embedded value earnings	**1 172**	822
Return on embedded value (%)	**30**	22

Review by the independent actuaries

The embedded value and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, Deloitte and Touche.

Company statement of financial position

as at 31 December

		Company	
	Note	2016 Rm	2015 Rm
Assets			
Loans and advances to banks	2	**620**	3 485
Investment securities	3	**360**	242
Other assets	4	**290**	259
Investments in associates and joint ventures	5	**—**	16
Deferred tax assets	10	**70**	25
Subsidiaries	6	**59 536**	53 212
Total assets		**60 876**	57 239
Liabilities			
Other liabilities	7	**299**	509
Borrowed funds	8	**10 557**	6 793
Debt securities in issue	9	**200**	212
Current tax liabilities		**25**	23
Total liabilities		**11 081**	7 537
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Ordinary share capital	11	**1 696**	1 696
Ordinary share premium	11	**23 786**	23 786
Retained earnings		**24 313**	24 220
Total equity		**49 795**	49 702
Total equity and liabilities		**60 876**	57 239

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2016 Rm	Company 2015 Rm
Net interest income			
Interest and similar income	13	**159**	108
Non-interest income			
Gains and losses from investment activities	14	**9 172**	14 634
Total income		**9 331**	14 742
Operating expenses		**(547)**	(315)
Operating expenses	15	**(410)**	(35)
Other impairments	16	**(63)**	(280)
Indirect taxation	17	**(74)**	—
Operating profit before income tax		**8 784**	14 427
Taxation expense	18	**(130)**	(136)
Profit for the reporting period		**8 654**	14 291
Earnings per share			
Basic earnings per share	19	**1 020,8**	1 685,7
Diluted earnings per share	19	**1 020,8**	1 685,7

	Note	Company 2016 Rm	Company 2015 Rm
Profit for the reporting period		**8 654**	14 291
Other comprehensive income			
Total items that are or may be reclassified to profit or loss			
Movement in cash flow hedging reserve		**—**	—
Fair value (losses)/gains arising during the reporting period		**8**	—
Amount removed from other comprehensive income and recognised in profit or loss		**(8)**	—
Deferred tax		**—**	—
Total comprehensive income		**8 654**	14 291

Company statement of changes in equity

for the reporting period ended 31 December

	Company 2016					
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at the beginning of the reporting period	**847 750**	**1 696**	**23 786**	**24 220**	**—**	**49 702**
Profit and total comprehensive income for the reporting period	—	—	—	8 654	—	8 654
Dividends paid during the reporting period	—	—	—	(8 562)	—	(8 562)
Movement in share-based payment reserve	—	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—	—
Value of employee services	—	—	—	—	—	—
Balance at the end of the reporting period	**847 750**	**1 696**	**23 786**	**24 312**	**—**	**49 794**
Notes	11	11	11		12	

	2015					
	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at the beginning of the reporting period	847 750	1 696	23 783	18 195	3	43 677
Profit and total comprehensive income for the reporting period	—	—	—	14 291	—	14 291
Dividends paid during the reporting period	—	—	—	(8 266)	—	(8 266)
Movement in share-based payment reserve	—	—	3	—	(3)	—
Transfer from share-based payment reserve	—	—	3	—	(3)	—
Value of employee services	—	—	—	—	—	—
Balance at the end of the reporting period	847 750	1 696	23 786	24 220	—	49 702
Notes	11	11	11		12	

All movements are reflected net of taxation.

Company statement of cash flows

for the reporting period ended 31 December

	Note	Company 2016 Rm	2015 Rm
Cash flow from operating activities			
Interest and similar income		**226**	424
Cash payments to employees and suppliers		**(484)**	(94)
Dividends received from investment activities		**9 141**	14 608
Income taxes paid		**(173)**	(150)
Cash flow from operating activities before changes in operating assets and liabilities		**8 710**	14 788
Decrease in investment securities		**(117)**	67
Increase in debt securities in issue		**(12)**	212
Increase in other liabilities		**(210)**	402
Net cash generated from operating activities		**8 371**	15 469
Cash flow from investing activities			
Increase in investment in subsidiaries		**(6 371)**	(10 469)
Purchase of investments in associate		**—**	(5)
Net cash utilised in investing activities		**(6 371)**	(10 474)
Cash flow from financing activities			
Dividends paid		**(8 562)**	(8 266)
Proceeds from borrowed funds		**3 697**	5 944
Net cash utilised in financing activities		**(4 865)**	(2 322)
Net increase in cash and cash equivalents		**(2 865)**	2 673
Cash and cash equivalents at the beginning of the reporting period		**3 485**	812
Cash and cash equivalents at the end of the reporting period	2	**620**	3 485

Notes to the Company financial statements

for the reporting period ended 31 December

1. Accounting policies

The financial statements of the Company are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Group. For detailed accounting policies, refer to the Group's financial statements.

	Company	
	2016 Rm	2015 Rm
2. Loans and advances to banks		
Subsidiary companies	**620**	3 485

All the aforementioned loans are at variable rates.

	Company	
	2016 Rm	2015 Rm
3. Investment securities		
Debt instruments	**360**	242

	Company	
	2016 Rm	2015 Rm
4. Other assets		
Accrued dividends	**219**	193
Other	**71**	66
	290	259

	Company	
	2016 Rm	2015 Rm
5. Investments in associates and joint ventures		
Unlisted investments	**—**	16

During the current reporting period, the Company disposed of its entire 49% shareholding in Rainfin (Pty) Ltd.

	Company	
	2016 Rm	2015 Rm
6. Subsidiaries		
Equity investments	**50 598**	47 098
Impairment allowance of equity investments	**(820)**	(773)
	49 778	46 325
Debt instruments	**9 758**	6 887
	59 536	53 212

The increase in debt instruments is related to borrowed funds issued by the Company's Subsidiaries as qualifying Tier 2 capital.

During the current year, the investment in subsidiaries increased mainly as a result of the Company acquiring additional 'A' ordinary shares in Absa Bank Limited for **R3,5bn** (2015: R5bn).

	Company	
	2016 Rm	2015 Rm
7. Other liabilities		
Unclaimed dividends	**210**	273
Other	**89**	236
	299	509

8. Borrowed funds

Subordinated callable notes issued by Barclays Africa Group Limited

The following subordinated debt instruments qualify as Tier 2 capital in terms of the Basel III.

			Company 2016 Rm	Company 2015 Rm
Interest rate	**Final maturity date**	**Note**		
10,05%	5 February 2025	i	**807**	807
10,835%	19 November 2024	ii	**130**	130
11,365%	4 September 2025	iii	**508**	508
11,40%	29 September 2025	iv	**288**	288
11,74%	20 August 2026	v	**140**	—
11,81%	3 September 2027	vi	**737**	737
12,43%	5 May 2026	vii	**200**	—
Three-month Johannesburg Interbank Agreed rate (JIBAR)				
Three-month JIBAR + 3,30%	19 November 2024	viii	**370**	370
Three-month JIBAR + 3,50%	5 February 2025	ix	**1 693**	1 693
Three-month JIBAR + 3,50%	4 September 2025	x	**437**	437
Three-month JIBAR + 3,60%	3 September 2027	xi	**30**	30
Three-month JIBAR + 4,00%	5 May 2026	xii	**31**	—
Three-month JIBAR + 4,00%	20 August 2026	xiii	**1 510**	—
Three-month JIBAR + 4,00%	3 November 2026	xiv	**500**	—
Accrued interest			**166**	125
			7 547	5 125
Non-subordinated debt extended by Barclays Africa Group Limited				
Three-month JIBAR + 1,31%	11 June 2020	xv	**58**	58
Three-month JIBAR + 1,40%	15 January 2021	xvi	**114**	—
Three-month JIBAR + 0,90%	30 November 2017	xvii	**211**	—
Three-month JIBAR + 1,265%	30 January 2020	xviii	**301**	301
Three-month JIBAR + 1,20%	29 July 2019	xix	**516**	516
Three-month JIBAR + 1,12%	29 January 2019	xx	**179**	179
Three-month JIBAR + 0,55%	8 March 2017	xxi	**350**	—
Three-month LIBOR + 0,87%	26 March 2020	xxii	**596**	596
Three-month LIBOR + 0,92%	30 March 2021	xxiii	**149**	—
Three-month LIBOR + 0,89%	27 January 2021	xxiv	**492**	—
Accrued interest			**44**	18
			3 010	1 668
			10 557	6 793

i The 10,05% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 February 2020. Interest is paid semi-annually in arrears on 5 February and 5 August. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 5 February 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

ii. The 10,835% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 19 November 2019. Interest is paid semi-annually in arrears on 19 May and 19 November. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 19 November 2019. There is no step-up in the coupon rate if Barclays Africa Group Limited does not exercise the redemption option.

iii. The 11,365% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 4 September 2020. Interest is paid semi-annually in arrears on 4 March and 4 September. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

iv. The 11,40% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 29 September 2020. Interest is paid semi-annually in arrears on 29 March and 29 September. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 29 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

8. Borrowed funds *(continued)*

v The 11,74% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 20 August 2021. Interest is paid semi-annually in arrears on 20 August and 20 February. Barclays Africa Group Limited has an option to exercise the redemption on any interest payment date after 20 August 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

vi. The 11,81% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 September 2022. Interest is paid semi-annually in arrears on 3 March and 3 September. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

vii. The 12,43% fixed rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

viii. The three month JIBAR plus 3,30% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 19 November 2019. Interest is paid quarterly in arrears on 19 February, 19 May, 19 August and 19 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 19 November 2019. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

ix. The three month JIBAR plus 3,50% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 February 2020. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 February 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

x. The three month JIBAR plus 3,50% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 4 September 2020. Interest is paid quarterly in arrears on 4 March, 4 June, 4 September and 4 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xi. The three month JIBAR plus 3,60% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xii. The three month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xiii. The three month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 20 August 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xiv. The three month JIBAR plus 4,00% floating rate notes may be redeemed in full at the option of Barclays Africa Group Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Barclays Africa Group Limited has the option to exercise the redemption on any interest payment date after 3 November 2021. If Barclays Africa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xv. The three month JIBAR plus 1,31% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 11 June 2020. Interest is paid quarterly in arrears on 11 March, 11 June, 11 September and 11 December. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xvi. The three month JIBAR plus 1,40% floating rate notes are to be redeemed in full at the option of Barclays Africa Group Limited on 15 January 2021. Interest is paid first on 31 May 2016 and after that annually 31 May. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xvii. The three month JIBAR plus 0,90% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 30 November 2017. Interest is paid quarterly in arrears on 28 February, 30 May, 30 August and 30 November. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xviii. The three month JIBAR plus 1,265% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 30 January 2020. Interest is paid semi-annually in arrears on 30 January and 31 July. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

8. Borrowed funds *(continued)*

xix. The three month JIBAR plus 1,20% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 29 July 2019. Interest is paid semi-annually in arrears on 29 January and 29 July. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xx. The three month JIBAR plus 1,12% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 29 January 2019. Interest is paid semi-annually in arrears on 29 January and 29 July. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxi. The three month JIBAR plus 0,55% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 8 March 2017. Interest is paid quarterly in arrears on 8 June, 8 September, 8 December and 8 March. Barclays Africa Group Limited may, if it gives Absa Bank Limited not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxii. The three month LIBOR plus 0,87% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 26 March 2020. Interest is paid quarterly in arrears on 26 March, 26 June, 26 September and 26 December. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD10m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxiii. The three month LIBOR plus 0,92% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 30 March 2021. Interest is paid quarterly in arrears on 30 June, 30 September, 30 December and 30 March. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD10m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

xxiv. The three month LIBOR plus 0,89% floating rate notes are to be redeemed in full by Barclays Africa Group Limited on 27 January 2021. Interest is paid quarterly in arrears on 27 April, 27 July, 27 October and 27 January. Barclays Africa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD10m) of the loan on the last day of any interest period or, if earlier, the date specified by Barclays Africa Group Limited in the notice delivered to Absa Bank Limited.

Notes i to xiv are listed on the Bond Exchange of South Africa (BESA).

In accordance with its MOI, the borrowing powers of Barclays Africa Group Limited are unlimited.

	Company	
	2016 Rm	2015 Rm
9. Debt securities in issue		
Senior notes	**200**	212

	Company	
	2016 Rm	2015 Rm
10. Deferred tax		
Reconciliation of net deferred tax asset		
Balance at the beginning of the reporting period	**25**	—
Charge to profit or loss (refer to note 18)	**45**	25
Balance at the end of the year	**70**	25
Deferred tax asset/(liability)		
Tax effects of temporary differences between tax and book value for:		
Other	**112**	42
Exchange differences – unrealised	**(42)**	(17)
Net deferred tax asset	**70**	25

	Company	
	2016 Rm	2015 Rm
11. Share capital and premium		
Ordinary share capital		
Authorised		
(880 467 500 (2015: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
847 750 679 (2015: 847 750 679) ordinary shares of R2,00 each	**1 696**	1 696
Total issued capital		
Share capital	**1 696**	1 696
Share premium	**23 786**	23 786
	25 482	25 482

Authorised shares

There were no changes to the authorised share capital during the current reporting period under review.

Unissued shares

The unissued shares are under the control of the directors, subject to a limit of 5% of issued ordinary share capital as at the reporting date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming AGM of the Company.

Shares issued during the year under review

There were no shares issued during the current reporting period.

Shares issued during the prior year

There were no shares issued during the previous reporting period.

12. Other reserves

Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. The standard requires that the expense be charged to profit and loss, while a credit needs to be raised against equity over the vesting period (i.e. the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised, the reserve related to the specific options is transferred to share capital and/or share premium. If the options lapse after vesting, the related reserve is transferred to retained earnings.

	Company	
	2016 Rm	2015 Rm
13. Interest and similar income		
Interest and similar income is earned from:		
Investment securities	**33**	27
Loans and advances to banks	**31**	28
Other	**95**	53
	159	108

	Company	
	2016 Rm	2015 Rm
14. Gains and losses from investment activities		
Dividends received from subsidiaries	**9 172**	14 634

	Company 2016 Rm	Company 2015 Rm
15. Operating expenses		
Administrative and other expenses	410	35

	Company 2016 Rm	Company 2015 Rm
16. Other impairments		
Investments in associates and joint ventures (refer to note 5)	16	—
Equity investment in subsidiaries	47	280
	63	280

In the current financial reporting period Blue Age Properties Proprietary Limited declared a dividend of R64m resulting in an impairment of the original investment.

In the prior financial reporting period Absa Manx Holdings Limited declared a dividend of R440m resulting in an impairment of the original investment.

	Company 2016 Rm	Company 2015 Rm
17. Indirect taxation		
VAT net of input credits	74	—

	Company 2016 Rm	Company 2015 Rm
18. Taxation expense		
Current		
Current tax	26	72
Current tax – previous reporting period	18	—
Foreign tax	131	89
	175	161
Deferred	(45)	(25)
Other	(70)	(42)
Exchange difference	25	17
	130	136
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	8 784	14 427
Tax calculated at a tax rate of 28%	2 460	4 040
Expenses not deductible for tax purposes	92	100
Income not subject to tax	(2 571)	(4 093)
South African current taxation prior year	18	—
Foreign tax	131	89
	130	136

	Company 2016 Rm	Company 2015 Rm
19. Earnings per share		
Basic and diluted earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the year.		
Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares, of which there are none.		
Basic and diluted earnings attributable to ordinary equity holders of the Company	**8 654**	14 291
Weighted average number of ordinary shares in issue (millions)	**847,8**	847,8
Issued shares at the beginning and end of the reporting period	**847,8**	847,8
Shares issued during the reporting period	**—**	—
Basic earnings per ordinary share/diluted earnings per ordinary share (cents)	**1 020,8**	1 685,7

	Company 2016 Gross Rm	Company 2016 Net Rm	Company 2015 Gross Rm	Company 2015 Net Rm
20. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Company		**8 654**		14 291
Total headline earnings adjustment:		**63**		259
IAS 36 – Impairment of investments in associates and joint ventures (refer to note 16)	**16**	**16**	—	—
IAS 27 – Profit on partial disposal of interest in subsidiary	**—**	**—**	(22)	(21)
IAS 36 – Impairment of investment in subsidiary (refer to note 16)	**47**	**47**	280	280
Headline earnings/diluted headline earnings		**8 717**		14 550
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		**1 028,3**		1 716,2

The net amount is reflected after tax.

	Company 2016 Rm	Company 2015 Rm
21. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend **(29 July 2016: 460 cents)** (29 July 2015: 450 cents)	**3 900**	3 815
Final dividend **(23 February 2017: 570 cents)** (1 March 2016: 550 cents)[1]	**4 832**	4 662
	8 732	8 477
Dividends paid to ordinary equity holders		
Final dividend **(1 March 2016: 550 cents)** (3 March 2015: 525 cents)	**4 662**	4 451
Interim dividend **(29 July 2016: 460 cents)** (29 July 2015: 450 cents)	**3 900**	3 815
	8 562	8 266

Note

[1] The total final dividend declared to ordinary equity holders on 1 March 2016 was corrected from R4 578m, as previously disclosed, to R4 662m.

22. Related parties

Refer to note 49 of the Group's financial statements for the full disclosure of related-party transactions. In addition to this disclosure the following related party transactions and balances exist for the Company.

22.1 *Balances and transactions with subsidiaries*

Debit amounts are shown as positive, credit amounts are shown as negative.

	Company 2016 Rm	Company 2015 Rm
Balances		
Loans and advances to banks	**620**	3 485
Investment securities	**360**	242
Loans to subsidiaries	**10 132**	6 887
Other assets	**290**	260
Other liabilities[1]	**89**	236
Borrowed funds[2]	**(3 010)**	(1 668)
Transactions		
Interest and similar income	**(843)**	(57)
Interest expense and similar charges	**29**	372
Operating expenses	**112**	49
Dividends received	**(9 172)**	(14 634)

During the current reporting period, Barclays Africa Limited declared a dividend in specie to the Company, consisting of shares in the following subsidiary: Barclays Bank of Zambia PLC.

During the prior reporting period, Barclays Africa Limited declared a dividend in specie to the Company, consisting of shares in the following subsidiaries: Barclays Africa Botswana Limited, Barclays Bank Tanzania Limited, Barclays Bank of Uganda Limited, Barclays Bank of Mauritius Limited and Barclays Bank Seychelles Limited.

Notes

[1] During the current reporting period the Company reassessed the composition of internal accounts and this has resulted in the recognition of a related party balance relating to other liabilities in the prior period.

[2] During the current reporting period the Company reassessed the composition of related party balances relating to borrowed funds. Prior year numbers have been restated resulting in a decrease to borrowed funds by R5 125m.

23. Risk management

In order to gain an understanding of the risk management framework applied by the Company please refer to note 63 of the Group's financial statements.

Credit risk	Company 2016 Gross maximum exposure – neither past due nor impaired Rm	Company 2015 Gross maximum exposure – neither past due nor impaired Rm
Maximum exposure to credit risk		
Loans and advances to banks	620	3 485
Investment securities	360	242
Other assets[1]	290	259
Subsidiaries	9 758	6 887
	11 028	10 873

Liquidity risk

Analysis of liquidity risk:

Discounted maturity	Company 2016 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Investment securities	—	—	—	360	360
Loans and advances to banks	620	—	—	—	620
Other financial assets	290	—	—	—	290
Subsidiaries	—	—	8 991	767	9 758
Financial assets	910	—	8 991	1 127	11 028
Non-financial assets					49 848
Total assets					60 876
Liabilities					
Other financial liabilities	299	—	—	—	299
Debt securities in issue	—	200	—	—	200
Borrowed funds	—	771	9 019	767	10 557
Financial liabilities	299	971	9 019	767	11 056
Non-financial liabilities					25
Total liabilities					11 081
Equity					49 795
Total equity and liabilities					60 876
Net liquidity position of financial instruments	611	(971)	(28)	360	(28)

Note

[1] The Company has provided credit risk disclosure in respect of 'Other assets', on the basis that the amounts constitute qualifying financial assets. Comparatives have been restated.

23. Risk management *(continued)*

Liquidity risk (continued)

Discounted maturity			Company 2015		
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Investment securities	—	—	—	242	242
Loans and advances to banks	3 485	—	—	—	3 485
Other financial assets	67	—	—	—	67
Subsidiaries			6 092	795	6 887
Financial assets	3 552	—	6 092	1 037	10 681
Non-financial assets					46 576
Total assets					57 257
Liabilities					
Other financial liabilities	348	—	—	—	348
Debt securities in issue	—	212	—	—	212
Borrowed funds	—	—	5 998	795	6 793
Financial liabilities	348	212	5 998	795	7 353
Non-financial liabilities					201
Total liabilities					7 554
Equity					49 703
Total equity and liabilities					57 257
Net liquidity position of financial instruments	3 204	(212)	94	242	3 328

Undiscounted maturity (statement of financial position value with impact of future interest)			Company 2016			
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Other financial liabilities	299	—	—	—	—	299
Debt securities in issue	—	214	—	—	(14)	200
Borrowed funds	—	590	14 182	1 709	(5 924)	10 557
Financial liabilities	299	804	14 182	1 709	(5 938)	11 056
Non-financial liabilities						25
Total liabilities						11 081

23. Risk management *(continued)*

Undiscounted maturity (statement of financial position value with impact of future interest)	2015 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Other financial liabilities	348	—	—	—	—	348
Debt securities in issue	—	215	—	—	(3)	212
Borrowed funds	—	—	8 330	1 412	(2 949)	6 793
Financial liabilities	348	215	8 330	1 412	(2 952)	7 353
Non-financial liabilities						201
Total liabilities						7 554

Market risk
Interest rate risk in the banking book
Impact on earnings

	2016 Change in market risk **200 bps decrease**	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Change in projected net interest income (Rm)	**(6)**	**(3)**	**3**	**6**
Percentage of the Company's net interest income (%)	**(4)**	**(2)**	**2**	**4**
With respect to investment securities balance	**354**	**357**	**363**	**366**

Interest rate risk in the banking book
Impact on earnings

	2015 Change in market risk 200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(6)	(3)	3	6
Percentage of the Company's net interest income (%)	(5)	(3)	3	5
With respect to investment securities balance	236	239	245	248

24. Fair value disclosures

24.1 *Assets and liabilities not held at fair value*

The following table summarises the carrying amounts and fair values of those assets and liabilities not held at fair value:

			Company 2016		
	Carrying value Rm	Fair value Rm	Carrying Level 1 Rm	Carrying Level 2 Rm	Carrying Level 3 Rm
Financial assets					
Loans and advances to banks	620	620	—	620	—
Subsidiaries	9 758	9 758	—	9 758	—
Total financial assets	**10 378**	**10 378**	—	**10 378**	—
Financial liabilities					
Debt securities in issue	200	200	—	200	—
Borrowed funds	10 557	10 557	—	10 557	—
Total financial liabilities	**10 757**	**10 757**	—	**10 757**	—

			Company 2015		
	Carrying value Rm	Fair value Rm	Carrying Level 1 Rm	Carrying Level 2 Rm	Carrying Level 3 Rm
Financial assets					
Loans and advances to banks	3 485	3 485	2 005	1 480	—
Subsidiaries	6 887	6 887	—	6 887	—
Total financial assets	10 372	10 372	2 005	8 367	—
Financial liabilities					
Debt securities in issue	212	212	—	212	—
Borrowed funds	6 793	6 793	—	6 793	—
Total financial liabilities	7 005	7 005	—	7 005	—

24.2 *Assets and liabilities held at fair value*

The Company holds investments in debt instruments which are measured at fair value.
The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

		Company 2016		
	Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
Investment securities	—	**360**	—	**360**

		Company 2015		
	Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
Investment securities	—	242	—	242

Refer to note 1.2 of the Group's financial statements for valuation methodology and valuation techniques of fair value and non-fair value items

25. Derivatives

Derivatives designated as cash flow hedging instruments to protect against foreign currency risk

Forward exchange contracts are designated by the Company as cash flow hedges in mitigating potential cash flow variability that results from the Company's exposure to foreign currency dividends. Net gains of **R8m** (2015: Rnil) were recycled from other comprehensive income to profit or loss, and are presented within operating expenses.

26. Going concern

The directors assess the Company's future performance and financial position on an ongoing basis and have no reason to believe that the Company will not be a going concern in the reporting period ahead. For this reason, these financial statements are prepared on a going concern basis.

27. Commitments

Refer to note 53 of the Group financial statements for detailed disclosure on the ABIL commitment, which was disclosed in the previous reporting period.

28. Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2016 and the date of authorisation of these financial statements (as defined per IAS 10).

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